

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

GEICO GENERAL INSURANCE COMPANY
(BERKSHIRE HATHAWAY, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

Geico General Insurance 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 1998 to December 2000. The examination began January 28, 2001, and ended February 24, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was completed on June 30, 1996.

The prior examination report included the review of private passenger automobile and mechanical breakdown policies. Violations cited included failure to attach forms/endorsements, failure to provide safety discounts and failure to comply with PIP benefit requirements.

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

During this examination, records reviewed included private passenger automobile policies, cancellations/nonrenewals, agent licensing, claims and consumer complaints for the period of January 1998 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 the 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

Geico General Insurance Company (Company) was incorporated on March 27, 1978, in the State of Iowa, under the temporary title Equi-Gen Insurance Company, to act as the vehicle for the transfer of the corporate domicile of the Equitable General Insurance Company from Fort Worth, Texas, to Des Moines, Iowa, effective December 31, 1978. The Company's present name was adopted on September 29, 1982. Government Employees Insurance Company, a wholly-owned subsidiary of Geico Corporation, acquired complete financial control of the Company on March 31, 1982, from the Equitable Life Assurance Society of the United States. On January 2, 1996, Geico Corporation became an indirect wholly-owned subsidiary of Berkshire Hathaway, Inc.

The Company's website can be accessed at www.geico.com.

Claims are handled by company adjusters located in Lakeland, Florida, and through several claim offices throughout the State of Florida.

The Company's home office is located at 5260 Western Avenue, Chevy Chase, Maryland 20815.

B. MANAGEMENT

1. Company Computer System

The Company's data center is secured by a passcard system permitting access to authorized staff only. Remote users access the network through the Company's private network that has a dedicated line connection and the same security as in the regional office. Dial-up connectivity requires

that each user have a special password for entry into the network. The dial-up PC used by the remote user utilizes anti-virus software.

2. Anti-Fraud Plan

a. External Fraud

The Company has formed the Special Investigation Unit in Florida responsible for overseeing day-to-day anti-fraud activities and has filed their plan with the Department. This unit works on all types of fraud cases in the State of Florida. All claims and underwriting associates are trained to identify and then refer cases of suspected fraud to the Special Investigation Unit. Claims files involving suspected and documented fraud are referred to the Florida Division of Insurance Fraud and/or the NICB for indexing. Restitution is pursued in all cases where fraud has been documented.

b. Internal Fraud

Geico General Insurance Company provides each associate with a copy of its Code of Conduct and requires each associate to sign a security agreement. It furnishes specific training on internal fraud, proper issuance of drafts, and provides each associate with user ID's and passwords. The Company randomly reviews claim payments and conducts payment verification programs to insure that proper claim payments are made.

3. Disaster Recovery Plan

The Disaster Recovery Plan documents the strategies, personnel, procedures and resources that the Company will use to respond to any long-term interruption to its essential business functions.

The Plan highlights and coordinates the main issues and steps to be taken if a disaster impacts any of the Company's service centers. The Plan was updated on October 20, 2000.

4. Internal Audit Plan

Geico General Insurance Company has in place an internal audit program that allows for risk assessment and insures that proper controls are in place throughout the Company.

C. OPERATIONS

The Company uses various advertising media under the name Geico Direct, including television, radio broadcast and newspaper, to generate inquiries statewide. The distribution system includes local agents, the Internet, direct mail and a telephone call center with bilingual (English/Spanish) sales counselors in the Company's regional office located in Lakeland, Florida. After the Lakeland office closes at 1:30 a.m., calls are taken by the call center in Macon, Georgia, until 6:00 a.m. when the Lakeland office opens again. Most of the advertising lists an 800 number, which directs the caller to the regional office in Lakeland, Florida. In July 1998, the Company opened a dedicated Hispanic telephone unit at the Lakeland facility.

In April 1996, the Company began offering automobile insurance quotes online and in August 1998, the Company began providing real-time rate quotes through their website. The Company also advertises for its local agents in the Jacksonville, Orange Park, Key West, Tampa, Orlando, Cocoa Beach, Pensacola,

Panama City, Winter Park and Ft. Walton Beach markets. The primary targets of these direct representatives are the military and federal markets.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Geico General Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Geico General Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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>
1998	\$ 272,838,219	252,426
1999	\$ 329,813,595	299,029
2000	\$ 388,666,308	323,464

3. Exam Findings

One hundred (100) policy files were examined.

One hundred and two (102) errors were found.

Errors affecting premium resulted in two (2) undercharges totaling \$42.10.

The errors are broken down as follows:

1. One hundred (100) errors were due to the use of an unfiled rates, rating schedules, rating rules or underwriting guidelines. The Company used an unfiled rounding rule. This constitutes a violation of Section 627.0651, Florida Statutes. The premium effect for these errors was below the waiver rule amount, therefore, no returns were made. The Company was directed to file its rounding rule.
2. Two (2) errors were due to failure to follow the filed rates, rating schedules, rating rules or underwriting guidelines. The Company incorrectly applied the good student discount. This constitutes a violation of Section 627.0651, Florida Statutes. These errors resulted in undercharges of \$42.10.

V. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

No errors were found.

VI. CLAIMS REVIEW

Fifty (50) claims were examined.

No errors were found.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

VII. 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:

COMPANY RECEIVED COMPLAINTS

Ten (10) informal complaints were reviewed.

No errors were found.

VIII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS HANDLING PROCEDURE	I
COMPLAINTS HANDLING PROCEDURE	II