

2002 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
(TRAVELERS)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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EXECUTIVE SUMMARY

First Floridian Auto and Home Insurance Company (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. The scope of this examination was January 1, 1999 through May 31, 2001. The examination began September 2, 2001 and ended May 24, 2002. The examination was suspended from September 29, 2001 to November 25, 2001 due to the inability to obtain records as a result of the September 11, 2001 tragedy. This is the first examination for this insurer.

The purpose of this examination was to complete a previously postponed, routinely scheduled examination and to verify that the business practices of the Company are in compliance with Florida Statutes and Rules.

A total of four hundred twenty-nine (429) files were examined for this Company. Forty-five (45) errors were identified. The following represents general findings; however, specific details are found in each section of the report.

One hundred (100) private passenger automobile policies were examined. Ten (10) errors were identified. The errors were due to failure to apply anti-theft device credits, use of incorrect symbols, failure to apply anti-lock brake discounts, failure to obtain/maintain signed UM selection forms, and failure to advise insureds of how to obtain a copy of their credit report.

One hundred (100) homeowner policies were examined. Twenty-six (26) errors were identified. The errors were due to use of incorrect Building Code Effective Grade (BCEG) codes, use of incorrect territories, use of incorrect protective device credits, use of incorrect protection classes, incorrect premium computation, and failure to advise insureds of how to obtain a copy of their credit report.

With respect to the required notice of adverse underwriting decision resulting from credit scoring on both private passenger automobile and homeowners, the Company has advised that it has established procedures to send the notice.

Fifty (50) cancellations and nonrenewals were examined. No errors were found.

Fifty-four (54) complaint files were examined with no errors.

Eighty-five (85) claim files were examined. Eight (8) errors were identified. The errors were due to failure to comply with PIP benefit requirements by failing to pay interest on claims paid after 30 days, use of unappointed adjusters, failure to advise the insureds of their right to recover holdback depreciation, failure to properly compute sales tax, payment of claims to an incorrect provider and applying the deductible to a claim twice.

Forty (40) files were examined for the agents/MGA/advertising review. One (1) error was identified. The error was due to failure to appoint an agent.

As a result of the findings of this examination, \$1,252.22 was returned to Florida consumers due to overcharges of premium and underpayments of claims.

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

First Floridian Auto and Home Insurance Company (Company) was incorporated on April 10, 1996, under the laws of the State of Florida. The Company is part of Travelers Property Casualty Corporation, which during the period of the examination was an indirect, wholly-owned subsidiary of Citigroup, Inc. Since the completion of the examination, Citigroup spun-off Travelers Property Casualty Corporation and its subsidiaries, including the Company. The Company received its original Certificate of Authority from the State of Florida in 1996.

The Company's home office is located at 7840 Woodland Center Blvd, Tampa, FL. The Company's website can be accessed at: www.firstfloridian.com.

The Company's corporate officers are listed in Exhibit I.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company is supported by a Data Center and two LAN Centers. The Data Center houses a multitude of large, mid-range and small online, batch processing and data access servers. The LAN Centers support the distributed environment. Servers in this environment run Microsoft Windows, UNIX and Novell. The Company utilizes multiple levels of security to ensure the integrity of the network, integrity of the data and the systems, the identification and authentication of the users, access control, non-repudiation, and accountability.

Anti-Fraud Plan

The Company has 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. The disaster recovery plan is designed to restore critical systems and is tested regularly. The current plans have been updated as recently as March 2001 for host environments and August 2000 for LAN-based environments. The plan is reviewed and updated annually to accommodate major changes with updated pages or sections distributed to team members.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The underwriting and claims departments conduct audits on a regular basis. In underwriting, the review of files includes underwriting and customer service. In claims, the review includes both open and closed claim files.

The Corporate Audit and Risk Review Department of the Company's ultimate parent company also conducts external audits every two to three years.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Company provides a written Privacy Notice to each new and renewal policyholder.

Statistical Affiliations

Insurance Services Office (ISO) acts as the Company's official statistical agent for all lines.

Credit Reports

The Company does use Credit Reports as an underwriting tool. The Company utilizes credit scores in combination with other underwriting factors to determine a final pricing tier. Credit scores are classified as superior, excellent, good, average, fair, basic, specialty, no hit and no score.

OPERATIONS/MARKETING

Marketing

The Company provides insurance only in the State of Florida. Business is serviced through the Company's home office and claims office located in Tampa, FL.

The Company uses fliers, brochures and on-line advertising through the internet.

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

The Company markets products statewide through licensed and appointed independent agents, with some exceptions as noted in the Agents/MGA Review Section of this report.

Lines of Business

During the scope of the examination, the Company wrote the following lines of business: private passenger automobile, homeowners, and other liability.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

The Company has independently filed its private passenger automobile program in the State of Florida. During the scope of this examination, underwriting guidelines in use were filed with effective dates of January 27, 1999, July 1, 2000, September 28, 2000 and February 5, 2001, for new business and generally 45 days later for renewal business. The Company has two programs, standard and non-standard. As of September 28, 2000, there were four standard pricing tiers being used (highly preferred, preferred, standard and new standard), and four non-standard pricing tiers (special, intermediate I, intermediate II, and basic). The Company's underwriting guidelines encompass various factors, including: driver information; vehicle information; and driving record/claim history. In addition, the Company utilizes credit scores in combination with these factors to determine the final pricing tier. Credit scores are classified as excellent, good, average, fair, basic, specialty, no hit and no score.

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	\$94,100,169	74,904
2000	\$111,788,054	88,296
2001*	\$56,424,903	90,774

* as of 5/31/01 (policy counts for 2001 reflect policies in force as of 5/31/02)

Examination Findings

One hundred (100) policy files were examined.

Ten (10) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$32.00.

The errors are broken down as follows:

1. One (1) error was 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. This error was due to failure to apply the anti-lock brake discount. This error resulted in one (1) overcharge totaling \$21.00, which has been refunded by the Company.
2. One (1) error was 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. This error was due to the use of an incorrect symbol. This error resulted in one (1) overcharge totaling \$11.00, which has been refunded by the Company.

3. Five (5) errors were due to failure to provide notice of adverse underwriting decisions due to the use of credit reports and failing to advise insureds of the means of obtaining a copy of their credit report. This constitutes a violation of Rule 4-125.004, Florida Administrative Code. The Company has advised that effective March 23, 2002, it has established procedures to send the notice.
4. Three (3) errors were due to failure to obtain/maintain UM selection forms. This constitutes a violation of Section 627.727, Florida Statutes. These errors were due to the Company's failure to produce the signed form from its records.

HOMEOWNERS

Description of Product/Lines of Business

The Company has independently filed its homeowners program in the State of Florida. The types of policies in the program include: 633, 634 and 636, which are similar to ISO's HO-3, HO-4 and HO-6 policies, respectively. During the scope of this examination, underwriting guidelines in use were filed with effective dates July 20, 1998, May 24, 1999 and April 15, 2001 for new business and generally 90 days later for renewal business. This program was written under preferred and standard rating tiers. The Company's underwriting guidelines encompass various criteria, including claims, dwelling condition, coverage, insurance to value and protection class. In addition, the Company utilizes credit scores in combination with these criteria to determine the final pricing tier. Credit scores are classified as superior, excellent, good, fair, and no hit/no score.

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	\$65,020,553	108,387
2000	\$71,289,644	108,727
2001*	\$30,415,426	105,368

*as of 5/31/01

Examination Findings

One hundred (100) policy files were examined.

Twenty-six (26) errors were found.

Errors affecting premium resulted in thirteen (13) overcharges totaling \$364.00 and one (1) undercharge totaling \$14.00.

The errors are broken down as follows:

1. Ten (10) errors were due to failure to provide notice of adverse underwriting decisions due to the use of credit reports and failing to advise insureds of the means of obtaining a copy of their credit reports. This constitutes a violation of Rule 4-125.004, Florida Administrative Code. The Company has advised that effective April 17, 2002, it has established procedures to send the notice.
2. Eight (8) 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. These errors were due to the use of incorrect BCEGS codes. These errors resulted

in five (5) overcharges totaling \$47.00 and one (1) undercharge totaling \$14.00. The Company has refunded the overcharges.

3. Three (3) 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. These errors were due to the use of incorrect territories. These errors resulted in three (3) overcharges totaling \$214.00, which have been refunded by the Company.
4. Two (2) 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. These errors were due to the use of incorrect protective device credits. These errors resulted in two (2) overcharges totaling \$26.00, which have been refunded by the Company.
5. Two (2) 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. These errors were due to the use of incorrect protection classes. These errors resulted in two (2) overcharges totaling \$48.00, which have been refunded by the Company.
6. 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 an incorrect premium computation. This error resulted in one (1) overcharge totaling \$29.00, which has been refunded by the Company.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Cancellation/nonrenewal notices are to be provided to the policyholder in no less than the minimum number of days required by law for the type of cancellation or nonrenewal. In the sample reviewed, notices were sent to the insured and lienholder when applicable, return premiums were calculated as of the effective date of the cancellation, and company cancellations were made on a pro-rata basis and insured requests for cancellation at pro-rata basis minus 10%.

CANCELLATION REVIEW

Thirty-seven (37) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Thirteen (13) 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:

COMPLAINTS/INVESTIGATIONS REFERRED BY MARKET CONDUCT

Company ID No.	Alleged Violation	Violation Found	Comments
DS10856	Use of Credit Report	None	Company's position correct
DOI	Use of unfiled forms	None	Company's position correct
6	Redlining	None	Company's position correct
MCI4750	Cancellation	None	Company has made a renewal offer to the insured

Four (4) DOI referral complaints were examined.

No errors were found.

COMPLAINTS RECEIVED FROM DOI

Consumer Services Ref. No.	Alleged Violation	Violation Found	Comments
S-9899-0038967	Incorrect Cancellation	None	Company's position correct
S-9899-0044324	Unsatisfactory settlement	None	Company's position correct
S-9899-0048137	Claim delay	None	Company's position correct
S-9899-0058245	Unsatisfactory settlement	None	Company's position correct
S-9899-0058666	Improper Cancellation	None	Company's position correct
S-9899-0062476	Billing of cancelled policy	None	Company's position correct
S-9899-0061109	Improper Cancellation	None	Company's position correct
S-9899-0075274	Change in coverage	None	Company's position correct
S-9899-0073064	Claim Delay	None	Company's position correct
S-9899-0071596	Rate Increase	None	Company's position correct
S-9900-0000076	Claim Delay	None	Company's position correct
S-9900-0015254	Claim Denial	None	Company's position correct
S-9900-0020646	Improper Cancellation	None	Company's position correct
S-9900-0018543	Rate Increase	None	Company's position correct
S-9900-0023706	Claim Delay	None	Company's position correct
S-9900-0025814	Claim Delay	None	Company's position correct
S-9900-0017933	Claim Delay	None	Company's position correct
S-9900-0044663	Claim Denial	None	Company's position correct
S-9900-0048541	Billing problem	None	Company's position correct
S-9900-0052105	Improper Cancellation	None	Company's position correct
S-9900-0054087	Improper Cancellation	None	Company's position correct
S-9900-0061300	Unsatisfactory settlement	None	Company's position correct
S-9900-0066520	Premium Issue	None	Company's position correct
S-0001-0005624	Claim Denial	None	Company's position correct
S-0001-0004453	Improper Cancellation	None	Company's position correct
S-0001-0008724	Premium Issue	None	Company's position correct
S-0001-0007066	Claim Delay	None	Company's position correct
S-0001-0001336	Premium Issue	None	Company's position correct
S-0001-0008982	Improper Cancellation	None	Company's position correct
S-0001-0013581	Improper Cancellation	None	Company's position correct
S-0001-0011491	Claim Delay	None	Company's position correct
S-0001-0022400	Improper Cancellation	None	Company's position correct
S-0001-0031060	Unsatisfactory settlement	None	Company's position correct

Consumer Services Ref. No.	Alleged Violation	Violation Found	Comments
S-0001-0035129	Claim Delay	None	Company's position correct
S-0001-0033501	Improper Cancellation	None	Company's position correct
S-0001-0024421	Mediation problem	None	Company's position correct
S-0001-0040212	Claim Denial	None	Company's position correct
S-0001-0044119	Improper Cancellation	None	Company's position correct
S-0001-0042657	Rate Increase	None	Company's position correct
S-0001-0048053	Claim Delay	None	Company's position correct
S-0001-0054081	Claim Delay	None	Company's position correct

Forty-one (41) complaints received by the Company from DOI were examined.

No errors were found.

COMPLAINTS COMPANY RECEIVED FROM CONSUMERS

Company ID No.	Alleged Violation	Violation Found	Comments
MC14224	Credit Score	None	Company's position correct
MC6085	Claim Delay	None	Company's position correct
MC7817	Credit Report	None	Company's position correct
MC7873	Credit Report	None	Company's position correct
MC8627	Credit Report	None	Company's position correct
MC11757	Claim Denial	None	Company's position correct
MC12850	Claim Delay	None	Company's position correct
MC10337	Claim Handling	None	Company's position correct
MC12997	Improper Cancellation	None	Company's position correct

Nine (9) complaints received by the Company from consumers were received.

No errors were found.

There were no apparent business practice violations identified in the review of the above consumer complaints.

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, water damage and fire.

Examination Findings

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

Eight (8) errors were found.

Five (5) errors resulted in underpayments totaling \$856.22.

The errors are broken down as follows:

1. Two (2) errors were due to failure to comply with unfair trade practice requirements. This constitutes a violation of Section 626.9541, Florida Statutes. These errors were due to the Company's misrepresentation of policy benefits by failing to advise the insured of their right to recover depreciation holdback if property was replaced or repaired.
2. Two (2) errors were due to failure to comply with PIP benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes. These errors were due to failure to pay interest on overdue PIP claims. These errors resulted in underpayments totaling \$308.22, which have been paid by the Company.
3. One (1) error was due to the use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes. This error was due to an adjuster handling claims prior to obtaining the required appointment.
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 incorrect computation of sales tax. This error resulted in an underpayment totaling \$16.00, which has been paid by the Company.
5. 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 applying the deductible twice. This error resulted in an underpayment totaling \$500.00, which has been paid by the Company.
6. 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 the Company paying the claim to the incorrect provider. This error resulted in an underpayment totaling \$32.00, which has been paid by the Company.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Personal injury protection and uninsured motorist claims were reviewed.

Examination Findings

Thirty-five (35) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company does not have or utilize an MGA.

Examination Findings

Forty (40) 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 the use of an unappointed agent. This constitutes a violation of Section 626.112, Florida Statutes.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

CORPORATE OFFICERS

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