

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

HANOVER INSURANCE COMPANY  
(ALLMERICA FINANCIAL)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

**DATE FILED: 5/30/02**

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## I. INTRODUCTION

The Hanover 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 1996 through December 1998. This examination began July 23, 2000 and ended October 28, 2000. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded on July 11, 1994.

The 1994 examination included the review of private passenger automobile policies, homeowners policies and underwriting files. Violations cited included incorrect territories, incorrect symbols, unsigned UM forms, premium computation errors, incorrect protection classifications and failure to provide a specific reason for cancellations.

The purpose of the current examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included private passenger automobile and homeowners policies including applications and underwriting files, cancellations/nonrenewals, agent/MGA licensing and claims for the period of January 1996 through December 1998, 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 and Rules.

As a result of the findings in this examination, \$698.15 was returned to Florida consumers due to overcharges of premium.

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 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

The Hanover Insurance Company was incorporated October 5, 1972 under the laws of New Hampshire. They began writing business January 1, 1973. On April 15, 1994, the Company transferred its domicile from New York to the State of Massachusetts.

The Hanover Insurance Company is a multi-line insurer authorized to write commercial and personal lines property and casualty business. Private passenger automobile and homeowners insurance is marketed through independent agents. The Company utilizes company adjusters, in addition to independent adjusters contracted from outside adjusting companies.

#### B. MANAGEMENT

##### 1. Protection of Computer Information

The Company's network is password protected. A full system backup is performed daily. Backup files are stored in a secure place protected from theft, fire, water and physical damage.

##### 2. Anti-Fraud Plan

In accordance with Section 626.9891, Florida Statutes, the Company filed its anti-fraud plan with the Florida Department of Insurance in 1996, with a revision in 1997. Allmerica Financial, the holding company, has established the Protect Corporate Asset Process unit (PCA).

PCA is responsible for all anti-fraud activities for all lines of business. The purpose of PCA is to act as the investigative support function to identify, investigate and resolve suspicious and fraudulent insurance practices.

3. Disaster Recovery Plan

The Hanover Insurance Company is covered under the comprehensive disaster recovery procedures in place for all of the affiliated companies of Allmerica Financial Corporation. These detailed and specific recovery procedures cover all Company desktops, network, voice systems and mainframe operations critical to the continued operation of the affiliated companies of Allmerica Financial Corporation. In addition, the Company's claims operation has detailed plans in place to ensure that servicing and adjustments of insured losses, as they are reported to the Company by agencies or directly from property and casualty customers, can be handled during a catastrophe, weather related or other emergency event that limits access to the office facility. The Company's customer processing centers also utilize business continuity plans to enable each business unit to recover from an interruption that prohibits its ability to perform designated critical processes.

4. Internal Audit Plan

Allmerica Financial Corporation maintains a comprehensive program of internal auditing as an overall control measure and as a service to the Company. The Internal Audit Department has the authority to audit and investigate any activity of the Allmerica Financial Companies. It has full, free and unrestricted access to all records, locations, reports and personnel relevant to subjects under review.

C. OPERATIONS

The Hanover Insurance Company actively markets and writes standard private passenger automobile and homeowners business throughout the State of Florida through independent agents.

#### IV. REVIEW OF POLICIES

##### A. PRIVATE PASSENGER AUTOMOBILE

###### 1. Application of Rules, Rates and Forms

###### a. Rate/Rule Filings

Hanover Insurance Company is a member of the Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.0651, Florida Statutes. In addition, the Company does make some independent filings.

###### b. Form Filings

Hanover Insurance Company is a member of the 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

The Insurance Services Office 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	\$3,484,834	4,646
1997	\$6,060,445	5,037
1996	\$5,792,432	5,240

3. Exam Findings

One hundred (100) policy files were examined.

Seventeen (17) errors were found.

Errors affecting premium resulted in four (4) overcharges totaling \$44.00.

The errors are broken down as follows:

1. Three (3) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.0651, Florida Statutes. Incorrect vehicle symbols were used. These errors resulted in overcharges totaling \$34.00, which have been refunded by the Company. This type of error occurred in the 1994 Examination, Page five. Exhibit I.
2. One (1) error was due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.0651, Florida Statutes. The incorrect territory was used. This error resulted in an overcharge totaling \$10.00, which

has been refunded by the Company. This type of error occurred in the 1994 Examination, Page five. Exhibit I.

3. Nine (9) errors were due to failure to provide timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes.
4. Three (3) errors were due to failure to obtain/maintain signed UM acceptance forms. This constitutes a violation of Section 627.727, Florida Statutes. This error occurred in the 1994 Examination, Page five. Exhibit I.
5. One (1) error was due to failure to obtain/maintain signed UM acceptance form. This constitutes a violation of Section 627.727, Florida Statutes. The policy did not contain UM limits, however, the UM selection form requested equal limits to Bodily Injury limit.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Hanover 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

Hanover 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

Insurance Services Office 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	\$1,614,479	4,977
1997	\$3,073,497	4,978
1996	\$2,785,972	5,042

3. Exam Findings

One hundred (100) policy files were examined.

Eleven (11) errors were found.

Errors affecting premium resulted in five (5) overcharges totaling \$654.15.

The errors are broken down as follows:

1. Nine (9) 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. The Company used incorrect protection classes, resulting in four overcharges totaling \$483.20, which have been refunded by the Company. This type of error occurred in the 1994 Examination, Page nine. Exhibit II.
2. 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. The Company used incorrect

territories, resulting in one overcharge of \$171.00, which has been refunded by the Company.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Five (5) errors were found.

None of the errors affected policy fees.

The errors were broken down as follows:

1. Three (3) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The application was not signed nor did the agent's license number appear on the application as required. Unable to verify use of licensed and appointed agent.
3. One (1) error was due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain a copy of the application.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Thirty-seven (37) errors were found.

One (1) error resulted in an overreturn totaling \$96.01.

The errors are broken down as follows:

1. 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. The insured requested the cancellation, therefore, the return premium should have been calculated using short rate, resulting in an overreturn of \$96.01.
2. Ten (10) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain a copy of the cancellation notice.
3. Eighteen (18) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain a copy of the proof of mailing.
4. Eight (8) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain the unearned premium computation information.

## VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Sixteen (16) errors were found.

None of the errors affected payments.

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

The errors are broken down as follows:

1. One (1) error was due to failure to properly forward the automobile title to the Department of Highway Safety and Motor Vehicle. This constitutes a violation of Section 319.30, Florida Statutes.
2. Two (2) errors were due to use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
3. Twelve (12) errors were due to use of unlicensed and appointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes.
4. One (1) error was due to failure to comply with payment of third-party claim requirements. This constitutes a violation of Section 627.743, Florida Statutes. No search was completed on the total loss claim before payment was made.

X. EXIHBITS

<u>SUBJECT</u>	<u>EXIHBIT NUMBER</u>
PRIVATE PASSENGER AUTOMOBILE ERROR VIOLATION #1, #2, AND #3, SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 5 OF PRIOR EXAMINATION REPORT.	I
HOMEOWNERS ERROR VIOLATION #1 AND #2, SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 8 AND 9 OF PRIOR EXAMINATION REPORT.	II
INTERNAL CLAIMS HANDLING PROCEDURES AND RESERVING PRACTICES.	III