

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

TO: Balboa Insurance Company
3349 Michelson Dr. #200
Irvine, CA 92612-8893

RE: Balboa Insurance Co. (NAIC #24813)
Missouri Market Conduct Examination #0811-18-TGT

**STIPULATION OF SETTLEMENT
AND VOLUNTARY FORFEITURE**

It is hereby stipulated and agreed by John M. Huff, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, hereinafter referred to as "Director," and Balboa Insurance Company, (hereafter referred to as "Balboa"), as follows:

WHEREAS, John M. Huff is the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereafter referred to as "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, Balboa has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Department conducted a Market Conduct Examination of Balboa and prepared report number 0811-18-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In some instances, Balboa failed to maintain its books, records, documents, and other business records and to provide relevant materials, files, and documentation in such a way to allow the examiners to sufficiently ascertain the underwriting and rating practices of the Company regarding Atlantic Master Plan policies, thereby violating §374.205, RSMo, and 20 CSR 300-2.200 (2007) (as amended 20 CSR 100-8.040, eff. 7/30/08).

2. In some instances, Balboa incorrectly granted a 2% premium discount on its Homeowners' policies, in violation of §§374.205, 379.160, and 379.321, RSMo, 20 CSR 300-2.200 (2007) (as amended 20 CSR 100-8.040, eff. 7/30/08), 20 CSR 500-1.100, and 20 CSR 500-9.100.

3. In some instances, Balboa failed to timely and completely respond to the examiners' requests for information, thereby violating §374.205, RSMo, and 20 CSR 300-2.200 (2007) (as amended 20 CSR 100-8.040, eff. 7/30/08).

WHEREAS, Balboa hereby agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those corrective actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct examination reports do not recur, including but not limited to the following:

1. Undertake best efforts to obtain an application for each of the 67 Atlantic Master Plan homeowners' policies unavailable during the course of the examination for retention in its files, as required by §374.205, RSMo, and 20 CSR 100-8.040, within 60 days after a final order is entered by the Director closing this examination.

2. Documentation of all remedial actions taken by the Company to implement compliance with the terms of this Order and to assure that the errors noted in the examination report do not recur, including explaining the steps taken and the results of such actions, shall be filed with the Director within 60 days of the entry of a final order is entered by the Director closing this examination.

WHEREAS, Balboa is of the position that this Stipulation of Settlement and Voluntary Forfeiture is a compromise of disputed factual and legal allegations, and that payment of a forfeiture is merely to resolve the disputes and avoid litigation; and

WHEREAS, Balboa, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, which may have otherwise applied to the above referenced Market Conduct

Examination; and

WHEREAS, Balboa hereby agrees to the imposition of the ORDER of the Director and as a result of Market Conduct Examination #0811-18-TGT further agrees, voluntarily and knowingly to surrender and forfeit the sum of \$4,000.

NOW, THEREFORE, in lieu of the institution by the Director of any action for the SUSPENSION or REVOCATION of the Certificate(s) of Authority of Balboa to transact the business of insurance in the State of Missouri or the imposition of other sanctions, Balboa does hereby voluntarily and knowingly waive all rights to any hearing, does consent to the ORDER of the Director and does surrender and forfeit the sum of \$4,000, such sum payable to the Missouri State School Fund, in accordance with §374.280, RSMo.

DATED: _____

President
Balboa Insurance Company



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

In re:)
) Examination No. 0811-18-TGT
Balboa Insurance Co. (NAIC #24813))

ORDER OF THE DIRECTOR

NOW, on this 1ST day of FEBRUARY, 2010, Director John M. Huff, after consideration and review of the market conduct examination report of Balboa Insurance Co. (NAIC #24813), (hereafter referred to as "Balboa") report numbered 0811-18-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3)(a), RSMo, and the Stipulation of Settlement and Voluntary Forfeiture ("Stipulation") does hereby adopt such report as filed. After consideration and review of the Stipulation, report, relevant workpapers, and any written submissions or rebuttals, the findings and conclusions of such report is deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4), RSMo.

This order, issued pursuant to §§374.205.3(4) and 374.280, RSMo and §374.046.15. RSMo (Cum. Supp. 2006), is in the public interest.

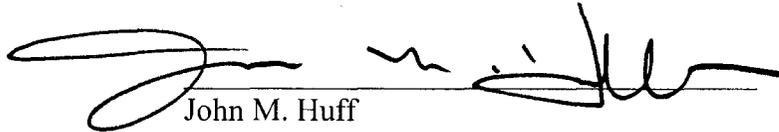
IT IS THEREFORE ORDERED that Balboa and the Division of Insurance Market Regulation have agreed to the Stipulation and the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that Balboa shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place Balboa in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that Balboa shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$4,000.00, payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 1st day of FEBRUARY, 2010.

A handwritten signature in black ink, appearing to read 'John M. Huff', written over a horizontal line.

John M. Huff
Director

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Of the Property and Casualty Business of

Balboa Insurance Company
NAIC # 24813

MISSOURI EXAMINATION # 0811-18-TGT

NAIC EXAM TRACKING SYSTEM # MO268-M88

November 9, 2009

Home Office
3349 Michelson Drive #200
Irvine, CA 92612-8893

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FOREWORD

This is a targeted market conduct examination report of the Balboa Insurance Company, (NAIC Code # 24813). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” refers to Balboa Insurance Company;
- “Balboa” refers to Balboa Insurance Company;
- “CSR” refers to the Missouri Code of State Regulation;
- “DIFP” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “NAIC” refers to the National Association of Insurance Commissioners; and
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2008, through December 31, 2008, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: homeowners underwriting and terminations, dwelling fire underwriting, homeowners claims, dwelling fire claims, and complaints.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

“Balboa Insurance Company (the “Company”) was organized on February 6, 1948 under the laws of California. The Company was issued a Certificate of Authority as a multiple line property and casualty domestic insurance underwriting company by the California Department of Insurance on March 26, 1948, and began business on April 15, 1948. The Company acquired Newport Insurance Company, an Arizona domiciled insurer, upon Newport’s formation on March 25, 1964.

Ownership of the Company was held by Balboa Life Insurance Company from 1969 to 1986 when control was passed to Avco Financial Services International, Inc., which in turn was acquired by Textron, Inc. in January 1985. On December 31, 1986, 100% ownership in Atlantic Reinsurance Limited, Bermuda, was contributed to the Company. One year later, in 1987, complete ownership of Atlantic General Insurance Limited, also of Bermuda, was contributed to the Company. In January of 1999, Textron sold the subsidiaries of Avco Financial Services (including the Company) to Associates First Capital Corporation.

Associates First subsequently sold the Company, its two property casualty subsidiaries and Balboa Life Insurance Company to Countrywide Insurance Group, Inc. (subsequently renamed Balboa Insurance Group, Inc.), a wholly-owned subsidiary of Countrywide Financial Corporation (formerly known as “Countrywide Credit Industries, Inc.”) on November 30, 1999. On July 1, 2008, Bank of America Corporation purchased Countrywide Financial Corporation and thereby acquired control of the Company.

Bank of America Corporation (“Bank of America”) is a publicly traded Delaware corporation (NYSE: “BAC”). It is one of the world’s largest financial institutions, serving individual consumers, small and middle businesses and large corporations with a full range of banking, investing, assets management and other financial and risk management products and services. Bank of America is the leading U.S. provider of home equity loans. Following the acquisition of Merrill Lynch on January 1, 2009, Bank of America is among the world’s leading wealth, management companies and is a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions, and individuals around the world.

The Company is currently licensed in all U.S. states (surplus lines underwriter in Louisiana), Guam, U.S. Virgin Islands and the Northern Mariana Islands (Saipan), as a multi-line underwriter offering a variety of property and casualty products, including homeowners, renters, and lender-placed insurance. In 2007, the Company had a collective total of approximately \$1,010,504,716.00 in direct premium written under the lines of Fire, Allied Lines, Homeowners Multiple Peril, Commercial Multiple Peril, Inland Marine, Earthquake, Group Accident and Health, Credit Accident and Health, Other Liability Occurrence, Private Passenger Auto Liability, Auto Physical Damage, Surety, Credit, Credit Involuntary Unemployment, Home Mechanical Breakdown and Home Warranty Insurance throughout all of the United States, the District of Columbia and Guam.”

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Balboa Insurance Company.

- In 67 instances, the examiners were unable to readily ascertain the underwriting and rating practices of Balboa regarding homeowner policies because the Company failed to furnish complete records for review.
- In four instances, the Company granted a 2% premium discount regarding the presence of smoke detectors, fire extinguishers, and deadbolts in error.
- In one instance, Balboa accepted an application that included an answer to the prohibited question concerning an applicant's prior coverage being declined, cancelled or non-renewed.
- In three instances, Balboa failed to acknowledge receipt of claim notification within 10 working days.
- In one instance, the Company failed to notify the claimant in writing within 45 days from the initial date of notification and every 45 days thereafter as to the reasons why additional time was needed to complete the claim investigation.
- In one instance, Balboa failed to retain a copy of the denial letter in the file that explained the reason for the claim denial.
- In one instance, the Company did not maintain the claim file so as to show clearly the inception, handling and disposition of the claim.

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to their own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is determined in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to insure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect the insured.

The examiners discovered no issues or concerns.

B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

1. Homeowners

Field Size:	512
Sample Size:	104
Type of Sample:	Random
Number of Errors:	1
Error Ratio:	1%
Within DIFP Guidelines:	Yes

The Company accepted an application that included an answer to the prohibited question concerning an applicant's prior coverage being declined, cancelled or non-renewed.

References: §375.936(11)(f), RSMo and DIFP Bulletin 94-04.

Policy Number

xxx-00-68-07H

Errors not included in the ratio

Also noted in the sample were the following errors, which are not included in the error ratio above:

Failure to Maintain Records

In 67 instances, the examiners were unable to readily ascertain the underwriting and rating practices of Balboa regarding Atlantic Master Plan policies because the Company failed to furnish complete records for review. Missing file documentation included applications, inspection and claim reports, correspondence, proof of program eligibility, and printed electronic computer system records.

References: § 374.205, RSMo, and 20 CSR 300-2.200 (as amended 20 CSR 100-8.400).

Policy Number

xxxxx1678
xxxxx1740
xxxxx1754
xxxxx1865
xxxxx1873
xxxxx3355
xxxxx4255
xxxxx5151
xxxxx5334
xxxxx5771
xxxxx5825
xxxxx7062
xxxxx8003
xxxxx2636
xxxxx3685
xxxxx3749
xxxxx3844
xxxxx3920
xxxxx4109
xxxxx4320
xxxxx4412
xxxxx4476
xxxxx4565

Policy Number

xxxxx4643
xxxxx4728
xxxxx4925
xxxxx4950
xxxxx5198
xxxxx5219
xxxxx5253
xxxxx5528
xxxxx5575
xxxxx5938
xxxxx6057
xxxxx6128
xxxxx6204
xxxxx6289
xxxxx6470
xxxxx6491
xxxxx6510
xxxxx6548
xxxxx6567
xxxxx6732
xxxxx6795
xxxxx6797
xxxxx6805

Policy Number

xxxxx6974
xxxxx7126
xxxxx7291
xxxxx7379
xxxxx7844
xxxxx7911
xxxxx7964
xxxxx8031
xxxxx8155
xxxxx8243
xxxxx8283
xxxxx8388
xxxxx0382
xxxxx0401
xxxxx0403
xxxxx0414
xxxxx2300
xxxxx4929
xxxxx5486
xxxxx6576
xxxxx217090

Rating Errors

In four instances, the Company granted a 2% premium discount regarding the presence of smoke detectors, fire extinguishers, and deadbolts in error, resulting in undercharges.

References: §§ 374.205, 379.160, 379.321, RSMo, 20 CSR 300-2.200 (as amended 20 CSR 100-8.040) 20 CSR 500-1.100, and 20 CSR 500-9.100.

<u>Policy Number</u>	<u>Undercharge</u>
xxxxxx681493	\$ 20.32
xxxxxx681450	40.46
xxxxxx679670	21.04
xxxxxx842234	15.94

2. Dwelling Fire

Field Size: 3,072
Sample Size: 100
Type of Sample: Random
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the carrier terminated at or before the scheduled expiration date of the policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

Homeowners

Field Size: 81
Sample Size: 81
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2008, through December 31, 2008.

A claim file is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and §375.445) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC [or statutory] benchmark error rate[s] are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim.
- An unreasonable delay in the investigation of a claim.
- An unreasonable delay in the payment or denial of a claim.
- A failure to calculate claim benefits correctly.
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

A. Claims Time Studies

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days.
- Completion of the investigation of a claim must be made within thirty 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days.
- Payment or denial of a claim must be made within fifteen 15 working days after investigation of the claim is complete.

1. Homeowners

Field Size:	53
Sample Size:	53
Type of Sample:	Census
Number of Errors:	0
Error Ratio:	0%
Within DIFP Guidelines:	Yes

The examiners discovered no issues or concerns.

2. Dwelling Fire

Field Size:	199
Sample Size:	100
Type of Sample:	Random
Number of Errors:	4
Error Ratio:	4%
Within DIFP Guidelines:	Yes

In three instances, the Company failed to acknowledge receipt of claim notification within 10 working days.

References: § 375.1007(2) RSMo. and 20 CSR 100-1.030.

Policy Number

xxxx95172
xxxx36489
xxxx79050

In one instance, Balboa failed to notify the claimant in writing within 45 days from the initial date of notification and every 45 days thereafter as to the reasons why additional time was needed to complete the claim investigation.

References: § 375.1007(4) RSMo. and 20 CSR 100-1.050 (1)(C).

Policy Number

xxxx52655

B. Unfair Settlement and General Handling Practices

In addition to the Claim Time Studies, examiners reviewed the company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the company failed to meet these standards, the examiners cited the company for noncompliance.

1. Homeowners

Field Size: 53
Sample Size: 53
Type of Sample: Census
Number of Errors: 0
Error Ratio: 0%
Within DIFP Guidelines: Yes

The examiners discovered no issues or concerns.

2. Dwelling Fire

Field Size: 199
Sample Size: 100
Type of Sample: Random
Number of Errors: 2
Error Ratio: 2%
Within DIFP Guidelines: Yes

In one instance, the Company failed to retain a copy of the denial letter in the file that explained the reason for the claim denial.

References: § 375.1007 & 20 CSR 100-1.050.

Policy Number

xxxx24808

In one instance, Balboa did not maintain the claim file so as to show clearly the inception, handling and disposition of the claim. The file failed to include claim notes, preventing the examiners from determining contact details and settlement discussions with claimants and related entities.

References: 20 CSR 300-2.100 & 20 CSR 300-2.200(3)(B)1 (as amended 20 CSR 100-8.010).

Policy Number

xxxx93356

C. Practices Not in the Best Interest of Consumers

The examiners also looked for items that were not in the best interest of consumers. Not only could these practices be harmful to the insured, they may expose the company to potential liability.

1. Homeowners

The examiners discovered no issues or concerns.

2. Dwelling Fire

The examiners discovered no issues or concerns.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the company.

The examiners verified the company's complaint registry, dated January 1, 2006, through December 31, 2008. The registry contained a total of 16 complaints. They reviewed all 12 that went through DIFP and two that did not come through the Department, but went directly to the company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D) (as amended 20 CSR 100-8.040(3)(D)).

The examiners discovered no issues or concerns.

CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	20	100%
Received outside time-limit, incl. any extensions	0	0%
<u>No Response</u>	<u>0</u>	<u>0 %</u>
Total	20	100 %

B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	7	64%
Received outside time-limit, incl. any extensions	4	36%
<u>No Response</u>	<u>0</u>	<u>0%</u>
Total	11	100%

References: § 374.205, RSMo, and 20 CSR 300-2.200 (as amended 20 CSR 100-8.400).

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Balboa Insurance Company (NAIC #24813), Examination Number 0811-18-TGT. This examination was conducted by John F. Hemmersmeier, Gary Bird, and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated September 24, 2009. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

Michael W. Woolbright
Chief Market Conduct Examiner

Date



November 6, 2009

Via Email and Overnight Mail

Ms. Carolyn Kerr, Senior Counsel
State of Missouri
Market Conduct Section, Division of Insurance,
Financial Institutions, and Professional Registration
301 West High Street, Room 530
P.O. Box 690
Jefferson City, MO 65102-0690

**Re: Draft Market Conduct Examination Report
Balboa Insurance Company (NAIC #24813)
Examination Period: January 1, 2008 – December 31, 2008
Missouri Examination # 0811-18-TGT
NAIC EXAM TRACKING SYSTEM # MO268-M88**

Dear Ms. Kerr:

This letter acknowledges receipt of the Draft Market Conduct Examination Report (the "Draft Report") of the Property and Casualty Business of Balboa Insurance Company ("Balboa" or the "Company"), dated October 2, 2009, and received on October 6, 2009. The Company agrees to and will abide by all of the comments and statutory regulations as detailed in the cover letter of the Draft Report.

Balboa appreciates the work performed by the examiners in conducting the examination and in preparing their comprehensive report. Balboa will draw benefits from their work that will enable it to better serve its Missouri policyholders.

With respect to the finding on page 10 of the Draft Report - Errors not included in the ratio, Balboa would like to clarify the relationship with Atlantic Mutual Insurance Company and the Atlantic Masterplan policies. As previously communicated to the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") on September 29, 2009, a portion of the Balboa Homeowner business in Missouri was administered through Atlantic Mutual Insurance Company and is now administered by ACE American Insurance Company. This business was acquired through a strategic alliance agreement with Atlantic Mutual Insurance Company and Centennial Insurance Company (collectively, "Atlantic"). As part of this strategic alliance, the Atlantic book of business was to be replaced by Balboa. In 2006, Balboa filed this new program with the DIFP and was ultimately approved in January 2007, with effective dates 01/15/07 (new business) and 02/27/07 (renewals). This was filed through SERFF under tracking number SERT-6SHV7X740/00-00/00-00/00. In the filing, it was

outlined to the DIFP that this program would be offered to 100% of the Atlantic current policyholders that would have been offered renewal by Atlantic.

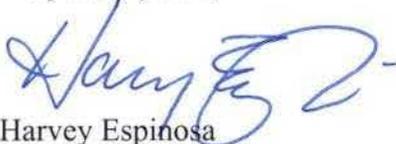
From an operations stand point, upon expiration of their current policy term, Atlantic policyholders would have received a non-renewal notice from Atlantic. In addition to the non-renewal notice, the policyholders would have received a general notice advising of Atlantic's withdrawal from writing personal lines insurance, and describing Balboa's offer of coverage to be received. Those policyholders would have also received an offer of coverage from Balboa. The offer would have required the policyholder to accept it in order for coverage with Balboa to be in effect. Balboa did not re-underwrite the Atlantic policies and did not cancel any new policy issued to an Atlantic policyholder within the first sixty days of the Balboa policy (except, however, for non-payment of premium or by insured request). Balboa required applications for all new business, except for those policyholders of Atlantic being offered coverage in connection with the withdrawal from writing personal lines insurance by Atlantic in Missouri and 12 other states.

On December 31, 2007, Atlantic Mutual sold substantially all of its assets to ACE American Insurance Company ("ACE"). The strategic alliance with Balboa was terminated by Atlantic Mutual and the business written by Balboa through Atlantic Mutual was ceded 100% quota share basis to ACE. As an accommodation, until ACE could get its programs filed and approved in Missouri and other states, the Balboa (formerly Atlantic Mutual) agents continued to write new and renewal business in Balboa. All risks for that business were ceded to ACE. This process was intended to minimize - and, we believe, did minimize - potential customer dislocation and dissatisfaction.

As of October 2009, month end, the Atlantic homeowner business written on Balboa paper has only 31 policies left. These are expected to roll off upon their current expiration.

We thank the DIFP examiners for a thorough review and the professionalism extended to Balboa during the course of the examination. If you should have any additional questions or concerns, please do not hesitate to contact me.

Very truly yours,



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