

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

EXPLORER INSURANCE COMPANY

(ICW GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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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	6
	A. PRIVATE PASSENGER AUTOMOBILE	6
V.	AGENTS/MGA REVIEW	8
VI.	CANCELLATIONS/NONRENEWALS REVIEW	9
VII.	CLAIMS REVIEW	10
VIII.	COMPLAINTS REVIEW	11
IX.	EXHIBITS	13

I. INTRODUCTION

Explorer 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, January 1999 through December 2000. The examination began May 13, 2001 and ended June 30, 2001. This is the first property and casualty market conduct examination of this insurer, by the Florida Department of Insurance.

The purpose of this target examination was to verify compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included private passenger automobile policies, cancellations/nonrenewals, agent licensing, claims and consumer complaints for the period of January 1999 through December 2000, 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.

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

Explorer Insurance Company was incorporated on December 8, 1981 in the State of Arizona. Explorer Insurance Company is a wholly-owned subsidiary of the Insurance Company of the West (ICW Group.)

The Company's home office is located at 28490 Avenue Stanford, Santa Clarita, California 91355. The Company markets business through the independent agency system and does not use managing general agents or brokers.

Claims are handled by company adjusters in the Lake Mary, Florida regional claims office.

The Company's website address is www.explorer-insurance.com.

B. MANAGEMENT

1. Company Computer System

Explorer Insurance Company's primary computer system is an IBM 3270 mainframe, with a local area network of personal computers connected to the primary system. A special password is required by each user for entry into the network.

2. Anti-Fraud Plan

Explorer Insurance Company has formed the Special Investigative Unit (SIU) to handle suspected fraudulent claims. Suspected fraud is assigned to an SIU Adjuster to compile data and make reports to local agencies as appropriate. Explorer Insurance Company is a member of the National Insurance Crime Bureau (NICB), Insurance Association of Special Investigative Units (IASIU) and the Index Bureau. The Anti-Fraud Plan has been filed with the Florida Division of Insurance Fraud in compliance with Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Disaster Recovery Plan provides immediate response and subsequent recovery from any unplanned computing services interruption. The Plan documents the strategies, resources and procedures which the Information System Recovery Team will use to respond to any short or long-term interruption to its essential business functions.

4. Internal Audit Plan

The Internal Audit Plan has been developed to determine each individual's performance level, identify training issues, identify inconsistencies, ensure compliance with state laws and regulations and evaluate consumer relations. Random policies and claims files are reviewed and feedback is provided monthly.

C. OPERATIONS

Explorer Insurance Company writes private passenger automobile insurance using a three-tier program in the State of Florida.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Explorer 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 627.0651, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Explorer 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

Insurance Services Office (ISO) 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	\$ 10,444,939	17,023
2000	*\$ 26,472,945	54,575

*The Company states that the increase of premium in 2000 was due to Progressive reducing their writings in Florida. As a result of Progressive's action, Explorer Insurance Company insured prior Progressive policyholders. Due to poor loss experience on their own filed rates, Explorer Insurance Company made rate increases that resulted in a reduction of business in 2001.

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

V. AGENTS/MGA REVIEW

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

One (1) error was found.

The error did not affect policy fees.

The error is described as follows:

1. One (1) error was due to use of an unappointed agent. This constitutes a violation of Section 626.112, Florida Statutes.

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 disclose information in a timely manner.
This constitutes a violation of Section 627.4137, Florida Statutes.

VIII. 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(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit II. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

A. COMPANY RECEIVED COMPLAINTS

Three (3) informal complaints were reviewed.

One (1) error was found.

The error did not affect premium.

The error is described as follows:

1. One (1) error was due to failure to maintain a complete log during the scope of this examination. This constitutes a violation of Section 626.9541(1)(j), Florida Statutes. The Company was not maintaining a log of informal complaints but discovered the error and took corrective action prior to the commencement of this examination.

	Consumer	Allegation	Violation	Comments
1	Badway	Unfair Renewal Premium Increase	None	Responded to Insured about filed rate increase
2	Geyer	Cancellation return premium not received	None	Company had written to Agent to send them a cancellation notice signed by the insured
3	Davis	Insured received notice that Company sent notice of lapse in coverage when check had been mailed	None	Check received and policy reinstated in a timely manner with no lapse in coverage

IX. EXHIBITS

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