

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

BRIDGEFIELD CASUALTY INSURANCE COMPANY  
(LIBERTY MUTUAL INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 12/13/01

## TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	2
III.	COMPANY OPERATIONS/MANAGEMENT	3
IV.	REVIEW OF POLICIES	
A.	WORKERS' COMPENSATION	7
V.	AGENTS/MGA REVIEW	11
VI.	CANCELLATIONS/NONRENEWALS REVIEW	12
VII.	COMPLAINTS REVIEW	14
VIII.	PENDING ISSUES	15
IX.	EXHIBITS	16

## I. INTRODUCTION

Bridgefield Casualty Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination, January 1998 through December 2000. The examination began March 25, 2001 and ended May 19, 2001. This is the first property and casualty examination of this insurer, conducted by the Florida Department of Insurance.

The purpose of the current market conduct examination was to verify that the Company's business practices and procedures are in compliance with Florida Statutes/Rules.

During this examination, records reviewed included workers' compensation policies, audits, cancellations/nonrenewals, statistical reporting, agent/MGA licensing, and consumer complaints for the period of January 1998 through December 2000, 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 continued to place the Company in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, \$3,892.00 was returned to Florida consumers due to overcharges of premium.

## II. PRE-EXAM REVIEW OF COMPANY 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 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

Bridgefield Casualty Insurance Company (BCIC) was incorporated October 7, 1994, as an assessable mutual insurer, with the name of Summit Mutual Insurance Company. On February 9, 1995, the Company was reorganized as a stock property and casualty insurer, changing its name to Paragon Insurance Company. The Company was a 100% owned subsidiary of Summit Holding Corporation (SHC), which in turn was owned by Employers Self Insurers Fund (ESIF), now known as Bridgefield Employers Insurance Company (BEIC).

On October 6, 1995, the Company's name was changed to Bridgefield Casualty Insurance Company, owned entirely by SHC. On May 28, 1997, SHC sold the Company to BEIC, which acquired 100% of the voting common stock. On December 31, 1997, BEIC was in turn acquired by Summit Holding Southeast, Inc., a newly formed insurance holding company.

Liberty Mutual Insurance Company, a Massachusetts insurance company, acquired Summit Holdings Southeast, Inc., along with its subsidiaries, including BCIC in August 1998.

B. MANAGEMENT

The Company's home office is located in Lakeland, Florida. They have offices in Louisiana and Kentucky. The Company's computer system is interlinked with those offices. A Business Continuity Plan Manual has been developed and is in use by the Company. The plan utilizes various recovery teams to perform the tasks required for business recovery. Sungard Recovery Services, Inc., provides disaster recovery services for the Company.

The Company has a contract with Arcus Data Security, Inc., to provide an offsite data management backup facility. The network environment is backed up on a daily basis creating two sets of backup tapes. One set is stored in the offsite data management facility and one set stays in the Company's data operations center.

An antifraud plan has been developed and filed with the Department of Insurance. The Special Investigations Unit (SIU) Committee has been established by Summit Consulting, Inc., to provide antifraud services for all the related companies including BCIC. SIU has the responsibility of reviewing appropriate documentation to investigate suspected fraudulent claims. Staff auditors who focus on claim handling perform periodic internal auditing.

BCIC claims are handled by Summit Claims Management, Inc. (SMI), a wholly owned subsidiary of Summit Consulting, Inc. SMI uses licensed claims adjustors to handle all workers' compensation claims for BCIC.

C. OPERATIONS

The Company had written only workers' compensation until 2000 when commercial multi-peril coverage was added to the COA. The Company writes employers that are in industrial, retail, wholesale and service businesses. The Company's underwriting guidelines states the employer must be in business three years, have a minimum of two full time employees and have a minimum policy premium of \$1,000. Minimum premiums for roofers and steel erectors are \$25,000 and \$20,000 respectively. Exceptions are made to these guidelines as needed.

The above guidelines are in violation of Section 627.1615, Florida Statutes. The Company is directed to comply with the above statute and give the Florida Department of Insurance a written response, within 90 days of receipt of the report, outlining how compliance will be implemented.

The Company offers a self-reporting monthly payment plan to policyholders whose premium is \$10,000 or higher. This plan requires a monthly payroll report, which determines the premium payment. A normal audit is conducted at the end of the policy period to verify the policy premium.

BCIC has no employees other than officers and directors. All officers and directors are on the payroll of Summit Consulting, Inc. (SCI), which is the Company's licensed and appointed Managing General Agent. SCI is a wholly-owned by Summit Holdings Corporation and licensed in Florida as a MGA. Independent appointed agents market workers' compensation in Florida. There are no brokers. No exchange of business is conducted. SCI provides marketing, underwriting, policy issuance, billing, loss control, accounting, collections and regulatory reporting services.

A web site is established and operating:

[http://www.summitholdings.com/bridgefield\\_casualty\\_insurance\\_company\\_florida\\_landing.html](http://www.summitholdings.com/bridgefield_casualty_insurance_company_florida_landing.html).

This web site is used by agents for interaction with the Company for policy and claim information. Policies are not sold from the web site at this time.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Bridgefield Casualty Insurance Company is a National Council on Compensation Insurance (NCCI) 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>
1998	\$16,910,248	1,829
1999	\$11,821,942	1,376
2000	\$13,335,491	1,177

Other companies, within the Company's group, offered more competitive policies such as retro plans. This caused the deviation in premium and policy count in 1999.

b. Error Percentages

One hundred (100) policies including eighty (80) audits were examined.

Twenty (20) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$423 and six (6) undercharges totaling \$938.

The errors are broken down as follows:

1. Twelve (12) errors were due to failure to audit and bill the insured within ninety days of the policy expiration. This constitutes a violation of Section 627.191, Florida Statutes.
2. Six (6) errors were due to failure to use the correct classification code for the insured's business. This constitutes a violation of Section 627.191, Florida Statutes. Two (2) errors resulted in \$423 in overcharges, which have been refunded by the Company. Four (4) errors resulted in \$652 in undercharges.
3. One (1) error was due to incorrectly calculating the premium for a corporate officer. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in a \$259 undercharge.
4. One (1) error was due to incorrectly calculating the premium discount. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in a \$27 undercharge.

2. Unit Statistical Review

The review of statistical cards is for the purpose of verifying that premium and claim statistics are properly reported to the NCCI. Workers' Compensation statistics are utilized in the rate making process when rate filings are presented to the Department of Insurance for consideration, as well as, in the development of experience modification factors on individual risks.

a. Audit Comparison

Forty (40) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Eighteen (18) claim statistical cards were examined.

Three (3) errors were found.

The errors are described as follows:

1. Two (2) errors were due to failure to report the correct class code for the job duty. This constitutes a violation of Section 627.191, Florida Statutes.
2. One (1) error was due to the statistical report showing an incorrect loss condition code.

This constitutes a violation of Section 627.191, Florida Statutes.

V.

AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Twenty-three (23) errors were found.

Three (3) errors resulted in underreturns totaling \$3,469 and eighteen (18) errors resulted in overreturns totaling \$22,830.

The errors are broken down as follows:

1. Fourteen (14) errors were due to failure to correctly calculate premium discounts. This constitutes a violation of Section 627.191, Florida Statutes.
2. Four (4) errors were due to failure to assign the correct classification according to NCCI Manual Rules, one (1) of which did not affect premium. This constitutes a violation of Section 627.191, Florida Statutes.
3. Two (2) errors were due to failure to correctly calculate the short rate penalty. This constitutes a violation of Section 627.191, Florida Statutes.
4. One (1) error was due to failure to correctly calculate the expense constant. This constitutes a violation of Section 627.191, Florida Statutes.
5. One (1) error was due to failure to audit and bill the insured within 90 days. This constitutes a violation of Section 627.191, Florida Statutes.

6. One (1) error was due to failure to comply with NCCI audit rules by using estimated payroll in order to retain the deposit premium. This constitutes a violation of Section 627.191, Florida Statutes. The minimum premium for code 8810 should have been used instead of the code used at inception.

The review of policies contained multiple errors, some of which resulted in underreturns, some resulted in overreturns and some resulted in no change in premium. Each policy's premium error was totaled for the net effect, which resulted in three (3) underreturns totaling \$3,469 which have been refunded to the policyholders. Eighteen (18) errors resulted in overreturns totaling \$22,830. Two (2) errors did not affect premium.

## VII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has not been maintained as is required by Section 626.9541, Florida Statutes.

Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit I.

### A. COMPANY RECEIVED COMPLAINTS

The Company provided a 2000 complaint log from the Claims Department. This log included only complaints that were reviewed by their claim's committee. No complaints were logged for non-claim issues.

1. One (1) error was due to failure to maintain records of consumer complaints. This constitutes a violation of Section 626.9541, Florida Statutes.

The Company is directed to maintain a complete log for consumer complaints received.

VII. PENDING ISSUES

COMPANY OPERATIONS

The Company is to respond in writing, within 90 days of receipt of the written report, to address what steps the Company will take to comply with Section 627.1615, Florida Statutes.

IX. EXHIBITS

SUBJECT \_\_\_\_\_ EXHIBIT NUMBER

COMPLAINT HANDLING PROCEDURE I