

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**ALLSTATE FLORIDIAN INDEMNITY COMPANY
(ALLSTATE INSURANCE GROUP)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 10/7/03



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EXECUTIVE SUMMARY

The purpose of this examination of Allstate Floridian Indemnity Company (Company) was to review the issues behind the volume of consumer complaints received by the Department of Insurance. Based on the review of the consumer complaints filed with the Department, the examination focused on the timely processing of claims, the Company's cancellation procedures, and the Company's premium calculation procedures.

There were two hundred thirty-two (232) files examined with twenty-three (23) errors.

Twenty-two (22) complaint files were examined with two (2) errors noted. The (23) errors were due to failure to maintain accurate complaint records. On the complaint log provided, there were two complaints listed that did not apply to Allstate Floridian Indemnity Company.

Fifty (50) homeowners files were examined with two (2) errors noted. The Company renewed a policy with limits higher than the filed maximum limits in one instance and failed to file underwriting guidelines for renewal business in the other.

Forty (40) cancellations were examined with four (4) errors identified. Two (2) of these errors were caused when the Company received notification from the mortgagee advising of foreclosure and elected to nonrenew in lieu of cancellation. One (1) error was due to failure to give a valid reason for cancellation. One (1) error was due to failure to advise applicants of credit issues involving denial of the policy.

Ten (10) nonrenewal files were examined with one (1) error. This error was caused when the Company elected to nonrenew because of a claim frequency consisting of two claims. One of these claims was due to an Act of God loss. Statutes prohibit this type of loss from being used as a reason for nonrenewal. The Company does not have filed underwriting rules for renewal business.

One hundred (100) claim files were examined with fourteen (14) errors noted. Denials were not in accordance with contract provisions. Written denial of claims were from companies in the Allstate Group other than Allstate Floridian Indemnity Company. The Company failed to obtain receipts, affidavits and police reports prior to paying claims. They failed to communicate in writing when closing claims without payment when no response had been received. The Company failed to affix the Fraud Statement on claim forms.

Ten (10) policy files were examined to verify that agents were licensed and appointed. There were no errors found.

The Company has been requested to file underwriting guidelines for renewal business, establish procedures to insure that complaints are correctly coded to the proper company, and insure that the fraud statement is on all claim forms. Corrective action is to be reported to the Florida Department of Insurance ninety (90) days after receipt of the examination report.

INTRODUCTION

Allstate Floridian Indemnity 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 2001 through January 2002. The examination began February 17, 2002 and ended March 23, 2002. This is the first property and casualty market conduct examination of this insurer by the Florida Department of Insurance.

The purpose of the examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. Some of these complaints were miscoded and the actual number of complaints for this Company was lower than reported in the Department's Consumer Services database. In addition to the complaints, we verified compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints 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, 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 and Renewal Invoices were 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

Allstate Floridian Indemnity Company, an Illinois domestic company, commercially domiciled in Florida, writes homeowners and renters insurance in Florida. The date of incorporation was September 4, 1997. It is a wholly-owned subsidiary of Allstate Holdings, LLC, which is a wholly-owned subsidiary of Allstate Insurance Company. Allstate Floridian Insurance Company and Allstate Floridian Indemnity Company are separate and distinct companies from Allstate Insurance Company and from each other. Property products provided by Allstate Floridian Insurance Company and Allstate Floridian Indemnity Company are not underwritten or reinsured by Allstate Insurance Company. The Allstate Corporation is the parent of Allstate Floridian Indemnity Company. The Allstate Corporation is publicly traded and not controlled by any other company, corporation, group of companies, partnership or individuals.

The Florida regional office in St. Petersburg, Florida supports Allstate Floridian Indemnity's Florida operations, Field Product Management, Agency Support, Human Resources and Customer Retention. The officers of the Company are as follows:

Directors	Elected Officers	Appointed Officers	Reinsurance Committee
Larry D. Johnson Michael A. LaMonica Phillip E. Lawson Ronald D. McNeil Samuel H. Pilch Kevin T. Sullivan James P. Zils	Ronald D. McNeil Chairman of the Board and President Karen C. Gardner Vice President Michael A. LaMonica Vice President Samuel H. Pilch Vice President and Controller Kevin T. Sullivan Vice President, General Counsel and Secretary James P. Zils Vice President and Treasurer	Larry D. Johnson Assistant Vice President Susan L. Lees Assistant Secretary Barry S. Paul Assistant Treasurer	Ronald D. McNeil, Chairman Larry D. Johnson Michael A. LaMonica Samuel H. Pilch James G. Sporleder

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

Allstate Insurance Group has both a LAN and WAN system for processing of Florida business.

All agencies have IBM desktop computers and can access each insured's policies, claims, and payment history. The desktops include a system that allows the agent to process quotes, new applications, policy endorsements and payments.

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 meets the requirements by establishing a Special Investigation Unit.

Each claim received by the Company is reviewed utilizing fraud indicators for the evaluation of suspected fraudulent insurance acts. If fraud indicators are present, it is forwarded to claim management for further evaluation. If claim management concurs, the file is referred to the Special Investigation Unit (SIU). The SIU adjuster investigates and determines whether there is a basis for referral to the Division of Insurance Fraud. If so, a referral is prepared in compliance with Section 626.989(6), Florida Statutes, and forwarded to the appropriate field office.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. If the Florida Regional Office is damaged or totally destroyed, the Plan provides details for all functions to be performed and responsibilities indicating names, phone numbers, titles, and Company response time line. Many of the functions are unique to the Florida region. If a catastrophic event renders a claim facility uninhabitable or unable to be utilized for normal business operation, the market claim manager is notified of the situation. After confirming that the claim office is unusable for business purposes, the market claim manager is responsible for contacting the key personnel, who have been previously identified, and for establishing office space in a nearby claim location to work/assign claims from the affected claim office.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Through its Home Office Internal Auditing Department and in conjunction with the Law and Regulation Department, Allstate determines, on an annual basis, which of its business functions and companies to audit. In addition, business units, such as Risk Management or Claims, develop and implement their own local review processes.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Privacy Notice is printed and mailed with all new business and annually to all renewal business. As part of Allstate's initial compliance with the Act, Allstate began mailing the notice in January 2001. In June 2001, Allstate began sending a revised notice. The revised notice was a re-order of the information contained within the original notice.

In Florida, customers can bind certain coverages over the Internet. The customer receives a copy of the privacy notice as part of this process. Agents are instructed to provide a copy to the applicant at the point of sale in his office and advise customers who

contact them via telephone of the privacy policy and get their permission to send the notice in the mailing packet.

Statistical Affiliations

Allstate Floridian Indemnity Company uses the National Association of Independent Insurers (NAII) as its statistical agent. The Company independently files its rules, rates and forms. Filings and rating are handled at both the regional and home office levels.

Credit Reports

The Company uses Credit Reports as one of three elements to determine eligibility for coverage. The credit history is checked for all adults in the household not just the individual applying for insurance. Financial stability is categorized as clean, acceptable and unacceptable. The Company will write a household with unacceptable credit, if they can document prior insurance and meet the underwriting guidelines for prior claims. In addition to the credit reports, eligibility is determined by prior insurance and claims history. Credit report usage in underwriting is currently being reviewed by the Department of Insurance, Bureau of P&C Forms and Rates.

OPERATIONS/MARKETING

Marketing

The Company writes homeowners and renters policies. The majority of the business is in protection classes one through six. However, they will accept business in the other protection classes if certain criteria are met.

Allstate Floridian Indemnity Company began writing business on April 27, 1998. The Company is engaged primarily in offering an alternative to customers who do not meet the guidelines of the Allstate Floridian Insurance Company (AFIC) due to financial stability, losses or distance to fire protection. The Company does have an approved filing to write condominiums, but none were written during the scope of this examination.

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

Of the files reviewed, Allstate Floridian Indemnity Company used licensed and appointed agents to produce business within the state. Of the files reviewed they also used licensed and appointed independent agents to produce business. Agents have desktop and laptop computers to provide them information. The computers allow them to view customers' policies, claims, and payment histories. Also to give quotes, accept new applications, and issue policy endorsements and receive payments.

The Company maintains a staff of licensed and appointed in-house adjusters as well as field adjusters. Most of the claims are handled by the Company adjusters; however, in remote areas, licensed and appointed independent adjusters are utilized.

Lines of Business

During the scope of this examination, the Company wrote a broad form (HO3, all perils) policy, a basic (HO2 named perils) policy and a renters (HO4) policy.

REVIEW OF POLICIES

HOMEOWNERS

Description of Product/Lines of Business

Allstate Floridian Indemnity Company writes a Deluxe Homeowners, all perils policy, a Basic Homeowners, named perils policy, and a Renters contents policy. The loss history, prior insurance and credit reports determine the applicant's eligibility. These requirements are spelled out in filed underwriting guidelines.

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>
2001	\$16,699,560	16,375

Examination Findings

Fifty (50) policy files were examined. All requirements of statutes and rules were reviewed for compliance except placement of insureds within the Allstate Insurance Group of companies due to eligibility guidelines.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to follow the filed guidelines. This constitutes a violation of Section 627.062, Florida Statutes. This error was due to issuing a policy with a dwelling limit of \$640,000 when the filed maximum limit is \$600,000.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Of the files reviewed, the Company cancels and nonrenews policies giving the insured the number of days notice required by statutes, plus seven days mailing time. Notices are sent to the insured, agent and lienholder when applicable. Return premiums are calculated as of the effective date of cancellation. All cancellations are calculated on a pro rata basis.

CANCELLATION REVIEW

Forty (40) cancelled policies were examined.

Three (3) errors were found.

The errors are broken down as follows

1. Two (2) errors were due to improper cancellation. This constitutes a violation of Section 627.4133, Florida Statutes. The Company did not cancel per notification from the mortgagee that the loan was foreclosed and the insured evicted. The policies were nonrenewed at expiration. These errors were due to failure to cancel when notified of a substantial change in the risk.
2. One (1) error was due to failure to give a valid reason for cancellation. This constitutes a violation of Section 627.4133, Florida Statutes. Company cancelled due to replacement cost exceeding the \$500,000 binding authority. The filed dwelling limit is \$600,000.

NONRENEWAL REVIEW

Ten (10) nonrenewed policies were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to give a valid reason for nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes. The policy was nonrenewed due to claims frequency. Of the two claims, one was the result of an Act of God.

COMPLAINTS/INVESTIGATION REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

DOI RECEIVED COMPLAINTS/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-0001 0039858	Guillermo (AFIC)	Cancellation	626.9541(j)	failure to maintain accurate records – file on complaint log for AFI but policy is issued in AFIC
S-0001 0040177	Knorpp	Unsatisfactory Claim Settlement	None	Claim settlement satisfactory
S-0102 0072342	Bove	Claim Denial	None	Claim denied Company Offered mediation, no response from insured
S0001 0056940	Helton	Cancellation	None	Company position upheld
S0001 0069550	Ferrante	Underwriting	None	Company Underwriting error, change of mortgage error corrected

EXAMINATION FINDINGS

Five (5) DOI referral complaints were examined.

One (1) error was found.

1. One (1) policy on the complaint log for Allstate Floridian Indemnity Company was issued in Allstate Floridian Insurance Company. This constitutes a violation of Section 626.9541(j), Florida Statutes. This error was due to failure to maintain accurate and complete records.

COMPANY RECEIVED COMPLAINTS

Consumer's Last Name	Alleged Violation	Violation Found	Comments
Baker	Unsatisfactory claim settlement	None	claim reevaluated and paid
Breen	claim depreciation	None	Satisfactory explanation provided to claimant
Paulino	claim denial	None	no coverage
Arkhangelskaya	non-renewal	None	property exceeds maximum policy limits

Marrero	underwriting	None	company response acceptable
Jordan	non-renewal	None	nonrenewed because of loss frequency company position stands.
Fischer	cancellation	None	procedure explained to insured
Kinnoch	incorrect amount of coverage	None	satisfactory explanation provided to insured.
Gutierrez	none	None	insured requested an agent that speaks Spanish
Mobley	new business rejection	None	satisfactory explanation provided to insured
Green	non-renewal	None	nonrenewed because of property conditions, company position stands.
Dunkelberger	policy issued invalid	None	Insured requested a quote and the company issued the policy. pol flat cancelled.
Jackson	cancellation	None	Policy cancelled with an incorrect cancellation date. Company corrected date.
Meade	premium	None	Company applied two fees for one return check
Norris	claim	None	claim settled
McNeill	cancellation	None	policy canceled no balance due.
Engler (AFIC)	claim	626.9541(j)	failure to maintain accurate records – file on complaint log for AFI but policy is issued in AFIC

Seventeen (17) complaints received by the Company were examined.

One (1) error was found.

1. One (1) policy on the complaint log for Allstate Floridian Indemnity Company was issued in Allstate Floridian Insurance Company. This constitutes a violation of Section 626.9541(j), Florida Statutes. This error was due to failure to maintain accurate and complete records.

As indicated in the Introduction and Executive Summary Sections of the report, this examination addressed the reasons behind the volume of consumer complaints being filed against this Company. From this review, two conclusions were documented. First, the larger percent of the complaints logged against this Company were actually against other companies in the Allstate Insurance Group. Second, the complaints reviewed for this Company indicated no business practices which were in violation of Florida Statutes and Rules.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

A review of all claims was examined for the lines of business written by the Company during the scope of this examination.

Examination Findings

One hundred (100) claims were examined. Ninety-eight (98) claims were property and two (2) were liability.

Thirteen (13) errors were found.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to properly deny the claim. This constitutes a violation of Section 626.9541(i)(f), Florida Statutes, and is a business practice of the Company. These errors were due to failure to deny claims for the correct company. Adjuster used letterhead for companies other than Allstate Floridian Indemnity Company.
2. Two (2) errors were due to failure to maintain documentation in the files to substantiate claim payments. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to failure to obtain receipts, police report or theft affidavit to document payments made on the claims.
3. Two (2) errors were due to failure to communicate in writing to the insured that the claim was being closed. This constitutes a violation of Section 626.9541(i), Florida Statutes. Insureds were not notified in writing that their respective claim file was being closed due to no response to the request for receipts.
4. One (1) error was due to failure to pay in accordance with the policy contract. This constitutes a violation of Section 626.877, Florida Statutes. The check was issued on a company other than Allstate Floridian Indemnity Company. The Company does have a procedure in place to catch errors and pay out of correct funds.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

Examination Findings

Allstate Floridian Indemnity Company does not have any licensed and appointed managing general agents. Of the files reviewed, the Company used licensed and appointed agents to produce business in Florida. Allstate has approximately 13,000 captive agents in the United States and Canada. There are approximately 3,900 independent agent locations. In addition to the agency distribution system, applicants in the State of Florida can purchase property insurance for Allstate Floridian Indemnity Company through the Internet site at Allstate.com or the phone by calling 1-800-ALLSTATE. Using these multiple distribution channels and separate and distinct companies, property insurance is marketed throughout the State of Florida.

Ten (10) applications/policies written during the scope of examination were examined.

No errors were found.

PENDING ISSUES

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

CORRECTIVE ACTIONS

- 1) Homeowners – The Company should file underwriting guidelines for writing renewal business or amend filed guidelines to include both new and renewal business. The Company is to advise the Department of Insurance of its corrective action within 90 days after receipt of the examination report.
- 2) Cancellations and Nonrenewals – The Company should file underwriting guidelines for canceling and nonrenewing renewal business and advise the Department of Insurance of its action within 90 days after receipt of the examination report.
- 3) Claims – The Company should implement a procedure to insure that the Fraud Statement is affixed to all claims forms signed by insureds/claimants. Company is to advise the Department of Insurance of its corrective action within 90 days after receipt of the examination report.
- 4) Complaints – The Company should establish a plan that will insure that complaints are properly coded to the correct Allstate Company and advise the Department of its corrective action within 90 days from receipt of the examination report.

