

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AUTO-OWNERS INSURANCE COMPANY
(AUTO-OWNERS INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 4/10/02

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I. INTRODUCTION

Auto-Owners Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1996 to December 1998. The examination began July 16, 2000 and ended August 19, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1995.

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, audits, statistical reports, cancellations/nonrenewals, agent/MGA licensing, and consumer complaints for the period of January 1996 through December 1998, as reflected in the report.

The findings of the prior examination, completed in 1995, consisted of three (3) errors being cited during the review of twenty-five (25) policy/applications due to the failure to display the agent's license identification number on the application. This constituted a violation of Section 627.4085, Florida Statutes. This same violation was also noted in the 1991 Examination.

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.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were 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

Auto-Owners Insurance Company was organized in 1916 in Mt. Pleasant, MI, writing automobile insurance only. The infant Company had no capital and was housed in one room of a bank building. In 1917 the Company, which consisted of one book of policyholders and \$174.25 in assets, was moved to Lansing, MI.

The Company wrote business in Michigan only until 1935, when it began writing in Indiana and Ohio. In 1940 the Company entered the general casualty insurance field. The Company extended operations in the forties and entered Florida in the fifties.

Affiliated Companies are: Auto-Owners Life Insurance Company, Homeowners Insurance Company, Owners Insurance Company, Property-Owners Insurance Company and Southern-Owners Insurance Company.

The Company operates through the independent agency system from the Home Office and fourteen full service branch offices and claims offices in thirty-eight additional cities using primarily Company adjusters.

The Company has established a Web Page at www.auto-owners.com.

B. MANAGEMENT

The Company's computer system is directly connected between the Home Office, Branch Offices, and Claims Offices. The Information Systems (IS) Questionnaire was furnished and reviewed.

The Company is in compliance with Section 626.9891, Florida Statutes, requiring the establishment of a Special Investigative Unit and has filed an anti-fraud plan with the State of Florida.

C. OPERATIONS

Auto-Owners advises that its top 20 classes in premium volume for the State of Florida make up 60% of the Company's total volume, consisting mostly of office exposures, followed by contractors and automobile service risks. The business is spread throughout the State with the heaviest concentration of business along the Gulf Coast, starting at Pasco County south to Sarasota County.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Auto-Owners Insurance Company is a National Council on Compensation Insurance (NCCI) subscribing company and as such uses this organization's rules, rates and forms. 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>
1996	\$8,467,960	2,256
1997	\$6,613,271	1,966
1998	\$5,645,296	1,832

b. Error Percentages

Ninety (90) policies and audits were examined.

Twenty (20) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Twenty (20) errors were due to the use of an unfiled form/endorsement. A premium discount endorsement designed by the Company and displaying a Company number was being attached to the policy when a premium discount applied. This constitutes a violation of Section 627.410, Florida Statutes.

2. Unit Statistical Review

a. Audit Comparison

Forty (40) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Six (6) claim statistical cards were examined.

No errors were found.

V. AGENTS/MGA REVIEW

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

Four (4) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Four (4) errors were due to failure to display the agent's license identification number on the application. This error occurred and was cited in the 1995 Examination, Pages 109-111. Exhibit I. This constitutes a violation of Section 627.4085, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

No errors were found.

VII. COMPLAINTS 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. Complaint handling procedures are described in Exhibit II. Consumer complaints received during the scope of the examination were reviewed, and findings are as follows:

A. COMPLAINTS

There were two (2) complaints received during the scope of the examination which were reviewed. They were both referred to the Department of Insurance.

One (1) complaint stated that the incorrect classification code had been applied to the risk, however, the correct classification had been used.

One (1) complaint stated that the insured, asking for a refund as the officer of the business, was of the opinion she had been excluded from coverage, but still charged premium on her payroll. The review revealed that the officer exemption had been revoked prior to the policy being issued, therefore, the Company was not in error.

No errors were found.

VIII. PENDING ISSUES

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

1. The Company has failed to correct the error of not displaying the agent's license identification number on all applications, as noted in the prior examination completed in 1995 as well as the 1991 Examination. This constitutes a violation of Section 624.3161, Florida Statutes.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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PRIOR EXAMINATION PAGES NOTEING VIOLATION CITED AND COMPANY RESPONSE FROM PRIOR EXAMINATION	I
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COMPLAINTS PROCEDURES	II
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