

**2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**ACE AMERICAN INSURANCE COMPANY**

**(ACE USA)**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**



**DATE FILED: 04/08/03**

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## **INTRODUCTION**

ACE American Insurance Company (Company) is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was January 2000 through September 2001. The examination began October 15, 2001 and ended November 16, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded January 2000.

The prior examination report included the review of homeowners and commercial multi-peril policies, agents/MGA licensing, cancellations/nonrenewals, and claims. Violations cited included failure to attach hurricane deductible notice, failure to maintain records, failure to follow filed rates, rating schedules or rating plans, failure to document/substantiate debits/credits, and failure to communicate timely.

The purpose of the current examination was to verify that rules, rates and forms were filed in compliance with Florida Statutes and Administrative Rules for personal inland marine policies.

During this examination, records reviewed included policies listed in the Table of Contents as reflected in the report. This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances the Company was requested to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

The Certificate of Authority/Renewal Invoices was reviewed for all years within the scope of the examination.

### **EXAM FINDINGS**

The review included verification of the lines of business the Company was authorized to write during the scope of the examination versus those lines actually being written. It also included verification that notification requirements were met for any lines of business that were discontinued.

No errors were found.

## **COMPANY OPERATIONS/MANAGEMENT**

### **HISTORY/MANAGEMENT**

The Company was incorporated on November 1, 1945, under the laws of California. They began business on January 1, 1946. Until 1961, operations were conducted under the title Allied Compensation Insurance Company. In early 1961, the word “Compensation” was deleted from the corporate title and the Company expanded its operations to include all casualty, fire and allied lines. On December 31, 1983, the name was changed to CIGNA Insurance Company as part of the INA and Connecticut General merger.

The current name was adopted on November 1, 1999, in conjunction with the July 2, 1999 acquisition of the property and casualty operations of CIGNA Corporation by ACE Limited.

The Company is licensed in all states, the District of Columbia, Puerto Rico, and the United States Virgin Islands.

ACE Limited, formed in Bermuda in 1985. Affiliated companies are Insurance Company of North America, ACE Insurance Company of Texas, ACE Insurance Company of Ohio, Atlantic Employers Insurance Company, ACE Property and Casualty Insurance Company, ACE Insurance Company of the Midwest, Bankers Standard Insurance Company, ACE Fire Underwriters Insurance Company, Pacific Employers Insurance Company, ACE Insurance Company of Illinois, Indemnity Insurance Company of North America, and Century Indemnity Company.

The officers of the Company are President Dennis Reding, Treasurer William Paul Garrigan, and Secretary George Dennis Mulligan. Twenty-eight Vice Presidents are listed in the most recent Annual Statement filed with the Florida Department of Insurance. There has been no substantive change in the officers of the Company since the last examination.

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company utilizes a company intranet system composed of mainframe and personal computers. Access to the internet is allowed for communications with individual named insured, claimants, agents, regulators, and vendors.

#### **Anti-Fraud Plan**

The Company has filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet statutory requirements by establishing a Special Investigation Unit.

### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business. The Plan is being reviewed currently to migrate from the Plan originally written for Cigna Insurance Company.

### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Employees perform internal audits of new and renewal policies for informational and financial input errors. An external audit of financial affairs is conducted as a standard operating procedure.

### **Privacy Plan**

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01.

### **Statistical Affiliations**

The Company reports statistics for inland marine to the Insurance Services Office. Marine insurance statistics are reported to the American Institute of Marine Underwriters.

### **Credit Reports**

The Company does use credit reports as a subjective underwriting tool. This tool is not the sole criteria used in the underwriting selection process of new business. An applicant will not be denied insurance solely because of an adverse credit report. The credit information is provided by Fair Issac.

## **OPERATIONS/MARKETING**

### **Marketing**

The Company markets without geographic restriction within Florida. The Company markets to owners of private pleasure boats including outboards, inboard/outboards, inboards and sailboats. The Company does not market to private pleasure boats exceeding twenty-six (26) feet or exceeding manufacturers recommended horsepower. The Company does not market to private pleasure boats used for business, commercial, hire or charter purposes.

The Company does not have plans to depopulate or move business to other affiliated companies. The Company does not plan a new emphasis or de-emphasis of any particular product in Florida.

Personal watercraft, specifically jet skis, is not written by the Company. The Insurance Company of North America, a sister company, through a captive insurance program does write personal watercraft. The captive insurance program is administered by the Sullivan & Strauss Agency. During calendar year 2000, the Company discovered that some policies were mistakenly issued by the Company. When the error was discovered, it was corrected.

#### **Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet Adjusters and Claims Handling**

The Company markets through independent resident and non-resident agents in Florida. The Company does provide special programs for individual agents with discounted pricing. The Company does have a website available for the use of independent agents quoting policies that is password protected. The Company does not solicit insurance by the website. The Company does not exchange business with affiliated companies.

#### **Lines of Business**

The lines of insurance currently written are fire, allied lines, farmowners, homeowners, commercial multiple peril, ocean marine, commercial inland marine, medical malpractice, earthquake, workers' compensation, other liability, products liability, commercial automobile, aircraft, boiler and machinery and credit. This examination was targeted to personal inland marine. Other lines of insurance were not examined.

## REVIEW OF POLICIES

### PERSONAL INLAND MARINE

#### Description of Product/Lines of Business

The Company insures all private pleasure boats (outboards, inboards, pontoon, and sailboats) not exceeding 26 feet, not exceeding manufacturers horsepower recommendations, and not used for business, commercial, hire or charter purposes.

The Boatsman Policy is a package policy providing liability, medical payments, Longshoremen's and Harbor Worker's Compensation Insurance coverages and property damage coverage for the insured boat. Optional coverages available are uninsured boaters, replacement cost on outdrive, fishing equipment, personal property, and ACV coverage. Rating differentials exist for type of boat defined as outboards, inboards, pontoons, or sailboats. Rating differentials exist for principal navigation areas defined as Dade, Monroe, Broward, Palm Beach counties. Two additional navigation areas are defined as inland only - not used in tidal water and Gulf coast, north of Marco Island.

#### Premium and Policy Counts

Direct Premiums written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
2000	\$352,313 estimated	533
2001	\$739,659 estimated	1,119

The direct premium written for the Personal Inland Marine Small Boat Program was included as part of the Marine line of business in the Annual Statement for 2000, Statutory Page 14.

The growth of policy count is due to the fact that the Company has not modified their rate plan in the past three years. The Company is implementing a new rate plan effective this month.

#### Examination Findings

One hundred (100) policy files were examined.

One hundred (100) errors were found.

The errors are described as follows:

1. One hundred (100) errors were due to failure to use filed rates, rating schedules and rating rules. This constitutes a violation of Section 627.062, Florida Statutes and is considered a business practice of the Company. These errors were due to the Company not filing rates, rating schedules and rating rules. Exhibit I.
2. One hundred (100) errors were due to failure to file forms. This constitutes a violation of Section 627.410, Florida Statutes and is considered a business practice of the Company. The Company failed to file one (1) policy and nine (9) forms for the Personal Inland Marine program. The Company has been requested to file that policy and those forms. The errors did not result in a premium impact. Exhibit I.

## **PENDING ISSUES**

The following issues were pending at the conclusion of the examination field work:

### **CORRECTIVE ACTIONS**

- 1) Personal Inland Marine - The Company must file the rates, rating schedules, and rating rules for Personal Inland Marine coverages and specifically the Recreational Marine Boatsman Policy program within ninety (90) days of receipt of the examination report.
- 2) Personal Inland Marine – The Company must file the policies, forms and endorsements for Personal Inland Marine coverages and specifically the Recreational Marine Boatsman Policy program within ninety (90) days of receipt of the examination report.

**EXHIBITS**

**SUBJECT**

**EXHIBIT NUMBER**

**COMPANY RESPONSE TO PRELIMINARY ADVISORY**

**I**