

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

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

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 3/28/02

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I. INTRODUCTION

Auto-Owners Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1996 through December 1998. This examination began February 20, 2000 and ended April 29, 2000. The last examination of this insurer was completed in 1995.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1996 through December 1998, 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 is 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, \$926.59 was returned to Florida consumers due to overcharges of premium, underpayments of claims 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 were reviewed for all years within the scope of the examination.

2. Error Percentages

The review included verification of the lines of business the Company was authorized to write during the scope of 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. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Auto-Owners Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Auto-Owners Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Services Office acts as the Company's official statistical agent.

2. 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>
1998	\$47,042,166	42,019
1997	\$47,696,687	45,172
1996	\$43,892,218	44,449

3. Exam Findings

Fifty (50) policy files were examined

Thirty-two (32) errors were found.

Errors affecting premium resulted in one (1) undercharge totaling \$60.00.

The errors are broken down as follows:

1. Twenty (20) errors were due to failure to display the edition dates on forms listed as being attached to the policy on the declaration page. This error was brought to the Company's attention in the 1995 Examination, Private Passenger Automobile Section, Page 7. This constitutes a violation of Section 627.413, Florida Statutes.
2. Eleven (11) errors were due to use of obsolete Florida no-fault endorsement #79255 (6/92). Effective 5/12/98 this form was replaced by #79255 (12/97). This constitutes a violation of Section 627.412, Florida Statutes.
3. One (1) error was due to use of an incorrect territory resulting in a premium undercharge. This constitutes a violation of Section 627.0651, Florida Statutes.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Auto-Owners Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Auto-Owners Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Service (NISS) acts as the Company's official statistical agent.

2. 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>
1998	\$16,727,590	30,085
1997	\$18,035,665	34,165
1996	\$18,449,054	35,513

3. Exam Findings

Fifty (50) policy files were examined.

Five (5) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$51.67.

The errors are broken down as follows:

1. Five (5) errors were due to use of incorrect protection classes. One protection class error resulted in an overcharge totaling \$51.67, which has been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.

C. MOBILE HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Auto-Owners Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Auto-Owners Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Service (NISS) acts as the Company's official statistical agent.

2. 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>
1998	\$1,822,489	4,509
1997	\$2,168,396	5,289
1996	\$2,423,394	5,969

3. Exam Findings

Fifty (50) policy files were examined.

Two (2) errors were found.

Errors affecting premium resulted in one (1) undercharge totaling \$67.00.

The errors are broken down as follows:

1. Two (2) errors were due to use of incorrect protection classes resulting in a premium undercharge. This constitutes a violation of Section 627.062, Florida Statutes.

D. DWELLING FIRE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Auto-Owners Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Auto-Owners Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Service (NISS) acts as the Company's official statistical agent.

2. 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>
1998	\$5,372,718	15,481
1997	\$6,049,823	17,407
1996	\$6,872,734	19,671

3. Exam Findings

Fifty (50) policy files were examined.

Eight (8) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$506.92 and two (2) undercharges totaling \$83.07.

The errors are broken down as follows:

1. Seven (7) errors were due to use of incorrect protection classes. These errors resulted in three (3) overcharges totaling \$506.92, which have been refunded by the Company and two (2) undercharges totaling \$83.07. This constitutes a violation of Section 627.062, Florida Statutes.
2. One (1) error was due to use of an incorrect rating zone. This constitutes a violation of Section 627.062, Florida Statutes.

E. COMMERCIAL PACKAGE POLICIES

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Auto-Owners Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Auto-Owners Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

National Independent Statistical Service (NISS) acts as the Company's official statistical agent.

2. 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>
1998	\$14,288,244	6,366
1997	\$15,596,068	7,128
1996	\$25,883,478	7,981

3. Exam Findings

Fifty (50) policy files were examined.

Five (5) errors were found.

Errors affecting premium resulted in four (4) overcharges totaling \$368.00 and one (1) undercharge totaling \$14.00.

The errors are broken down as follows:

1. Five (5) errors were due to the use of incorrect protection classes. This resulted in four (4) overcharges totaling \$368.00, which have been refunded by the Company and one (1) undercharge totaling \$14.00. This constitutes a violation of Section 627.062, Florida Statutes.

IV. AGENTS/MGA REVIEW

Thirty (30) applications/policies written during the scope of examination were examined.

Three (3) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Three (3) errors were due to failure to display the agent's license identification number on the applications. This error was brought to the Company's attention in the 1995 Examination, Private Passenger Automobile and Tailored Protection Policy Sections, Pages 6 and 55. This constitutes a violation of Section 627.4085, Florida Statutes.

V. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

One (1) error was found.

The error did not affect premium calculations.

The error is described as follows:

1. One (1) error was due to failure to provide a specific reason for cancellation. Cancellation for “underwriting reasons” is not considered to be a specific reason. This constitutes a violation of Section 627.4091, Florida Statutes.

VI. CLAIMS REVIEW

Fifty (50) claims were examined.

Eight (8) errors were found.

Seven (7) errors resulted in overpayments totaling \$326.45.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

1. Six (6) errors were due to applying the discretionary sales surtax to the total amount of the loss when this tax should have been applied to the first \$5,000.00. These errors resulted in overpayments totaling \$319.95. This constitutes a violation of Rule 4-166.026, Florida Administrative Code.
2. One (1) error was due to the application of an incorrect discretionary sales surtax for Hillsborough County. This error resulted in an overpayment totaling \$6.50. This constitutes a violation of Rule 4-166.026, Florida Administrative Code.
3. One (1) error was due to failure to affix the fraud statement to the mileage odometer statement claim form. This constitutes a violation of Section 817.234, Florida Statutes.

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.

VIII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS HANDLING PROCEDURES	I
COMPLAINT HANDLING PROCEDURES	II