

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

CGU INSURANCE COMPANY
(CGU INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 11/18/02

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I. INTRODUCTION

CGU Insurance 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 is for the period from January 1997 through December 1999. The examination began January 3, 2001 and ended June 9, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded February 10, 1997.

The prior examination report included the review of private passenger automobile, commercial automobile, dwelling fire, commercial fire, homeowners, commercial package policy, businessowners, master craftsman policy, general liability, owners contractors protective liability, personal excess catastrophe, commercial excess catastrophe, crime, plate glass, inland marine, cancellations/ nonrenewals and claims. Violations cited included rating policies using rating factors for protection classes other than where the risk was located, using incorrect risk classifications in developing premiums, assigning incorrect municipal codes for allocating premium taxes, failure to maintain documentation for credits and failure to include fraud statements on claims forms.

The purpose of the current examination was to verify compliance with the Florida Statutes and Administrative Rules.

During this examination, records reviewed included commercial automobile, homeowners, private passenger automobile, workers compensation, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, 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 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, \$2,936.00 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

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

The history of the Company dates back to 1831 when the Potomac Fire Insurance Company of Georgetown received its charter. The Company's name has changed a number of times. The most recent name change was to CGU Insurance Company on February 29, 2000. This was due to the merge of Commercial Union and General Accident, which began in 1998. During the examination, the Company was sold and a new name is forthcoming.

The Company markets personal and commercial lines through the independent agency system.

Claims are handled through a number of offices located through out the United States; however, most Florida claims are handled out of the regional office in Maitland, Florida. In-house adjusters may assign portions of the claim to independent adjusters. The independent adjusters report their findings to the in-house adjuster, who monitors and handles the claim until settled.

The Company's website can be accessed at www.cguusa.com.

B. MANAGEMENT

1. Computer System

The Company's computer systems are set up by lines of business or activity. The three main systems are the Commercial Lines System, Personal Lines System, and the Claims System. The computer systems are password protected and the data is backed up and stored offsite.

The Company maintains a webpage that provides information about the Company. The Internet is also utilized as a communication tool with company agents and outside vendors to facilitate business transactions.

2. Anti-Fraud Plan

The Company's Florida Anti-Fraud Plan has been filed with the Florida Insurance Department in compliance with Section 626.9891, Florida Statutes. The purpose of the Plan is to prevent, detect, and investigate both internal and external fraud.

The Plan addresses internal fraud, insurance application/rating and underwriting fraud, and claim fraud. It is the policy of the Company that all matters involving fraud by employees, agents, brokers, third party administrators, insureds, third party claimants, and other representatives of the Company, be reported to and investigated by the Internal Audit Department. Suspected and detected fraud situations are referred to the Florida Division of Insurance Fraud.

3. Disaster Recovery Plan

The Disaster Recovery Plan documents the strategies, personnel procedures and resources that the Company will use to respond to any long term interruption to its essential business functions. The Company has a Business Continuity Plan Manual. The Plan was established in 1991 and updated information is requested annually from the various business/function areas within the Company.

4. Internal Audit Plan

Internal audits are conducted to maintain and improve the internal operations of the company. Periodic file reviews are completed to insure employee's compliance with company standards.

The Business Risk Department performs field office reviews. The scope of these reviews focuses on assessing key controls over significant business risks in the claims handling and underwriting quality areas.

C. OPERATIONS

The Company produces both personal lines and commercial lines business. In personal lines, CGU writes homeowners, private passenger automobile, umbrella, small boats and miscellaneous personal floaters. Business is written in all areas of the State with a concentration in Southeast and Southwest Florida. The Company is not currently looking to expand its book of personal lines business.

In commercial lines, CGU writes workers' compensation, package policies, commercial automobile, general liability and inland marine. The business is written covering many industry classes with some concentration in hotels, restaurants, office buildings, commercial buildings and contracting. Business is written in all areas of the state with some concentration in Southeast Florida, the Orlando area and the Tampa Bay area.

Business is written through sixty-five (65) active independent insurance agencies. The Company continues to appoint new agencies to represent them.

IV. REVIEW OF POLICIES

A. COMMERCIAL AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

CGU Insurance Company is a member of the 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

CGU Insurance Company is a member of the 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

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>
1999	\$ 7,178,496	837
1998	\$14,010,789	1,568
1997	\$ 7,268,828	1,282

The reason for the significant change in policy count and direct written premium during 1997 - 1999 is that the Florida Branch began using Sapiens, a computer rating system to issue commercial automobile policies in 1998. With the Sapiens system, the Company only had one available company (CGU formerly General Accident) with 5 pricing tracks available. All policies written out of the Florida Branch were written in General Accident. The Sapiens system was used about one year. The Company went back to the multiple deviated company approach in March of 1999 similar to what was done in 1997.

3. Exam Findings

One hundred (100) policy files were examined.

thirteen (13) errors were found.

Errors affecting premium resulted in one undercharge totaling \$229.00.

The errors are broken down as follows:

1. One (1) error was due to failure to comply with rebating requirements. This constitutes a violation of Section 626.572, Florida Statutes. The Company and agent negotiated a reduction in premium by the agent giving up a portion of his commission.
2. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. The Company used an incorrect loss cost factor resulting in an undercharge of \$229.00.
3. Six (6) errors were due to failure to provide timely notice of renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes. The Company failed to provide a 45-day advance notice of renewal premium.
4. One (1) error was due to failure to maintain a signed UM election/rejection form. This constitutes a violation of Section 627.727, Florida Statutes.
5. Two (2) errors were due to failure to document/substantiate subjective credits. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. One (1) error was due to the file not containing documentation to support the IRPM worksheet, and the other error was due to the IRPM worksheet being incorrectly completed.
6. Two (2) errors were due to failure to apply credits within the approved range. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. The Company placed the insured in “price track” 5 which applies a .65 to the base rate. This resulted in the subjective credit exceeding 25%.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

CGU Insurance Company is a member of the 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

CGU Insurance Company is a member of the 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

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>
1999	\$2,008,327	2,395
1998	\$2,239,030	2,653
1997	\$2,125,174	2,827

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

C. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

CGU Insurance Company is a member of the Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.0651, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

CGU Insurance Company is a member of the 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

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>
1999	\$3,670,894	2,771
1998	\$4,210,521	3,086
1997	\$4,562,483	3,191

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

D. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

CGU Insurance Company 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>
1999	\$9,552,524	365
1998	\$9,779,438	342
1997	\$4,958,663	333

The Company advised that the large increase in premium for 1998 and 1999 as compared to 1997 was due to a number of very large national accounts written during both of these years.

b. Error Percentages

One hundred (100) policies and audits were examined.

Forty (40) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$2,936 and seven (7) undercharges totaling \$24,316.

The errors are broken down as follows:

1. One (1) error was due to failure to use the correct experience modification factor of .89 instead of .87. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an undercharge totaling \$146.
2. One (1) error was due to failure to consider the anniversary rating date of 7/1. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an undercharge totaling \$5.
3. Five (5) errors were due to failure to advise the insured of a possible credit under the Florida Contractors Classification Premium Program. This constitutes a violation of Section 627.191, Florida Statutes.
4. One (1) error was due to failure to classify the insured's business with the correct classification code of 5645 instead of the incorrect codes of 5651, 7720 and 9015. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an undercharge totaling \$12,676.
5. Two (2) errors were due to allowing a credit for a Drug Free Workplace without certification by the insured. This constitutes a violation of Section 627.191, Florida Statutes. These errors resulted in undercharges totaling \$1,052.
6. One (1) error was due to not allowing a credit for a Drug Free Workplace with proper insured certification. This constitutes a violation of Section 627.191, Florida Statutes.

This error resulted in an overcharge totaling \$421, which has been refunded.

7. One (1) error was due to failure to correct the exposure to exclude an officer's payroll when the audit billing was revised. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an overcharge totaling \$2,462, which has been refunded.
8. One (1) error was due to making an additional charge to meet the minimum for Employers Increased Liability Limits even though the actual premium exceeded the minimum. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an overcharge totaling \$53, which has been refunded.
9. One (1) error was due to failure to charge the correct expense constant of \$200 instead of \$180. This constitutes a violation of Section 627.191, Florida Statutes. This error resulted in an undercharge totaling \$20.
10. Eleven (11) errors were due to failure to complete the final audit and return premium in a timely manner. This constitutes a violation of Section 627.191, Florida Statutes.
11. Five (5) errors were due to charging an unfiled rate for the Waiver of Subrogation Form WC 00 03 13 being attached to the policy. This constitutes a violation of Section 627.091, Florida Statutes.
12. Four (4) errors were due to use of unfiled form "Hybrid Retrospective Premium Contract". This constitutes a violation of Section 627.410, Florida Statutes.
13. One (1) error was due to allowing a schedule credit on workers' compensation. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. This error resulted in an undercharge totaling \$10,417.

14. Five (5) errors were due to not making a premium charge for the attachment of Waiver of Subrogation Form WC 00 03 13. This constitutes a violation of Section 626.9541 (1)(0), Florida Statutes.

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.

Four (4) errors were found.

Errors affecting statistical reporting resulted in two (2) overreports totaling \$21,819.

The errors are broken down as follows:

1. Four (4) errors were due to failure to properly report the applicable statistical information consisting of experience modification factor, employer liability increased limits factor and premium discount factor. This constitutes a violation of Section 627.191, Florida Statutes. These errors resulted in overreports totaling \$21,819.

b. Claim Comparison

Fifteen (15) claim statistical cards were examined.

Thirteen (13) errors were found.

Errors affecting statistical reporting resulted in one (1) overreport totaling \$1,564 and three (3) underreports totaling \$122,380.

The errors are broken down as follows:

1. Six (6) errors were due to failure to report correct injury code 3 instead of injury code 5 when impairment benefits were paid. This constitutes a violation of Section 627.191, Florida Statutes.
2. Four (4) errors were due to failure to properly report the correct loss history as recorded in the claim file. This constitutes a violation of Section 627.191, Florida Statutes. One (1) error resulted in an overreport totaling \$1,564 and three (3) errors resulted in underreports totaling \$122,380.

3. One (1) error was due to failure to report the claim status as closed instead of open. This constitutes a violation of Section 627.191, Florida Statutes.
4. One (1) error was due to failure to report correct injury code 5 instead of injury code 9. This constitutes a violation of Section 627.191, Florida Statutes.
5. One (1) error was due to failure to report correct injury code 2 instead of injury code 5 for a permanent total injury. This constitutes a violation of Section 627.191, Florida Statutes.

V. AGENTS/MGA REVIEW

Thirty (30) 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.

No errors were found.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

One (1) error was found.

The error did not affect payments.

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

The error is described as follows:

1. One (1) error was due to failure to timely disclose certain required information. This constitutes a violation of Section 627.4137, Florida Statutes. Policy information was requested and was not provided within 30 days as required.

VIII. 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.

Company Received Complaints

Ten (10) consumer complaints received during the scope of examination were reviewed, and the Company addressed the areas of concern to resolve the issues. No violations were cited.

X. EXHIBITS

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