

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**COMMERCIAL CASUALTY INSURANCE COMPANY OF NORTH CAROLINA
(DELTA INSURANCE SERVICES, INC.)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 6/13/02



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EXECUTIVE SUMMARY

The purpose of this examination was due to the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed against the Company, the Department focused its examination on the Company's cancellation procedures, as well as the Company's return premium calculation procedures.

Private passenger automobile, commercial liability, agent/MGA, claims, complaints and cancellation/nonrenewals were reviewed. Six errors were found in the private passenger automobile Review. Four were due to failure to allow the safety device discounts credits on vehicles and two were due to the Company insuring vehicles not allowed by their underwriting guidelines. One error was found in the commercial liability Review. This was due to an incorrect classification. Six errors were found in the cancellation/nonrenewals Review, Five were due to failure to give the specific reason for cancellation/nonrenewal and one was due to failure to provide timely notice of cancellation. One error was found in the Agent/MGA Review. This was due to the use of an unlicensed agent.

The Company took immediate corrective action on all violations and recommendations and refunded monies where necessary.

The Company has discontinued writing the non-standard private passenger automobile line. This should reduce the number of complaints filed against the Company.

INTRODUCTION

Commercial Casualty Insurance Company of North Carolina (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 2000 through January 2002. The examination began January 6, 2002 and ended February 16, 2002. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded in August 1999.

The prior examination report included the review of private passenger automobile, general/professional liability and surety. Violations cited included failure to provide outline of coverage, failure to provide safety device discounts, failure to display telephone number and purpose on policy/certificates, failure to affix the fraud statement to claim forms or applications and failure to comply with the exchange of business requirements.

The purpose of the current examination was due to the volume of consumer complaints.

During this examination, records reviewed included private passenger automobile and commercial liability 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, \$608.09 was returned to Florida consumers due to overcharges of premium.

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority and Renewal Invoices were 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

Delta Insurance Services, Inc, an insurance holding company is comprised of Commercial Casualty Insurance Company of North Carolina (CCIC) and Georgia Mutual Insurance Company, a Stock Company.

Commercial Casualty Insurance Company of North Carolina first began writing insurance in Georgia in May 1988. CCIC was admitted in Florida as a foreign insurer on July 7, 1994. The Company is admitted in ten states, Florida included, and writes on a surplus lines basis in twenty-three additional states. Business is produced through almost 500 independent agencies, brokerage firms and general agents.

The corporate headquarters of the Delta Insurance Services, Inc. and CCIC is 350 Research Ct. Suite 200, Norcross, GA. 30092, with a regional office in Charlotte, NC.

The Company does not have an Internet website.

CCIC is corporately owned with board ownership. The Officers of the Company are listed below:

PRESENT OFFICERS and KEY MANAGERS:

Chief Executive Officer	A. R. Custard
President	E. Nimocks Haigh
Vice President	Wendy Custard
Secretary	Wendy Custard
Treasurer	E. Nimocks Haigh
VP - Finance / Controller	William B. Allen
VP - Marketing	Irwin D. Giesecke
VP – Automobile Division	William E. Mathis
VP - Environmental Technical Services	Scott B. Mosher
VP - Claims	T. Michael Reed
VP – Special Products Division	David C. Rich
Ass't VP – Commercial Claims	Roger D. Link
Ass't VP – Information Systems	Iqbal Mohammed
Surety Division Manager	Donald H. Gibbs

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company currently utilizes a mixed environment of NT4, Windows 2000, and Novell Servers used for the Local Area Network. Local users connect to the Strategic Data Systems Windows into Property and Casualty software (SDSWPC) Insurance Application through the LAN. Also, CCIC has a Citrix server and a Virtual Private Network (VPN) configured with Qwest Internet Service Provider. The Citrix server and VPN are mainly used by Nevada, North Carolina, and Tampa claims offices for Custard Insurance Adjusters (CIA) to connect and process data in the SDSWPC Insurance Application via the Internet/VPN. Home or travel users also use the Citrix system.

Anti-Fraud Plan

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

The Company meets the requirements by contracting with Custard Insurance Adjusters, Inc. to provide this service.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. Back-up tapes are stored for a period of 30 days, and the cycle begins again on a daily basis every 30 days. A monthly tape is pulled and stored indefinitely. Separate tapes of SDSWPC Insurance Application month-end reports are also kept. These tapes are stored offsite. All original software CDs are stored in a fireproof safe, and a copy is also stored offsite. There are 3 Database Servers that can operate as backup to one another in the event a server fails. Also, the servers are configured with RAID5 fault tolerance. All servers are on a four-hour response time for parts with Dell Computer Systems. A Disaster Recovery Book of hard copies of server configurations, contact numbers, and vendor information is maintained onsite, and an additional copy is stored offsite.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The plan is designed to take a proactive approach in employee training in policy issuance, rules and rates verification. The objective is to validate the accuracy of output. The managers/supervisors are required to review a sample of new business policies and renewal policies each month for each data entry operator and each underwriter. The manager/supervisor reviews cancellation and endorsement processing on a quarterly basis.

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 for private passenger automobile and Insurance Service Office (ISO) is the statistical agent for other liability.

Credit Reports

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

OPERATIONS/MARKETING

The Company received a Florida Certificate of Authority effective 7/07/94. The Certificate of Authority was first amended effective 10/01/99 to add the lines of commercial automobile liability and commercial automobile physical damage. The Certificate was again amended to discontinue writing private passenger automobile liability and private passenger automobile physical damage with a planned non-renewal of all policies beginning February 1, 2001. Effective 8/13/01, the Certificate was further amended to add the line of fidelity to offer Business Service Bonds in Florida.

Marketing

The types of markets sought and services offered in Florida are targeted to construction, habitational, mercantile, special events, and business service bonds. The target marketing area is statewide.

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

The Company's business is produced through the appointment of licensed MGA's and through licensed independent agents.

The Company has an agreement with Custard Insurance Adjusters, Inc. to handle all claims. Licensed and appointed adjusters handle all claims.

Lines of Business

The lines of business written in the state are commercial automobile, commercial liability and fidelity. The Company discontinued writing non-standard private passenger automobile coverage effective February 1, 2001.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

The Company independently filed its private passenger automobile program in the State of Florida. On November 2, 2000, the Company notified the Department that it planned to discontinue accepting new business immediately and nonrenew policies effective on or after February 1, 2001. This request was made due to the highly competitive market. The Department on December 11, 2000 acknowledged this request.

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>
2000	\$1,507,152	14,916
2001	\$ 175,218	2,972
2002	0	0

The premium changes are due to run off business.

Examination Findings

One hundred (100) policy files were examined.

Six (6) errors were found.

Errors affecting premium resulted in four (4) overcharges totaling \$448.59 and no undercharges.

The errors are broken down as follows:

1. Four (4) errors were due to failure to follow the filed rate, rating plan or rating schedule. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were due to failure to apply credits on factory-installed air bags, anti-theft devices and anti-lock brake systems. These errors resulted in four (4) overcharges totaling \$448.59, which have been refunded by the Company. This error occurred in the 1997 Examination, Pages 4 and 5, Exhibit I.
2. Two (2) errors were due to failure to follow the filed rate, rating plan or rating rule. This constitutes a violation of Section 627.0651, Florida Statutes. The Company failed to follow their underwriting guide by insuring unacceptable vehicles.

OTHER LIABILITY

Description of Product/Lines of Business

The Company markets artisan contractor commercial general liability, miscellaneous liability, environmental consultant/contractor pollution liability and a special events liability program. The miscellaneous program would take risks other than contractors and the special event coverage is for one-time events that run from one to thirty days. Products and completed operations coverage is included in the artisan contractor policies. The Company uses both ISO and Company filed forms and rates in these policies.

Premium and Policy Counts

Direct Premiums written and in-force policy counts for the scope of the examination areas follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
2000	\$6,111,453	25,068
2001	\$6,288,946	28,346
2002	\$ 517,599	2,914

Examination Findings

Fifty (50) policy files were examined.

One (1) error was found.

The error is described as follows:

1. 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. The error was due to failure to classify the business correctly. This error resulted in no premium difference. This occurred because the policy premium calculations using either the correct classification rate or the incorrect rate used on the policy generated the filed minimum premium.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Cancellation/nonrenewal notices provide the required number of days plus mailing time. Notices are sent to the insured and lienholder when applicable. Return premiums are calculated as of the effective date of the cancellation. Company cancellations are on a pro-rata basis and insured requests are on a 90% of pro-rata basis. The Company does not transfer any business from this Company to other group member company.

CANCELLATION REVIEW

Forty (40) cancelled policies were examined.

Six (6) errors were found.

One (1) error resulted in an underreturn totaling \$159.50.

The errors are broken down as follows:

1. Five (5) errors were due to failure to provide a specific reason for denial, cancellation or nonrenewal. This constitutes a violation of Section 627.4091.
2. One (1) error was due to failure to provide timely notice of cancellation. The date of cancellation used by the Company was incorrect. This constitutes a violation of Section 627.728, Florida Statutes. This error resulted in an underreturn of \$159.50, which has been paid by the Company.

NONRENEWAL REVIEW

Ten (10) 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:

DOI RECEIVED COMPLAINTS/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-9798-0001462	HYNES	Improper cancellation	Previously cited by Investigations	None
S-9709-0059340	REID	Improper cancellation	Previously cited by Investigations	None
S-9798-0074069	GROOMS	Improper cancellation	Previously cited by Investigations	None
S-9899-0012140	HIGGINS	Company moved Claimant's auto from body shop to Co.'s storage premises without claimant's knowledge.	None	None

Four (4) complaints were reviewed.

No errors were found.

COMPANY RECEIVED COMPLAINTS

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
Consumer received	FLOREAL	Refund premium not received.	None	Complaint should have been sent to finance company
Consumer received	VALEZ	Question on coverage	None	None
S-9900-0040267	CALLENDER	Improper Cancellation	None	Material misrepresentation
S-9900-0037814	MILLER	Improper Cancellation	None	MVR's not received w/I 60 days
S-9900-0051262	CUENCEN	Spoiled food claim on contractor.	None	Insured not legally liable for damage.
S-9900-0049046	PRELAZ	No refund after cancellation	None	Premium return timely.
S-0001-0009503	BLANKENSHIP	Inquiry about increased premium	None	Insured purchased new car
S-0001-0009878	BOTTS	Coverage inquiry	None	Responded timely
S-0001-0015530	DOMINGUE	Cancellation, no return premium.	None	Premium returned timely.
Request by DOI for files	NA	DOI needed true copies of und. files	None	Sent timely to DOI
S-0001-0034077	FINTEL	Premium increased when policy issued	None	MVR rec'd by the Company. It generated additional premium.
S-0001-0026006	MARTINOT	Ins cancelled policy. Refund not received.	None	Refund send timely to finance company.
S-0001-0042509	BROWN	Improper cancellation	None	Material Misrepresentation

S-0001-0042509	LEOPOLD	Complaint about agent & finance co.	None	Premium refunded correctly
S-0001-0043115	WRIGHT	Improper cancellation	None	Policy canc. for non-payment of premium.
S-0001-0041494	MIDDLETON	Policy cancelled, no refund	None	Premium returned timely.
S-00010035415	ORTIZ	Ins said he paid down payment, agent voided application.	None	Company never received the app and no policy was issued.
S-0001-0046154	HORAN	Improper cancellation	None	Dispute with finance company. Policy canc for non-payment.
S-0001-0033685	GATHERS	Improper cancellation	None	Policy cancelled for non- payment.
S-0001-0056465	CRUZ	Improper cancellation	None	Refund returned timely.
S-0001-0056103	TYBES	Improper cancellation	None	Material misrepresentation
S-0001-0056206	MOORE	Request for proof of coverage	None	Company responded timely.
S-0001-0065163	TEAGUE	Improper cancellation by Finance Co.	None	Policy never cancelled by carrier.
S-0102-0004315	ROSE	Policy canc., refund not received.	None.	Refund made timely by the Company.
S-0105-0016227	SINN	Policy canc., refund not received.	None	Refund sent to finance company timely
S-0001-0069607	ROBINSON	Denied PD loss for business liability	None	Ins was not legally liable for damage.
S-0001-0069417	CORHEI	Policy cancelled. Refund not received.	None	Refund sent to finance company timely
01SC-1749	CAIN	Policy cancelled. Refund not received.	None	Refund sent to incorrect finance co., Ins received refund and interest from Co.
S-0102-0014867	McCormick	Ins. cancelled GL, ins did not receive refund	None	Canc date error, error corrected and refund sent to insured timely.
S-01020028608	WHITE	Customer of painting contractor wants damages repaired.	None	Claim still pending.
Company received	COBB	Improper cancellation	None	Premium returned to finance co. timely after non pay canc.
S-9900-0034930	CARGANO	Improper cancellation	None	Cancelled in error, reinstated; agent paid Co. with ISF check.
S-9900-0038078	GRIMES	Deleted car from policy, refund not received.	None.	Request from agent to Co. lost, premium refunded on 2 nd notice
S-9900-0040127	SKINNER	Claim settlement not timely.	None	Locating persons who saw accident took longer than expected.
S-9900-0063658	HILL	Carrier will not pay to match car paint color.	None	Claim settled by court decision. 2/15/01
S-9900—0064197	FRIBLEY	Co will not pay for BI claim.	None	Insured only has PID/PD coverage
S-9900-0066207	RUMAN	Co will not pay claim.	None	Material misrepresentation
S-9900-0066950	LALLI	Co will not pay claim. Co says son lives at father's home & not listed on app.	None	Co. found son lives elsewhere, and then claim paid timely.
S-0001-0008861	PRADO	Improper cancellation	None	Complaint sent to incorrect carrier.
S-0001-0005610	THOMAS III	Property damage claim not paid.	None.	Several persons involved, claim open.
S-0001-0015978	NEAT-A-MAID	Did not get renewal policy.	None	Carrier duplicated policy for insured Renewal was timely.
S-0001-0056081	VAN BIBBER	Claim not paid	None	Material Misrepresentation

S-0001-0056081	HAMMERBACHER	Claim not paid	None	Material Misrepresentation
S-0001-0022985	BLANCO	Policy not received	None.	Insurer never recv'd app. Insured not in company records.
S-0102-0015061	MOLINARI	Inquiry about policy premium.	None	Complaint sent to incorrect carrier.

Forty-five (45) files were reviewed.

No errors were found.

The majority of complaints were from non-standard private passenger automobile policy files. The Company has discontinued writing this line of business due to the highly competitive market. This should greatly reduce the number of complaints filed against the Company.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Private passenger automobile types of claims reviewed included property damage and personal injury protection. Liability claims reviewed were artisan contractor commercial general liability, miscellaneous liability, environmental consultant/contractor pollution liability and a special events liability program.

Examination Findings

Fifty (50) claims were examined.

No errors were found.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Private passenger automobile personal injury protection (PIP) and uninsured motorist (UM) claims were reviewed.

Examination Findings

Forty-five (45) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

For private passenger automobile, the Company has appointed one managing general agent (MGA), Associated Insurance Underwriters, Inc (AIU). This MGA is a wholly owned subsidiary of Delta Insurance Services, Inc., which is the parent company of CCIC. The review of the agreement indicated that the Company is in compliance with Florida Statutes and the MGA is properly licensed and appointed.

For commercial lines, the Company has appointed three managing general agencies; Amelia Underwriters, Inc., Firestone Agency of Florida, Inc. and Universal Specialty Underwriters, Inc.. These MGA's are all properly licensed and appointed by the Company. The agreements are in compliance with Florida Statutes.

Examination Findings

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

One (1) error was found.

The error is described as follows:

1. One (1) error was due to use of an unlicensed agent. This constitutes a violation of Section 626.112, Florida Statutes. This error was due to a person that signed the application using the license number of an agency officer. That person is no longer at that agency.

The Company has one piece of advertising that is given to agents to give to customers. It is a reprint of Best's Rating Report. It does not violate Section 626.9541, Florida Statutes. The Company does not do any other type of advertising. All business is received from licensed and appointed MGA's or licensed and appointed independent agents.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

PRIOR EXAMINATION REPORT PAGES 4&5

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