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PRESS RELEASE

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AMERICAN FAMILY MUTUAL INSURANCE COMPANY CORRECTS 2010 CLAIMS AND PAYS AN ADDITIONAL \$1,190,657 TO CLAIMANTS

In the course of investigating a complaint, the Arizona Department of Insurance (ADOI) found that American Family Mutual Insurance Company (American Family Mutual), the third largest homeowner insurance company in Arizona, underpaid more than 5,000 Arizona homeowner insurance claims arising from last year's winter storm (January 2010) and hail storm (October 2010).

Arizona's insurance claims settlement laws require insurers to determine and pay the appropriate type and amount of all taxes associated with the cost of repairing damage to a home or building. Specifically, in Arizona, building contractors must pay a *Transaction Privilege Tax* to the Arizona Department of Revenue* and contractors generally include this tax as part of their invoice for repair work to building owners. Since this tax is part of the cost of repairing a home or building, insurers must necessarily include and pay this amount in an insurance company's equitable claim payment.

In December 2010, an Arizona roofing contractor contacted ADOI and provided credible evidence that American Family Mutual failed to include the Arizona *Transaction Privilege Tax* in its settlement of his client's homeowner's insurance claim. Upon investigation, the ADOI confirmed that American Family Mutual was underpaying property damage claims by including sales tax rather than the requisite Arizona *Transaction Privilege Tax*. American Family Mutual explained that the errors occurred in claims processed by its temporary Catastrophic Adjusting Team that the company utilized to handle those losses.

American Family Mutual immediately corrected this improper claim settlement practice and ADOI directed American Family Mutual to perform a self-audit of the 2010 claims to determine if the company underpaid any other claims. American Family Mutual recently completed the audit and identified 5,377 claims in 13 Arizona counties in which they needed to recalculate the tax. The bulk of the claims were in Maricopa county (5,142), with the second and third highest claims in Pima county (76) and Pinal county (54).

* Address questions about Transaction Privilege Tax to Anthony Forschino, Arizona Department of Revenue, 602-716-6882.

American Family Mutual discovered that they had underpaid these claims by \$1,145,200.52 and promptly sent claim adjustment checks to the affected claimants, plus an additional \$45,456.59 in interest. The average claim adjustment was \$116, but the additional payments reached as high as \$4,778.

American Family Mutual confirmed that it will implement procedures to ensure that its adjusters, including those brought in from out-of-state to handle catastrophic losses, are fully trained to calculate and pay the correct Arizona taxes owed on all claims. Further, the company agreed to pay the correct settlement amount, plus interest, on any other claims where the company determines it paid the taxes incorrectly.

Given the high volume of catastrophic claims in Arizona in 2010, this incident raised ADOL's concerns that other insurers may have also overlooked Arizona's *Transaction Privilege Tax* in their claims settlements, particularly in cases where insurers utilized out-of-state adjusters that are perhaps unfamiliar with Arizona's particular tax requirements. Accordingly, ADOL will take appropriate steps to determine whether other insurers underpaid such claims and taxes and will consult with the Arizona Department of Revenue as necessary to ensure proper tax payments arising from these insurance claims settlements.

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