
REPORT ON EXAMINATION

(Limited Scope Market Conduct)

of

EQUITY INSURANCE COMPANY.

NAIC COMPANY CODE: 28746

NAIC GROUP CODE: 3179

as of

December 31, 2006

(Property and Casualty)

By Representatives of the
Oklahoma Insurance Department

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SALUTATION

Oklahoma City, Oklahoma
December 18, 2008

Honorable Kim Holland
Insurance Commissioner
State of Oklahoma
2401 N W 23rd Street, Suite 28
Oklahoma City, Oklahoma 73107

Commissioner Holland:

Pursuant to instructions and in compliance with the provisions of Title 36 of the Oklahoma Statutes, rules, regulations and procedures of the Oklahoma Insurance Department, and the procedures established by the National Association of Insurance Commissioners, a limited scope examination of the market conduct activities has been conducted of:

EQUITY INSURANCE COMPANY

**Statutory Home Office
4315 Lake Shore Drive, Suite J
Waco, Texas 76710**

The following Report of Examination (Limited Scope Market Conduct), as of December 31, 2006, is hereby respectfully submitted.

FOREWORD

This limited scope market conduct examination report, as of December 31, 2006 reflects certain Oklahoma insurance activities of Equity Insurance Company, hereafter referred to as "Equity" or the "Company". The examination was conducted in the Company's branch office at 616 South Boston, Tulsa, Oklahoma. The examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether the results are favorable or unfavorable.

SCOPE OF EXAMINATION

This examination covers the period January 1, 2004, through December 31, 2006.

The purpose of the examination was to determine compliance by the Company with provisions of the law, and any other facts relative to its business methods, management or equity of its dealings with its policyholders.

The examination was conducted in accordance with the guidelines and procedures recommended by the National Association of Insurance Commissioners (NAIC), rules, regulations and directives of the Oklahoma Insurance Department and pursuant, but not limited to, Title 36 O.S. §§ 309.1 – 309.7, 1204 – 1220, 1250.1, 1250.10, 1435.14.A, 1435.15A, and 3636.

In reviewing material for this report, the examiners relied primarily on records and material furnished by the Company.

File sampling was based on a review of randomly selected, unless otherwise indicated, samples of underwriting and claim files by category.

During the course of this examination, the Company's operations were reviewed, including, but not limited to, the following:

- Operations and management;
- Complaint Handling;
- Producer Licensing;
- Underwriting
- Policyholder Service; and
- Claims.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Oklahoma Insurance Department. Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process. This report should not be construed to endorse or discredit any insurance company or insurance product. This report is prepared for a particular audience and for a particular use. The materials contained in it are not necessarily suitable for any other purpose.

PRIOR EXAMINATION REPORT

The prior Oklahoma Insurance Department Examination Report, as of June 30, 2002, contained in the Summary of Important Points the following:

Salvage Automobile Claims

Claim number 0201-093714, the taxes and license fees were under estimated by \$493.00. The Company agreed and paid \$493.00 to claimant. Reference Title 36 O.S. § 1250.8(1).

COMPANY OPERATIONS AND MANAGEMENT

History and Profile

The Company was originally incorporated under the Laws of the State of Oklahoma on January 1, 1965 and commenced business that day.

On December 27, 1995, Guidant Specialty Mutual Insurance Company acquired the Company. The name was changed to Guidant Casualty Insurance Company on February 1, 1998 and later changed to GuideOne Casualty Insurance Company on April 26, 1999. The Company redomesticated to Iowa on December 15, 1999.

On September 11, 2001, Home State General Agency, Inc., Waco, Texas, (Name subsequently changed to Home State Insurance Group, Inc.) acquired the Company. An order issued by the Texas Insurance Department on November 15, 2001 approved the redomestication of the Company to Texas and the amendment of its Certificate of Authority to change its home office from West Des Moines, Iowa to Waco, Texas. The name of the Company was changed from GuideOne Casualty Insurance Company to its current name, Equity Insurance Company, on November 28, 2001.

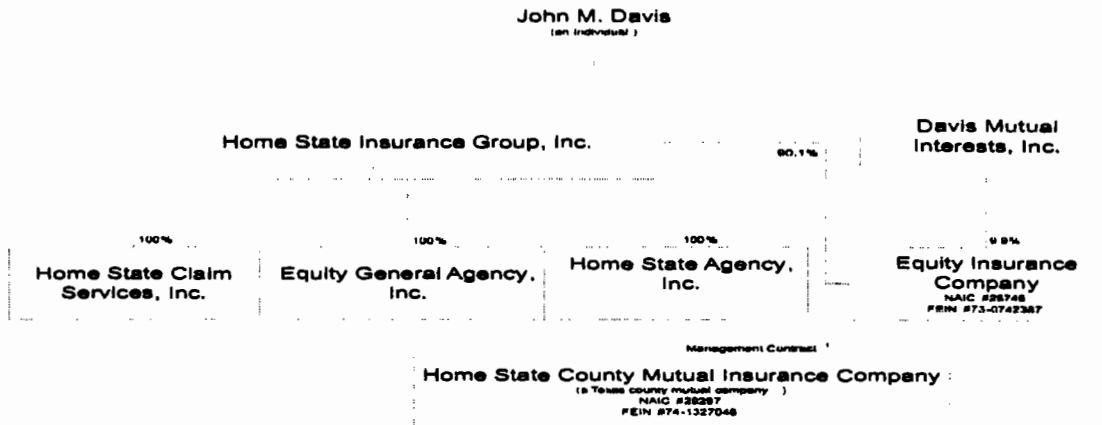
Equity is licensed in thirty (30) states: AL, AR, AZ, CA, CO, FL, GA, ID, IL, IN, IA, KS, KY, LA, MS, MO, MT, NE, NM, ND, OK, OR, SC, SD, TN, TX, UT, VA, WA and WY.

Currently the Company writes private passenger and commercial automobile insurance in six (6) states: Arizona, Arkansas, Colorado, Florida, Georgia and Oklahoma.

Affiliated Parties

The Company and its affiliates are members of an Insurance Holding Company System as defined in Title 36, O.S. §1651(d).

The following organizational chart reflects the Company's relationship to its affiliates:



¹ Control over Home State County Mutual is maintained through the Management Contract with Home State Agency, Inc. Said control acquired pursuant to Texas Commissioner of Insurance Order No. 92-0528 issued June 5, 1992

Direct Written Premium

The Company's reported total direct written premium for Oklahoma for the period under review was as follows:

Lines of business	2006	2005	2004
Private passenger auto no-fault	\$ 1,560	\$ 1,628	\$ 2,113
Other private passenger auto liability	16,102,728	18,512,891	19,479,145
Other commercial auto liability	-248	6,344	0
Private passenger auto physical damage	7,592,864	8,759,037	11,316,868
Commercial auto physical damage	252	3,773	0
Total	\$23,697,156	\$27,283,673	\$30,798,126

The Company's reported total direct written premium for the period under review was as follows:

Lines of business	2006	2005	2004
Other private passenger auto liability	\$50,512,722	\$36,969,196	\$31,433,092
Other commercial auto liability	2,384,873	1,635,637	279,655
Private passenger auto physical damage	18,503,383	15,978,586	17,457,502
Total	\$71,400,978	\$54,583,419	\$49,170,249

COMPLAINT HANDLING

In the review of the Company's complaint handling, attention was given to the Company's analysis of the complaint, the candor of the response, comparison of the response and actual file contents. The Company's own complaint records and the complaint listing maintained by the Oklahoma Insurance Department were utilized in this review.

Number of Complaints

Cause of Complaint	2006	2005	2004
Total number of Complaints	13	21	17

Complainant Time Studies

For this study, time was measured from the date the Company received the complaint until the date of response. In this study no exceptions were noted.

Days	Number of Complaints	Percentage
0-20	10	100.0%
Over 20	0	0.0%
Total	10	100.0%

Ten (10) complaints were selected as a sample for review, from a population of fifty one (51) complaints closed during the time frame of the examination, no errors were noted.

MARKETING AND SALES

Marketing

The Company markets its products through independent agents/agencies.

PRODUCER LICENSING

Producer Licensing and Appointments

The Company's listing of agent's commissions paid was compared to the Oklahoma Insurance Department listing of appointed agents. No exception was noted.

Adjuster Licensing

The Company's claims are handled for the most part by the Company's adjusters. On each claim reviewed the adjuster's license was checked against the Oklahoma Insurance Department listing of adjusters. In this study no exceptions were noted.

POLICYHOLDER SERVICE

The policyholder service portion is designed to test the Company's compliance with statutes regarding notice/billing, delays/no response, and premium refunds. In that study fifty (50) cancellations were selected from a population of 3,229 cancellations. In that study no error was noted.

UNDERWRITING AND RATING

The Company's underwriting and rating practices were reviewed, including filing of forms in use during the period under examination.

Company Forms

In a review of the Company's forms no exception was noted.

Application of Rates and Underwriting

The most appropriate statistic to measure accuracy is the number of files in error. An error is taken to be any failure of the Company to:

- Correctly calculate premium;
- Correctly code;
- Comply with statutes, regulations or policy provisions; or
- Properly issue.

Active Automobile Policies

Field Size	Type of Sample	Size of Sample
18,473	Random	50

In this study no errors were noted.

Cancelled Automobile Policies

Field Size	Type of Sample	Size of Sample
3,229	Random	50

In this study no errors were noted.

CLAIMS

Claim Time Studies

For these studies, claim payments are measured from the following:

ACKNOWLEDGEMENT TIME:

From the date of receipt by the insurer or agent of notification of a claim to a company's initial communication or acknowledgement to the claimant. Reference: Title 36 O.S. § 1250.6(A).

INVESTIGATION TIME:

From the date the company or agent receives notification of a claim to the date the investigation is completed. Reference: Title 36 O.S. § 1250.7(C).

ACCEPTANCE TIME:

From the date the company has received all necessary proof of loss information to the date of acceptance or denial. Reference: Title 36 O.S. § 1250.7(A).

The following one hundred and twenty five (125) claims were randomly selected for time studies. In that review no exceptions were noted.

Lines of business	Field Size	Sample size	Number of errors
Automobile Collision Damage Claims	3,970	50	0
Comprehensive Claims	248	50	0
Subrogation Claims	1,444	25	0
Total	5,662	125	0

Claim Practices

The claims practices of the Company were examined for efficiency of handling, accuracy of payment, compliance to Oklahoma Statutes and Regulations, and adherence to contract provisions. A claim is taken to be a demand for payment by an insured or claimant under a coverage against the insurer, which claim is:

Paid by the Insurer as:

1. Full recompense
2. Partial recompense

Closed without payment by reason of:

1. No relevant coverage
2. No liability
3. Recompense by other legal means

Automobile Collision Damage Claims

Fifty (50) claims were selected for review from a population of 3,970 claims closed during the time frame of the examination. In this study, no errors were noted.

Comprehensive Claims

Fifty (50) claims were selected for review from a population of 2,480 claims closed during the time frame of the examination. In this study, no errors were noted.

Subrogation Claims

Twenty (25) subrogation files were selected for review from a population of 1,414 claims closed during the time frame of the examination. In this study, no errors were noted.

COMMENTS

In a review of the Company operations, there were no violations or exceptions noted by the examiner's. It appears that the Company is complying with Oklahoma Statutes and Policy Provision.

ACKNOWLEDGMENT

The Market Conduct Examination Report of Equity Insurance Company is respectfully submitted to the Honorable Kim Holland, Insurance Commissioner of the State of Oklahoma.

In addition to the undersigned, Mr. Jim Mitchell, AFE, participated in the examination.

The Examiners wish to express their appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Respectfully Submitted,



Henry Andrews, AIE
Examiner-in Charge, State of Oklahoma
Midwestern Zone III, NAIC

AFFIDAVIT

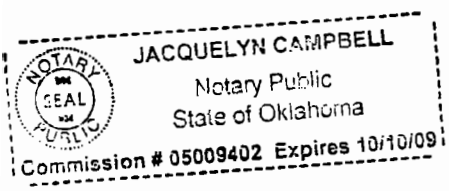
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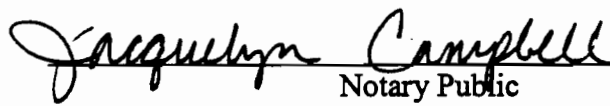
I, Henry Andrews, of lawful age, being first duly sworn, upon oath state that I have been charged with examining Equity Insurance Company, as of December 31, 2006, that I have prepared and read the foregoing Report of Examination, that I am familiar with the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.


Henry Andrews

Subscribed and sworn to before me this 18th day of December, 2008, by Henry Andrews.

[seal]




Notary Public

My commission expires: 10/10/09