

**2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**COLONIAL PENN INSURANCE COMPANY  
(GE GROUP)**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**

**DATE FILED: 7/16/02**



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## **INTRODUCTION**

Colonial Penn Insurance Company (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 was January 1999 through July 2001. The examination began October 21, 2001 and ended November 30, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded in August 1998.

The prior examination report included the review of private passenger automobile, homeowners, personal umbrella, agent/MGA, cancellations/nonrenewals, claims and complaints. Violations cited included failure to list the form/endorsement edition dates on the declaration pages, failure to list the hurricane premium separately from the “all other perils” premiums, failure to show personal injury protection (PIP) coverage on the declarations pages, failure to maintain complete files, use of incorrect rates, application of incorrect PIP deductibles, application of incorrect surcharges, failure to provide uninsured motorist coverage selected by insureds, use of incorrect territories, failure to provide timely notice of renewal premiums, failure to return correct amount of unearned premiums, failure to act promptly with respect to claims communications and failure to include sales tax in the estimate.

The purpose of the current examination was due to a high volume of consumer complaints and to review the Company’s business practices to determine compliance with Florida Statutes and Rules.

During this examination, records reviewed included private passenger automobile and homeowners policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints 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 requested 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, \$26.01 was returned to Florida consumers due to overcharges of premium. In addition, \$60.00 was paid to the Florida Department of Insurance for appointment fees owed due to an unappointed adjuster used by the Company.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

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

### **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 lines of business that were discontinued.

No errors were found.

## **COMPANY OPERATIONS/MANAGEMENT**

### **HISTORY/MANAGEMENT**

Colonial Penn Insurance Company is a Pennsylvania domestic company. Originally incorporated in the State of Massachusetts as Boston Indemnity Insurance Company, its name was changed to Colonial Penn Insurance Company on April 2, 1969. On January 1, 1982, the Company was redomesticated to the State of Pennsylvania. The Company became a member of the Leucadia National Corporation insurance holding system on August 16, 1991.

On November 4, 1997, 100% of the issued and outstanding stock of Colonial Penn Insurance Company, the parent of GE Auto & Home Assurance Company, Colonial Penn Franklin Insurance Company, Colonial Penn Madison Insurance Company and Bayside Casualty Insurance Company, was sold to General Electric Capital Corporation, which is owned by General Electric Corporation. The Company's corporate officers are listed in Exhibit I.

The Company's website can be accessed at [www.geautoinsurance.com](http://www.geautoinsurance.com).

The Company's home office is located at 500 Virginia Drive, Fort Washington, PA 19034.

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company uses Cobalt 2 on a mainframe application, which is managed by Mahogany, a third party vendor that provides computer systems services. Mainframe accounts are setup with varying levels of access. Access to the Company's systems is password protected.

#### **Anti-Fraud Plan**

The Company filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet the requirements by establishing a Special Investigation Unit.

#### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business.

#### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business.

## **Privacy Plan**

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01.

## **Statistical Affiliations**

The National Association of Independent Insurers (NAII) acts as the Company's official statistical agent.

## **Credit Reports**

The Company does not use Credit Reports as an underwriting tool.

## **OPERATIONS/MARKETING**

### **Marketing**

The Company discontinued writing new homeowners business in 1994 and also discontinued writing new private passenger automobile business in 1997.

### **Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling**

The Company acts in Florida as a direct writer. Company employees located in Ft. Washington, Pennsylvania and Phoenix, Arizona are licensed and appointed non-resident agents servicing business.

Claims are handled by the Company's claim office located in Tampa, Florida. The Company uses both, independent and licensed and appointed company adjusters for processing claims in Florida, with an exception noted in the claims review section of this report.

### **Lines of Business**

The Company continues to renew their current book of business of private passenger automobile, homeowners and personal umbrella policies.

## REVIEW OF POLICIES

### PRIVATE PASSENGER AUTOMOBILE

#### Description of Product/Lines of Business

The Company has independently filed a private passenger automobile program in the State of Florida. The Company's underwriting guidelines encompass a number of factors. Eligibility is determined by a computerized scoring system. Points are assigned based on the underwriting characteristics of the risk and the overall score determines if the risk can be written in the Company.

#### 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	3,056,044	3,211
2000	2,040,035	2,128
*2001	908,340	921

\* as of 6/30/01

The Company discontinued writing new business in the State of Florida in 1997, however, they continue to renew their book of business.

#### Examination Findings

One hundred (100) policy files were examined.

Six (6) errors were found.

Errors affecting premium resulted in four (4) overcharges for an amount to be determined and two (2) undercharges totaling \$286.00.

The errors are broken down as follows:

1. Four (4) errors were due to failure to follow the filed rate, rating schedule, rating rule or underwriting guideline. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to failure to apply a credit on factory installed anti-theft devices. These errors resulted in four (4) overcharges which have not been refunded by the Company, as they did not agree with the findings.
2. Two (2) errors were due to failure to obtain signed Uninsured Motorist (UM) acceptance forms. This constitutes a violation of Section 627.727, Florida Statutes. These errors resulted in two (2) undercharges totaling \$286.00.

## **HOMEOWNERS**

### **Description of Product/Lines of Business**

The Company has independently filed a homeowners program in the State of Florida. The type of policies in the program includes: HO-1, HO-2, HO-3, HO-4 and HO-6 policies.

### **Premium and Policy Counts**

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<b><u>Year</u></b>	<b><u>DPW</u></b>	<b><u>Policy Count</u></b>
1999	6,327,244	13,662
2000	5,064,148	12,128
*2001	2,090,312	5,580

\* as of 6/30/01

The Company discontinued writing new homeowners business in 1994.

### **Examination Findings**

One hundred (100) policy files were examined.

Twenty-nine (29) errors were found.

Errors affecting premium resulted in twenty-nine (29) overcharges totaling \$1,496.28. In addition, approximately 150 overcharges totaling \$7,650 plus interest will be refunded due to a rerate.

The errors are broken down as follows:

1. Twenty-eight (28) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes, and is considered a business practice of the company. These errors were due to failure to apply the Building Code Effectiveness Grade (BCEG) credit to eligible risks. These errors resulted in twenty-eight (28) overcharges totaling \$1,435.20, which have not been refunded by the Company, as they did not agree with the findings and in some cases they were processing the refunds after the completion of the examination field work. The Company was requested to rerate this line of business to apply a credit to all eligible risks. Exhibit III. It was estimated that approximately 150 policies are affected and approximately \$7,650 plus interest should be refunded to affected insureds.

2. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. This error was due to the use of an incorrect surcharge. This error resulted in an overcharge totaling \$26.01, which has been refunded by the Company.

## **CANCELLATIONS/NONRENEWALS REVIEW**

### **DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES**

Cancellation/nonrenewal notices are to provide the minimum number of days required by law for the type of cancellation or nonrenewal. Notices are sent to the insured and lienholder when applicable. Return premiums are to be calculated as of the effective date of the cancellation. Company cancellations are made on a pro-rata basis and insured requests on a pro-rata basis less 10%.

### **CANCELLATION REVIEW**

Thirty-eight (38) cancelled policies were examined.

No errors were found.

### **NONRENEWAL REVIEW**

Twelve (12) nonrenewed policies were examined.

No errors were found.

## COMPLAINTS/INVESTIGATION 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.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

### COMPANY COMPLAINTS RECEIVED

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Corrective Action Requested
n/a	Numohovic	Non-renewal	none	n/a
n/a	Hansen	Non-renewal	none	n/a
n/a	Hendricks	Claim Supp. needed	none	n/a
n/a	Londo	Non-renewal	none	n/a
n/a	Moran	Non-renewal	none	n/a
n/a	Odgis	Requesting exception to claim procedures	none	n/a
n/a	Solomon	Discontinued offer of endorsement	none	n/a
n/a	Kohut	Non-renewal	none	n/a
n/a	Moni	Inability to make premium payment by credit card	none	n/a
n/a	Simpson	Premium refund	none	n/a
n/a	Pearson	Escrow problem	none	n/a
n/a	Yourshaw	Rate increase	none	n/a
n/a	Matuson	Poor service	none	n/a
n/a	Villeneuve	Unfair claim settlement	none	n/a
n/a	Ozrovitz	Cancellation	none	n/a
n/a	Goodman	Non-renewal	none	n/a
n/a	Conklin	Non-renewal	none	n/a
n/a	Roland	Company ownership	none	n/a
n/a	Patty	Refund	none	n/a
n/a	Shaatal	Unsatisfactory Claim settlement	none	n/a
n/a	McGarry	Non-renewal	none	n/a
n/a	Layng	Cancellation Notice	none	n/a
n/a	Shapiro	Automated telephone system	none	n/a
S-0001-0002818	Harold	Unsatisfactory Claim settlement	none	n/a
S-0001-0006141	LaMotta	Refund owed	none	n/a
S-0001-0009396	Wells	Cancellation date	none	n/a
S-0001-0027515	Reuben	Claim delay	none	n/a
S-0001-0037681	Greenstein	Cancellation	none	n/a
S-0001-0042456	Downs	Inspection	none	n/a
S-0001-0042781	Alper	3rd party claim delay	none	n/a
S-0001-0047579	Friedman	Premium refund	none	n/a
S-0001-0047952	Elmore, Jr.	Delay in premium refund	none	n/a
S-0001-0069539	Shank	Delay in premium refund	none	n/a
S-9900-0040263	Jaffe	Unsatisfactory Claim settlement	none	n/a
S-9900-00414409	McLendon	Cancellation	none	n/a
S-9900-0042822	Edmiston	Cancellation	none	n/a
S-9900-0044651	Ceppos	Cancellation/premium refund amount	none	n/a

S-9900-0045155	Selletti	Premium refund	none	n/a
S-9900-0046463	Hardy	Claim handling	none	n/a
S-9900-0046647	Kidd	Policy Dec. page not rec'd by insured	none	n/a
S-9900-0054813	Hylton	Lack of Co. response	none	n/a
S-9900-0055926	Edmiston	Incorrect settlement offer	none	n/a
S-9900-0059249	Labate	3rd party claim delay	none	n/a
S-9900-0062187	Lee	Cancellation notice missing info	none	n/a
S-9900-0064717	Hill	Claim handling delay	none	n/a
S-9900-0066794	Scrivanich	Rate increase	none	n/a
S-9900-0067582	Paino	Claim handling	none	n/a
S-9900-0070686	Mullen	Rating issue	none	n/a
S-9900-0074037	McDonald	Unsatisfactory Claim settlement	none	n/a
S-9900-0074057	George Zahn	Claim handling	none	n/a

Fifty (50) complaints were examined.

No errors were found.

The complaints reviewed were not indicative of improper business practices.

## **CLAIMS REVIEW**

### **DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS**

Private passenger automobile claims reviewed included: bodily injury, property damage, collision, comprehensive, glass, uninsured motorists, medical payments and personal injury protection (PIP). Homeowners claims reviewed included: theft, liability, wind and fire.

#### **Examination Findings**

Fifty (50) claims were examined. Twenty-five (25) claims were private passenger automobile and twenty-five (25) homeowners.

Ten (10) errors were found.

One (1) error resulted in an overpayment totaling \$100.00. In addition, \$60.00 was paid to the Florida Department of Insurance for appointment fees owed due to an unappointed adjuster used by the Company.

The errors are broken down as follows:

1. Four (4) errors were due to failure to affix fraud statement to claim form. This constitutes a violation of Section 817.234, Florida Statutes. These errors were due to the fraud statement not being displayed on the burglary proof of loss form.
2. Two (2) errors were due to use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes. These errors were due to company-licensed adjuster Michael White not being appointed. These errors resulted in \$60.00 being paid to the Florida Department of Insurance for appointment fees owed due to an unappointed adjuster used by the Company.
3. Two (2) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to the fact the Company could not locate requested claim files.
4. One (1) error was due to failure to properly adjust a claim. This constitutes a violation of Section 626.877, Florida Statutes. This error was due to an incorrect arithmetic calculation. This error resulted in an overpayment totaling \$100.00.

### **DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS**

Private passenger automobile PIP claims were reviewed.

#### **Examination Findings**

Twenty-two (22) claims were examined.

No errors were found.

## **AGENTS/MGA REVIEW/ADVERTISING/MARKETING**

### **DESCRIPTION OF MGA ARRANGEMENTS**

The Company is a direct writer and does not utilize any MGA to produce business.

### **Examination Findings**

Twenty (20) applications/policies written during the scope of examination were examined.

Advertising materials used by the Company during the scope of this examination were also reviewed.

No errors were found.

## **PENDING ISSUES**

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

### **MONETARY ISSUES**

#### 1. Private Passenger Automobile

- a. There were four (4) overcharges that were not refunded due to the Company's disagreement with the findings.

#### 2. Homeowners

- a. There were twenty-nine (29) overcharges totaling \$1,496.28 that were not refunded due to either the Company's disagreement with the findings or in some cases they were processing the refunds after the completion of the examination field work.
- b. The Company was requested to re-rate this line of business to apply a credit to all eligible risks. Exhibit III. It was estimated that approximately 150 policies are affected and approximately \$7,650 plus interest should be refunded to affected insureds. The re-rate should be completed within 90 days after receipt of the examination report.

### **CORRECTIVE ACTIONS**

#### 1. Private Passenger Automobile

The Company should establish procedures to ensure that all vehicles equipped with factory installed anti-theft devices receive a credit. These procedures should be established within 90 days after receipt of the examination report, with written documentation provided to the Florida Department of Insurance certifying that corrective action has been taken.

#### 2. Homeowners

The Company should establish procedures to ensure that all eligible risks receive the BCEG credit. These procedures should be established within 90 days after receipt of the examination report, with written documentation provided to the Florida Department of Insurance certifying that corrective action has been taken.

**EXHIBITS**

**SUBJECT**

**EXHIBIT NUMBER**

**CORPORATE OFFICERS LIST  
HOMEOWNERS RERATE**

**I  
II**