

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AMERITRUST INSURANCE CORPORATION
(MEADOWBROOK INSURANCE GROUP INC)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 1/17/02

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I. INTRODUCTION

Ameritrust Insurance Corporation is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination January 1997 to December 1999. The examination began November 12, 2000 and ended December 2, 2000. This is the first examination by the Florida Department of Insurance.

The purpose of this target examination was to verify that the Company is conducting business according to Florida Statutes.

During this examination, records reviewed included policies, agent/MGA licensing, cancellations/nonrenewals, and consumer complaints for the period of January 1997 through December 1999, as reflected in this report.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed 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.

As a result of the findings of this examination, \$2,786 was returned to Florida consumers due to overcharges of premium and/or inappropriately charged fees.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

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

2. 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 line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

Ameritrust Insurance Corporation was founded as a Florida Domestic company in 1996. The Company specializes in workers' compensation insurance.

Meadowbrook Insurance Group, Inc., acquired Ameritrust in 1998. Ameritrust is licensed and admitted in Florida and Michigan. Other members of the Meadowbrook Group are Star Insurance Company, Savers Property & Casualty Insurance Company, Williamsburg National Insurance Company, American Indemnity Insurance Company Limited and Florida Preferred Administrators Inc.

Florida Preferred Administrators Inc., is licensed as a Managing General Agent and produces all of the Florida business for Ameritrust under a Management Services Agreement.

The MGA handles all claims occurring on Florida business using adjusters who are employees.

Ameritrust office in the State of Florida is located at the MGA Office of Florida Preferred Administrators Inc.

B. MANAGEMENT

Florida Preferred Administrators Inc. and Ameritrust are connected on the computer system of the parent, Meadowbrook Insurance Group. There is also a web site for Meadowbrook at www.meadowbrook.com.

The Company and the MGA have established an internal Special Investigation Unit.

Each employee has also been furnished a copy of the Florida Department of Insurance Fraud Orientation Manual

Florida Preferred Administrators Inc., has an Emergency Plan in place.

C. OPERATIONS

The Company does not have any appointed agents, other than the MGA. The MGA accepts business acceptable for the Company from agents throughout the State of Florida under an Exchange of Business (Broker) agreement. Marketing to agents is accomplished by personal contacts with key representatives. Agents are offered the opportunity to submit new business for consideration. The Company does not advertise to the general public.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Ameritrust Insurance Corporation is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The Company also makes some independent filings. The NCCI acts as statistical agent for this line of business.

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>
1997	\$11,358,211	442
1998	\$13,820,453	684
1999	\$22,193,080	1,028

b. Error Percentages

One hundred-six (106) policies and audits were examined.

Twenty-three (23) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$39 and eleven (11) undercharges totaling \$30,104.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to have the required insured certification for allowing a Workplace Safety Credit. Eight (8) of these errors resulted in undercharges totaling \$24,350.00. This constitutes a violation of Section 627.191, Florida Statutes.
2. Four (4) errors were due to failure to have required insured certification for allowing a Drug Free Workplace credit. Two (2) of these errors resulted in undercharges totaling \$5,122.00. This constitutes a violation of Section 627.191, Florida Statutes.
3. Two (2) errors were due to failure to display required statistical codes on the Information Page. This constitutes a violation of Section 627.191, Florida Statutes.
4. Two (2) errors were due to the use of an unfiled rate for a Waiver of Subrogation. This constitutes a violation of Section 627.091, Florida Statutes.
5. One (1) error was due to failure to use the correct classification code for the business. Classification code 8227 was used instead of the correct code of 9102. This error resulted in an overcharge totaling \$39.00, which has been refunded by the Company. This constitutes a violation of Section 627.191, Florida Statutes.
6. One (1) error was due to improperly assigning classification code 8601. This error resulted on an undercharge totaling \$632.00. This constitutes a violation of Section 627.191, Florida Statutes.
7. One (1) error was due to the improper split of payroll between classifications. This constitutes a violation of Section 627.191, Florida Statutes.
8. One (1) error was due to failure to use the correct classification code for the business. Classification code 9000 was used instead of the correct code of 4130. This constitutes a violation of Section 627.191, Florida Statutes.

9. Two (2) errors were due to use of an unfiled Preferred Cash Flow Plan. This constitutes a violation of Section 627.410, Florida Statutes.

2. Unit Statistical Review

a. Audit Comparison

Forty (40) premium statistical cards were examined.

Seventy-four (74) errors were found.

Errors affecting statistical reporting resulted in five (5) underreports totaling \$3,252.

The errors are broken down as follows:

1. Forty (40) errors were due to failure to report the applicable expense constant. This constitutes a violation of Section 627.191, Florida Statutes.
2. Twenty-eight (28) errors were due to failure to report the applicable premium discount. This constitutes a violation of Section 627.191, Florida Statutes.
3. Five (5) errors were due to failure to report the applicable Employers Increased Limits charge. This constitutes a violation of Section 627.191, Florida Statutes.
4. One (1) error was due to failure to report the applicable waiver of subrogation charge. This constitutes a violation of Section 627.191, Florida Statutes.

b. Claim Comparison

Nine (9) claim statistical cards were examined.

Three (3) errors were found.

The errors are broken down as follows:

1. Two (2) errors were due to failure to report the correct injury code 3 instead of injury code 5 for the payment of impairment benefits. This constitutes a violation of Section 627.191, Florida Statutes.
2. One (1) error was due to failure to report the correct injury code of 1 instead of injury code 5 for a death claim. This constitutes a violation of Section 627.191, Florida Statutes.

V. AGENTS/MGA REVIEW

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

Ten (10) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Ten (10) errors were due to failure to display agent name/license identification number or insurer name on application. This constitutes a violation of Section 627.191, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Two (2) errors were found.

One (1) error resulted in underreturns totaling \$423.00.

The errors are broken down as follows:

1. One (1) error was due to failure to correctly compute the surcharge on a consent-to-rate policy. This error resulted in an underreturn totaling \$423, which has been refunded by the Company. This constitutes a violation of Section 627.091, Florida Statutes.
2. One (1) error was due to failure to return a final audited premium within 90 days. This constitutes a violation of Section 627.191, Florida Statutes.

VII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company 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. Complaint handling procedures are described in Exhibit I. Consumer complaints received during the scope of the examination were reviewed, and the findings are as follows:

A. DOI REFERRALS

CASE NO	ALLEGATION	FINDINGS
99P-1537	Unfiled separate agreement divided plan	Settled with DIO
99P-1537	No managed care filing	Plan filed August 22, 1996
No number	Unfiled waiver of subrogation	Violation of Section 627.191, F.S. (See Workers' Compensation Section of report)
No number	Unfiled consent to rate form	Form corrected, filed and approved
No number	Retro plan notice of election	Plan discontinued by Company
No number	Unfiled retro rate plan and form	Plan discontinued by Company
No number	Unfiled information page	Violation of Section 627.191, F.S. (See Workers' Compensation Section of report)
No number	Unfiled information page extension	Violation of Section 627.191, F.S. (See Workers' Compensation Section of report)
No number	Using discontinued NCCI forms	Violation of Section 627.191, F.S. (See Workers' Compensation Section of report)
00SC-1628	Unfiled preferred cash flow plan	Company discontinued use of plan

VIII. EXHIBITS

SUBJECT

EXHIBIT NUMBER

COMPANY COMPLAINT PROCEDURES

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