

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**GE AUTO & HOME ASSURANCE COMPANY
(GE GROUP)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 5/30/02



TABLE OF CONTENTS

INTRODUCTION 1

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES 2

COMPANY OPERATIONS/MANAGEMENT..... 3

REVIEW OF POLICIES 5

 PRIVATE PASSENGER AUTOMOBILE 5

CANCELLATIONS/NONRENEWALS REVIEW 7

COMPLAINTS/INVESTIGATION REVIEW 8

CLAIMS REVIEW..... 10

AGENTS/MGA REVIEW/ADVERTISING/MARKETING..... 11

PENDING ISSUES..... 12

EXHIBITS 13

INTRODUCTION

GE Auto & Home Assurance 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 September 30, 2001 and ended October 20, 2001. This is the first property and casualty market conduct examination of this insurer by the Florida Department of Insurance.

The purpose of this examination was to review the Company's business practices to determine compliance with Florida Statutes and Rules since they began writing business in Florida in July 1999.

During this examination, records reviewed included private passenger automobile 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, \$93.94 was returned to Florida consumers due to overcharges of premium.

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

GE Auto & Home Assurance Company was originally incorporated in the State of California on August 19, 1971, as Insurance Company of the Pacific Coast. On March 31, 1986, Colonial Penn Insurance Company acquired the Company and on October 15, 1986, the Company's name was changed to Colonial Penn Heritage Insurance Company. The Company's name was again changed on November 14, 1994, to Bay Colony Insurance Company and it was redomesticated to the Commonwealth of Pennsylvania on June 16, 1995. On September 2, 1999, the Company changed its name to its current name GE Auto & Home Assurance Company.

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.

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 set up 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 use Credit Reports as an underwriting tool. Credit Score is used as a risk variable to adjust tiers after a tier score has been calculated but not yet assigned to a policy. The credit scores are divided into eight groups (octals). Depending on what the credit score octal is, a tier is adjusted to a lower or higher tier. The use of Credit Score is included in the Company's filed underwriting guidelines.

OPERATIONS/MARKETING

Marketing

The Company markets its private passenger automobile program to the general public with emphasis on solicitation to the mature driver. The Company uses direct marketing methods including direct mail, referrals, telemarketing and the Internet to reach prospective customers.

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 producing and servicing business.

The Company also obtains business from quote requests through their website.

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.

Lines of Business

The Company only writes private passenger automobile in the State of Florida.

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 whether the risk meets underwriting rules for six (6) areas: registration, operators, vehicles, business use, prior insurance coverage and driving record. Through their underwriting guidelines the automobile program is divided into eight (8) tiers. The lowest rated tier is zero (0) and the highest is seven (7). Tier assignment is determined by three (3) categories: experience factors, policy level scores, and vehicle level score. These three scores are added and the result will determine a preliminary tier. Finally, a credit score is applied to assign the final tier. **The Company's filed underwriting guidelines do not allow for re-tiering at renewal.**

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	3,498,305	3,809
2000	13,632,041	13,864
*2001	10,882,420	10,451

* as of 6/30/01

The Company's rapid growth is due to the fact that all new business is being placed in this Company. The other group member companies are only renewing policies without the benefit of any new business being added to their book of business.

Examination Findings

One hundred (100) policy files were examined.

Seven (7) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$93.94 and two (2) where the amount to be refunded has not been determined.

The errors are broken down as follows:

1. Two (2) errors were due to failure to follow the filed rate, rating schedule or rating rule. 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 two (2) overcharges totaling an amount to be

determined which have not been refunded by the Company, as they did not agree with the findings.

2. Three (3) 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 three (3) undercharges totaling \$114.60
3. One (1) error was due to failure to follow the filed rate, rating schedule or rating rule. This constitutes a violation of Section 627.0651, Florida Statutes. This error was due to failure to apply a renewal credit to an eligible risk. This error resulted in an overcharge totaling \$30.70, which has been refunded by the Company.
4. One (1) error was due to failure to follow the filed rate, rating schedule or rating rule. This constitutes a violation of Section 627.0651, Florida. This error was due to an incorrect tier placement. This error resulted in an overcharge totaling \$63.24, 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 at pro-rata basis less 10%. The Company does not transfer any business from this Company to other group member companies, as the automobile program is an eight (8) tier program.

CANCELLATION REVIEW

Fifty (50) cancelled policies were examined.

One (1) error was found.

One (1) error resulted in an underreturn totaling \$26.50.

The error is described as follows:

1. One (1) error was due to failure to follow the filed rate, rating schedule or rating rule. This constitutes a violation of Section 627.0651, Florida Statutes. This error was due to the incorrect calculation of the return premium. This error resulted in an underreturn totaling \$26.50, which has not been paid by the Company as they were processing the refunds after the completion of the examination field work.

NONRENEWAL REVIEW

The Company did not have any nonrenewals during the scope of this examination.

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	Lacey	Policy premium	627.0651	Discontinue Practice
n/a	Flamik	Quoted price different than policy premium	None	n/a
n/a	Santonastaso	Policy premium	None	n/a
n/a	Bunk	Policy premium	627.0651	Discontinue Practice
n/a	Wulff	Billing problem	None	n/a
n/a	Heller	Quoted price different than policy premium	None	n/a
n/a	Cole	Rating issue	None	n/a
n/a	Nelisse	Cancellation procedures	None	n/a
n/a	Suprina	Unsatisfactory claim settlement	None	n/a
n/a	Bianchi	Cancellation procedures	None	n/a
S-0001-0040747	Meister	Policy premium	None	n/a
S-0000-0028933	Waldick	Policy premium	None	n/a
S-0001-0052056	Hume	Rating issue - loss multi-car discount	None	n/a
S-0001-0003846	Williams	Quoted price different than policy premium	None	n/a
S-0001-0054021	Rich	Premium refund	None	n/a
S-0001-0056500	Aikins	Quoted price different than policy premium	None	n/a
S-0001-0057083	Villandry	Policy premium	None	n/a
S-0001-0069016	Swan	Quoted price different than policy premium	None	n/a
S-0102-0000158	Fishman	Premium refund	None	n/a
S-0001-0042765	Blotta	Quoted price different than policy premium	None	n/a

Examination Findings

Twenty (20) complaints were examined.

Two (2) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to the Company providing an incorrect premium quotation when they had all necessary information to provide an accurate quote.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Private passenger automobile type of claims reviewed included: bodily injury, property damage, collision, comprehensive, uninsured motorists, medical payments and personal injury protection (PIP).

Examination Findings

Fifty (50) claims were examined.

No errors were found.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Private passenger automobile PIP claims were reviewed.

Examination Findings

Twenty-one (21) claims were examined.

One (1) error was found.

The error did not affect payments.

The error is described as follows:

1. One (1) error was due to failure to comply with PIP benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes. The error was due to the Company's request to the claimant for travel beyond the 10 mile limit for an Independent Medical Examination.

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

Ten (10) 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 two (2) overcharges that were not refunded due to the Company's disagreement with the findings.

2. Cancellations/Nonrenewals

There was one (1) underreturn totaling \$26.50 that was not refunded due to the Company processing the refund after the completion of the examination field work.

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.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

CORPORATE OFFICERS LIST

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