

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

GEICO INDEMNITY COMPANY  
(BERKSHIRE HATHAWAY INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Geico Indemnity 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 February 25, 2001 and ended March 17, 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 policies. Violations cited included failure to attach forms/endorsements, failure to follow filed rate, rating schedule, rating rule or underwriting guidelines, failure to provide Uninsured Motorist coverage as selected and failure to provide timely notice of renewals/nonrenewals/cancellations.

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, 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, \$479.40 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

## 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 Indemnity Company (Company) was incorporated on March 22, 1961, and re-incorporated in 1980 in the District of Columbia under the name of Criterion Insurance Company. On January 3, 1986, the Company was re-incorporated and re-domesticated to the State of Maryland. The Company is a wholly-owned subsidiary of GEICO Corporation. 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](http://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 Indemnity 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 Indemnity 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 Indemnity Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Geico Indemnity 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	\$ 72,987,837	60,352
1999	\$ 91,443,638	76,091
2000	\$108,728,489	80,959

3. Exam Findings

One hundred (100) policy files were examined.

One hundred (100) errors were found.

None of the errors resulted in refunds.

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 refunds were made. The Company was directed to file its rounding rule.

V. CANCELLATIONS/NONRENEWALS REVIEW

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

No errors were found.

VI. CLAIMS REVIEW

Thirty-five (35) 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 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. DOI REFERRALS

One (1) complaint was referred for review.

Three (3) errors were found.

Errors affecting premium resulted in one (1) underpayment totaling \$479.40.

Consumer Services Referral Number	Alleged Violation	Findings
S-9900-0071549	Delay of claim payment	Three (3) errors were found

1. One (1) error was due to failure to adjust a total loss correctly. This constitutes a violation of Rule 4-166.027, Florida Administrative Code. This error resulted in an underpayment of \$479.40, which has been refunded by the Company.
2. One (1) error was due to failure to respond to an Insurance Department inquiry. This constitutes a violation a Rule 4-166.025, Florida Administrative Code.

3. One (1) error was due to failure to comply with unfair trade practice requirements by not maintaining a complete record of complaints. This constitutes a violation of Section 626.9541, Florida Statutes. This particular complaint was not maintained on the Company's log.

B. COMPANY RECEIVED COMPLAINTS

Seven (7) 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