PROCEEDING BEFORE THE HONORABLE MICHAEL D. RILEY INSURANCE COMMISSIONER OF THE STATE OF WEST VIRGINIA

IN RE: GEICO INDEMNITY COMPANY ADMINISTRATIVE PROCEEDING 13-MC-THP-02000

AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION

NOW COMES, The Honorable Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the targeted examination of GEICO INDEMNITY COMPANY (hereinafter referred to as "GEICO)" for the examination period ending December 31, 2012 based upon the following findings, to wit:

PARTIES

1. The Honorable Michael D. Riley, is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. GEICO operates under the provisions of Chapter 33, of the West Virginia Code and is domiciled in the State of Maryland.

3. GEICO is licensed in the State of West Virginia for the lines of Property & Casualty.

4. This Targeted Market Conduct Examination was instituted as result of the Final Order entered in Administrative Proceeding Number 11-AP-THP-

02065. The Administrative Order concluded that GEICO violated the following sections of the Unfair Claims Settlement Act: W.Va. Code §§ 33-11-4(9)(b) and W. Va. Code. R. §§ 114-14-5.3.

5. The purpose of this targeted examination was to determine GEICO's compliance with West Virginia Insurance laws relating to treatment of third party claimants, particularly, with respect to W. Va. Code § 33-11-4(9)(b) and W. Va. Code R. § 114-14-5.3 Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record.

FINDINGS OF FACT

1. The Targeted Market Conduct Examination primarily focused on third-party claims handling with particular attention to the company's responses to pertinent communications from claimants or their representatives. The targeted examination covered the period of operations from January 1, 2009 through December 31, 2012. The examination was conducted in accordance with W. Va. Code § 33-2-9(c) by examiners duly appointed by the Offices of the West Virginia Insurance Commissioner.

2. On September 3, 2013, the examiner filed with the Insurance Commissioner, pursuant to W. Va. Code §33-2-9, a Report of Market Conduct Examination regarding the treatment of third party claimants.

3. A true copy of the Report of Market Conduct Examination and this Agreed Order were sent to GEICO.

4. GEICO was notified that, pursuant to W. Va. Code §33-2-9(j) (2), it

had thirty (30) days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner, or if it had no objections/submissions, it could elect to enter into this Agreed Order.

5. GEICO waives notice of administrative hearing, any and all rights to an administrative hearing, and to judicial review of this matter.

6. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such and incorporated in the next section.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter and the parties to this proceeding.

2. This proceeding is pursuant to and in accordance with W. Va. Code §33-2-9.

3. The Insurance Commissioner is charged with the responsibility of verifying continued compliance with West Virginia Code and the West Virginia Code of State Rules by GEICO as well as all other provisions of regulation that GEICO is subjected to by virtue of their Certificate of Authority to operate in the State of West Virginia.

4. There does not appear to be any violation of W. Va. Code § 33-11-4(9)(b) and/or W. Va. Code R. § 114-14-5.3 exhibited by GEICO in this examination findings and scope.

5. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to W. Va. Code §33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and the response of GEICO thereto, if any, the Insurance Commissioner and GEICO have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination.

It is accordingly **ORDERED** as follows:

(A) The Report of Market Conduct Examination of GEICO for the period ending December 31, 2012 is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner;

(B) It is further **ORDERED** that within thirty (30) days of the next regularly scheduled meeting of its Board of Directors, GEICO shall file with the West Virginia Insurance Commissioner, in accordance with W. Va. Code §33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION.

(C) It is further **ORDERED** that GEICO shall ensure continued compliance with the West Virginia Code and the West Virginia Code of State Rules.

(D) It is finally **ORDERED** that all such statutory notices, administrative hearings and appellate rights are herein waived concerning this Report of Market Conduct Examination and Agreed Order. All such rights are preserved by the Parties regarding implementation or further action taken on such Order by the Commissioner against GEICO Indemnity Company.

Entered this 3rd day of October, 2013

The Honorable Michael D. Riley
Insurance Commissioner

REVIEWED AND AGREED TO BY:

On behalf of the INSURANCE COMMISSIONER:

Jeffrey C. Black, Attorney Supervisor
Regulatory Compliance and Enforcement

Dated: 10/2/13

On Behalf of GEICO INDEMNITY COMPANY:

By: Hank Nayden
Print Name

Its: Vice President & Legislative Counsel

Signature:

Date: 9/30/13

Report of Market Conduct Examination

As of December 31, 2012

GEICO Indemnity Company
5260 Western Ave
Chevy Chase, MD 20815-3799

NAIC COMPANY CODE 22055
Examination Number WV014-M37

TABLE OF CONTENTS

HISTORY AND PROFILE 1
PURPOSE AND METHODOLOGY OF THE EXAMINATION 2
EXAMINER'S OBSERVATIONS 3
CONCLUSION 4
EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT 5
EXAMINER'S AFFIDAVIT 6

September 3, 2013

The Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Commissioner Riley:

Pursuant to your instructions and in accordance with W. Va. Code §33-2-9, an examination has been made as of December 31, 2012 regarding treatment of third party claimants:

GEICO Indemnity Company
5260 Western Ave
Chevy Chase, MD 20815-3799

hereinafter referred to as the "Company". The following report of the findings of this examination is herewith respectfully submitted.

HISTORY AND PROFILE

GEICO Indemnity Company (the "Company") was incorporated on March 22, 1961, and reincorporated in 1980 in the District of Columbia under the name of Criterion Insurance Company. On January 3, 1986, the Company was reincorporated and redomesticated from the District of Columbia to the State of Maryland and the name of the Company was changed to GEICO Indemnity Company on June 25, 1986. The Company commenced underwriting activities on September 1, 1961.

Government Employees Insurance Company increased its financial control in GEICO Indemnity Company from 33.5%, which was acquired in 1977, to 100% in early 1980. On September 30, 1992, Government Employees Insurance Company dividended its 100% ownership (1,250,000 shares of Common Stock) of GEICO Indemnity Company to GEICO Corporation. Effective September 30, 1992, GEICO Indemnity Company became the wholly-owned subsidiary of GEICO Corporation, a Delaware corporation. On January 2, 1996, GEICO Corporation, previously a publicly held company, became an indirect wholly-owned subsidiary of Berkshire Hathaway Inc., a Delaware corporation.

Charter powers permit the handling of all forms of property and casualty insurance coverage. Historically, the Company has provided automobile and motorcycle insurance to young adults, military personnel and other drivers who do not qualify as preferred risks with Government Employees Insurance Company or GEICO General Insurance Company, affiliated companies, which was marketed primarily through General Field Representatives. For the past few years, the Company's insurance policies have also been sold to the general standard risk market through direct response marketing techniques.

Under the Articles of Redomestication and Reincorporation and Bylaws of the Company, the business and affairs of the Company shall be managed by the Board of Directors, the number of which shall not be less than nine or more than fifteen and the exact number shall be fixed by a resolution adopted by a majority of the whole Board. Each of the Directors of the Company shall hold office until the annual meeting next after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal in the manner provided for in the Bylaws.

The Bylaws provide that the Directors shall elect a Chairman of the Board, a President, one or more Vice Presidents (including any Executive and/or Senior Vice Presidents) as the Board may determine from time to time, a General Counsel, a Secretary and a Treasurer. There also may be elected a Vice Chairman of the Board, an Actuary, a Controller, an Internal Auditor and such other Officers, associates and assistants under appropriate titles as may be necessary or advisable. Each such Officer shall be elected by the Board at its annual meeting or by a Committee of the Board and hold office until the next annual meeting of the Board and until his or her successor is elected or until his or her earlier death, resignation or removal in the manner provided for in the Bylaws..

They are licensed to do business in the State of West Virginia for the line of Casualty. During 2012, the Company wrote direct premium of approximately $33,619,823 in private passenger automobile premiums in West Virginia giving them a 2.966% market share.

PURPOSE AND METHODOLOGY OF THE EXAMINATION

Market conduct examiners with the WVOIC reviewed certain business practices of GEICO. W. Va. Code §33-2-9 empowers the Commissioner to examine any entity engaged in the business of insurance. The findings in this report, including all work products developed in producing it, are the sole property of the WVOIC.

The purpose of this targeted examination was to determine the Company's compliance with West Virginia insurance laws relating to treatment of third party claimants. Examiners were instructed to report on compliance with the following areas:

- W. Va. Code §33-11-4(9)(b), which prohibits "failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies."

- W. Va. Code St. R. §114-14-5.3: Replies to other pertinent communications. – A reply shall be made within fifteen (15) working days of receipt by the insurer to all other pertinent communications from a claimant, which reasonably suggests that a response is expected.

The conclusions and findings of this examination are public record.

In reviewing material for this report, the examiners relied primarily on records and material maintained and/or submitted by the Company. The examination covered the period of the Company's operations, from January 1, 2009 through December 31, 2012.

File sampling was based on review of closed without payment/denied and paid claim files. Paid claim files were randomly selected from the data provided by the Company. Sample sizes were selected using Audit Command Language (ACL) and sampling methodology described in Chapter XIV of the Handbook. For statistical purposes, an error tolerance level of 7% was used for claims and a 10% tolerance was used for other types of review. Examiners determined acceptance samples designed to rule out, with 95% confidence, that the proportion of errors in the various populations from which the samples were drawn does not exceed the recommended tolerance levels. Upon review of each file, any concerns or discrepancies were noted on requests for information and delivered to the Company for review. Once the Company was advised of a concern contained in a request for information (RFI), the Company had the opportunity to respond. For each finding, the Company was requested to agree, disagree, or otherwise justify the Company's noted action. At the conclusion of the fieldwork, the Company was provided a summary of the findings at the exit conference and a draft of the report was provided for the Company's review. The examination report is a report by test, reporting

all areas reviewed and for each test, reports if the examiners found that the Company "Passed", "Failed", or "Passed with Recommendation". The failure to identify, comment on, or criticize specific Company practices does not constitute an acceptance of the practices by the West Virginia Offices of the Insurance Commissioner or its designee.

EXAMINER'S OBSERVATIONS

Observations: Random samples of one hundred eight (108) paid claims and one hundred seven (107) closed without payment (CWOP) claims were selected and reviewed. Two (2) paid claims were excluded from review for being multiple claimants reviewed under the same claim. Eighty-one (81) CWOP claims were not considered for review due to one or more of the following: out-of-state incident; unknown claimant; claim dropped or demand withdrawn; closed due to lack of pursuit; arbitration. No exceptions were noted.

Table : Claims correspondence

Type	Population	Sampled	N/A	Pass	Fail	%Pass
Third-party claims, paid	5,502	108	2	106	0	100
Third-party claims, closed without payment	2,355	107	81	26	0	100
Totals	*7,857*	*215*	*84*	*131*	*0*	*100*

Recommendations: None

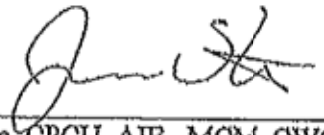
CONCLUSION

The examination primarily focused on third-party claims handling with the sole attention to the company's responses to pertinent communications from claimants or their representatives. The examination found no violations of this issue.

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Mark A. Hooker, CIE, CPCU, FLMI, MCM, CWCP, CCP, AIRC and Brad Beam, CWCP, MCM also participated in the examination.



John Stike, CPCU, AIE, MCM, CWCP, CIPA, APA, AU, AFI
Examiner-in-Charge

EXAMINER'S AFFIDAVIT

State of West Virginia

County of Kanawha

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

I, John Stike, being duly sworn, states as follows:

1. I have the authority to represent West Virginia in the examination of GEICO Indemnity Company.

2. I have reviewed the examination work papers and examination report, and the examination of GEICO Indemnity Company was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.

John Stike, CPCU, AIE, MCM, CWCP, CIPA, APA, AU, AFI
Examiner-in-Charge

Subscribed and sworn before me by John Stike on this 3 day of Sept, 2013.

(SEAL)

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
Janice L. Hammelgarn
Office of the Insurance Commissioner
1124 Smith Street, Charleston, WV 25301
My Commission Expires March 23, 2019

Janice Hammelgarn
Notary Public

My commission expires on 3/23/19 (date).