

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

GOVERNMENT EMPLOYEES INSURANCE COMPANY  
(BERKSHIRE HATHAWAY, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Government Employees 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 March 18, 2001 and ended April 7, 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, homeowners, dwelling fire, personal umbrella and boatowners policies. Violations cited included failure to attach forms/endorsements, failure to offer/obtain/maintain signed UM acceptance/rejection forms, use of incorrect protection classes, incorrect application of credits, failure to provide timely notice of cancellations/nonrenewals, failure to properly compute sales tax, and failure to comply with PIP notice of rights 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, homeowners, 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.

As a result of the findings of this examination, an estimated \$28,530.00 will be returned to six hundred twenty-three (623) Florida consumers due to overcharges of premium and underreturns of cancellations.

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

Government Employees Insurance Company (Company) was incorporated in the District of Columbia on November 30, 1937. The Company was re-incorporated on January 31, 1979, under the District of Columbia Business Corporation Act of 1954. Subsequent to the re-incorporation, the Company reorganized its corporate structure with the creation of a parent company, Geico Corporation, on January 31, 1979. The Company transferred its domicile to the State of Maryland on January 3, 1986. Geico Corporation became an indirect wholly-owned subsidiary of Berkshire Hathaway, Inc., on January 2, 1996.

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

Government Employees 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

Government Employees 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

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

b. Form Filings

Government Employees 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	\$ 220,613,936	193,030
1999	\$ 225,508,223	197,854
2000	\$ 238,800,465	197,300

3. Exam Findings

One hundred (100) policy files were examined.

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 rate, rating schedules, rating rules or underwriting guidelines. The Company use 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.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Government Employees 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 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Government Employees 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

ISO acts as the Company's official statistical agent for this line of business.

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	\$6,180,211	8,484
1999	\$5,215,677	6,346
2000	\$4,867,260	5,484

The Company filed, with the Department of Insurance, its plan to withdraw from this line business in Florida. The withdrawal began with policies that expired on or after January 1, 1996.

3. Exam Findings

One hundred (100) policy files were examined.

Eighteen (18) errors were found.

Errors affecting premium resulted in eighteen (18) overcharges totaling \$2,209.09. In addition, approximately \$14,565.00 will also be returned to policyholders.

The errors are broken down as follows:

1. Eighteen (18) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. The Company did not apply the new home discount. This constitutes a violation of Section 627.062, Florida Statutes. These errors resulted in overcharges totaling \$2,209.09, which have not been refunded; however, these

overcharges are included in the number and amount identified in the re-rate below. The Company was directed to re-rate this line of business for the scope of examination, in order to apply the new home discount to all applicable policies. (Exhibit I) The affected policies are those written beginning January 1, 2000, up to the date the computer error is corrected by the Company. The number of policies affected is approximately 295 with a total of \$14,565.00 being overcharged to consumers, plus interest and reduction of the FWUA surcharge that will be recalculated by the application of the discount.

V. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Four (4) errors were found.

Four (4) errors resulted in underreturns totaling \$98.69. In addition, approximately \$13,965.00 will also be returned to policyholders.

The errors are broken down as follows:

1. Four (4) 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. Upon cancellation, the Company failed to return the unearned portion of the FWUA assessment recoupment surcharge. These errors resulted in overcharges totaling \$98.69, which have not been refunded, as the Company did not agree with the examiner's findings. The four errors are included in the rerate described below. The Company was directed to recalculate return premiums on all homeowner mid-term cancellations since April 19, 1999 (Exhibit II). The number of policies affected is approximately 328 with an estimated total of \$13,965.00, plus interest, being underpaid to consumers.

VI. CLAIMS REVIEW

Forty (40) claims were examined.

No errors were found.

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

## 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 IV. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

### COMPANY RECEIVED COMPLAINTS

Six (6) informal complaints were reviewed.

No errors were found.

## VIII. PENDING ISSUES

### 1. Homeowners

The Company was directed to rerate this line of business for the period January 1, 2000, through the date the computer problem is corrected in order to apply the new home discount. The number of policies affected is approximately 295 with a total of \$14,565.00 being overcharged to consumers, plus interest, and reduction of the FWUA surcharge that will be recalculated by the application of the discount. The Company has advised that this will be completed by May 31, 2001.

### 2. Cancellations/Nonrenewals

The Company was directed to recalculate return premiums on all homeowner mid-term cancellations since April 19, 1999. The number of policies affected is approximately 328 with an estimated total of \$13,965.00, plus interest, being underpaid to consumers. The Company did not agree with the examiner's findings.

### 3. Private Passenger Automobile

The Company was directed to file the rounding rule.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
HOMEOWNERS RERATE	I
CANCELLATION/NONRENEWAL RERATE	II
CLAIMS HANDLING PROCEDURE	III
COMPLAINTS HANDLING PROCEDURE	IV