

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**MERASTAR INSURANCE COMPANY
(PRUDENTIAL FINANCIAL)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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EXECUTIVE SUMMARY

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed with the Department, the examination focused on the timely processing of claims, the Company's cancellation procedures, and the Company's premium calculation procedures.

There were three hundred thirty (330) files examined with sixty-five (65) errors.

Forty-one (41) complaint files were examined with one (1) error. The error was due to failure to properly quote a policy resulting in cancellation.

Fifty (50) homeowners files were examined with ten (10) errors. The company failed to maintain applications and failed to apply correct discounts to policies.

Forty (40) cancellations were examined with two (2) errors. The errors were due to failure to give the specific reason for cancellation.

Ten (10) nonrenewal files were examined with no errors.

Sixty-nine (69) claim files were examined with four (4) errors. One (1) error was due to failure to pay sales tax. Three (3) errors were due to failure to forward the title to the Department of Highway Safety and Motor Vehicle.

Twenty (20) policy files were examined to verify that agents were licensed and appointed. There were no errors found.

INTRODUCTION

MERASTAR INSURANCE 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 September 2001. The examination began November 25, 2001 and ended February 9, 2002. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded in December 1989.

The prior examination report included the review of private passenger automobile, homeowners, personal excess indemnity and boatowners. Violations cited included failure to follow filed rates, rating schedules or rating plans, use of unfiled forms, failure to comply with State of Florida cancellation and nonrenewal requirements, failure to issue policy with State of Florida loss payment requirements, failure to indicate the form number and edition date of endorsements on the declaration page, failure to allow correct number of days notice of cancellation, failure to document cancellations, cancellation of policies due to insured not having collateral business with the Company, failure to include fraud statement on claim documents, failure to submit total loss vehicle titles to the State of Florida, use of unlicensed nonresident adjusters, failure to apply correct deductibles to claims, failure to document depreciation taken on claims, failure to document support for claim payments, failure to apply correct claim deductibles and failure to correctly code and report premiums.

The purpose of this examination was to review the issues behind the volume of consumer complaints the State of Florida has received and ensure compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included policies listed in the Table of Contents, 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 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, \$548.00 was returned to Florida consumers due to overcharges of premium.

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority and Renewal Invoices were 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

The Company is a corporately-owned stock Company that was chartered under the laws of the State of Tennessee as Provident General Insurance Company on August 14, 1974, a full line property and casualty insurer. In 1987, Northwestern National Life Insurance Company acquired the Company from Provident Life and Accident Insurance Company. The Company changed its name to Merastar Insurance Company effective August 1990. In 1991, the Company was acquired by GEICO Corporation. In May 1998, the Company was acquired by The Prudential Insurance Company of America through its subsidiary, Prudential Property and Casualty Insurance Company. August 1998, the transfer of the Company's capital stock was completed to Prudential P&C Holdings, Inc.

Affiliated companies are: The Prudential Insurance Company of America; Pruco Life Insurance Company, Inc.; Prudential Commercial Insurance Company; Prudential General Insurance Company; Prudential Property and Casualty Insurance Company; Titan Indemnity Company; Titan Insurance Company; Victoria Fire and Casualty Company; Victoria Automobile Insurance Company; Victoria National Insurance Company; Victoria Select Insurance Company; Victoria Specialty Insurance Company; The Prudential General Insurance Company of New Jersey; The Prudential Property and Casualty Insurance Company of New Jersey; Prudential Uniformed Services Administrator, Inc.; Prudential HealthCare and Life Insurance Company of America; Prudential Seguros, S. A.; Prumerica Towarzystwo Ubezpieczen na Zycie S. A.; Pruservicos Participacoes, S.A.; Prudential-Bradescos Seguros, S.A.; Prumerica Live S.P.A.; The Prudential Life Insurance Company of Korea, Ltd.; The Prumerica Life Insurance Company, Inc.; and, Prudential Select Life Insurance Company Of America.

The Company conducts underwriting at its home office located in Chattanooga, Tennessee. Claims are handled by Prudential Property and Casualty Insurance Company (PRUPAC) through its field claim offices.

The officers of the Company are President Timothy Douglas Bruns, Treasurer Nicholas Adam Hencock, and Secretary Carl Arthur Peterson. Vice Presidents are David William Denaci, Richard Milton Green, Kimberly Ann Harrington, William Paul Roland, and John Richard Shinn. Richard Eugene Saltzman is an Assistant Vice President. During the year ended December 31, 2000, Timothy Douglas Bruns became President, John Richard Shinn became Vice President and Richard Eugene Saltzman became Assistant Vice President. Since the last examination the Company has changed ownership twice and changed its name once.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company maintains personal automobile and homeowner policy information on a proprietary system utilizing an IBM AS400 with remote access via network workstations.

Claim information is maintained on a propriety claims system, PACES. This network allows access from workstations in Prudential Property and Casualty field claim offices.

The Company is connected to the Prudential network for e-mail access and database access. Requests from the general public for automobile and homeowner quotes are available through the internet at www.merastar.com. No binding or policy issuance occurs via the internet.

Internet automobile quotes are available for homogeneous groups referred to as “Affinity” customers and as a link from the Company’s business partners RewardsPlus and Prudential Working Solutions at www.prudential.com/workingsolutions.com. Access is restricted to account members.

Anti-Fraud Plan

The Company has filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet the requirements and has established a Special Investigation Unit (SIU) that services business written in the State of Florida. The investigative activities include inquiries into suspicious property and casualty claims and questionable underwriting submissions.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. The plan documentation details relocation of physical and staffing resources depending on the extent of the disaster.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The Internal Audit Division is an independent appraisal activity established to serve the Board of Directors, as well as all level of management by reviewing and testing financial and operational controls. On a quarterly basis, significant issues, as determined by the Chief Auditor, are summarized and reported to the Chairman of the Board and the Auditing Committee of the Board. Senior executives may be called on to address audit results directly with the Auditing Committee. Summaries of audit activities, results and action plans are provided to the Chief Executive Officer of each major operating unit on a

quarterly basis. Functions of the internal audit process include evaluating the adequacy of the systems of internal control designed to safeguard Company resources and ensuring compliance with established policies, procedures and applicable laws and regulations.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Company sent its Privacy Policy to all policyholders by July 1, 2001, providing an opportunity for policyholders to opt-out from having their information shared. The Privacy Policy along with the opportunity to opt-out will be sent annually to policyholders.

Statistical Affiliations

The Company reports statistical information to Insurance Services Office, Inc., for private passenger automobile, homeowners, personal inland marine and personal liability.

Credit Reports

The Company does use Credit Reports as an underwriting tool for homeowners. Credit Reports are not used as a primary factor or sole factor. Credit is used among other factors in underwriting homeowner insurance in limited circumstances. The underwriting procedure calls for credit reports when:

1. There are more than two mortgages or a private mortgage.
2. Home purchased within the past five years with no declared mortgage, if the applicant is less than 55 years of age.
3. Prior homeowner now applying for a renters policy, unless to cover a period of time waiting to move into a newly purchased home. If applicant is over 60, this may be waived.
4. HO-4 applications with no prior insurance.
5. Self-employed.
6. Homes valued over \$350,000.

The Company does not use Credit Reports or Credit Rating as an underwriting tool for private passenger automobile.

Terrorism Exclusion Endorsements

The Company does not write Commercial Property Insurance. The Company does not plan to write Commercial Property Insurance. The Company does not have a Terrorism Exclusion Endorsement filed with the State of Florida.

OPERATIONS/MARKETING

Marketing

From a review of the files selected for review, it appears that the Company continues to offer private passenger automobile, homeowners, boat and excess personal liability coverages. Following 1992, the Company de-emphasized marketing homeowners insurance but continued to offer renewals to current customers. The Company recently acquired a new large Florida employer group and will be marketing all lines to the employees of that group throughout the State. Guidelines for that group have been filed and approved by the Florida Department of Insurance. The Company continues to market to affinity groups, employer groups and associations. The Company does not plan to de-emphasize any particular product or line of business in Florida.

Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling

All Lines of Business

The Company is a direct writer that utilizes direct response agents to market to affinity, employer and association groups. The Company has one appointed agent that writes a limited amount of business.

The Company does sponsor an internet web site for quoting purposes only. The customer is directed to a direct response agent for additional information or to complete an application. Applications are mailed to interested parties for signature and returned to the Company with initial premium. Direct response agents are licensed in the State of Florida. Internet agents are not used for solicitations or claim handling.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

From a review of the files selected for review, it appears that the Company writes private passenger automobile through direct agents. A three tier program is filed for use. Tier ratings are applied to all eligible policies. In excess of 87% of policies are in the preferred tier. Renewal underwriting requires manual intervention to move an insured between tiers. The system does give notification to the underwriter of claims, motor vehicle record and exposure changes. The underwriter must manually cause the system to renew the policy in a different tier. If the tier does not change, the system automatically generates the 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	\$2,435,128	1957
2000	\$4,722,803	4229
2001	\$8,355,000	8964

The increases in year 2000 and 2001 were due to a new marketing effort.

Examination Findings

One hundred (100) policy files were examined.

Forty-eight (48) errors were found.

Errors affecting premium resulted in four (4) overcharges totaling \$528.00 and two (2) undercharges totaling \$52.00.

The errors are broken down as follows:

1. Thirty-one (31) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to the Company failing to maintain a copy of the application.
2. Seven (7) errors were due to failure to comply with PIP coverage requirements. This constitutes a violation of Section 627.739, Florida Statutes. The errors were due to the Company failing to offer a PIP deductible or applying the wrong deductible. These errors resulted in two (2) overcharges totaling \$28.00, which have been refunded by the Company, and in two (2) undercharges totaling \$52.00.

3. Five (5) errors were due to failure to offer/obtain/maintain a signed UM acceptance/rejection form. This constitutes a violation of Section 627.727, Florida Statutes. These errors were due to the Company failing to maintain a copy of UM acceptance/rejection forms.
4. Four (4) errors were due to failure to follow a filed rate. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to the Company failing to adhere to filed rates. The Company misclassified drivers and provided UM coverage without the insured's consent. These errors resulted in two (2) overcharges totaling \$500.00, which have been refunded by the Company.
5. One (1) error was due to failure to obtain pre-inspection of vehicle. This constitutes a violation of Section 627.744, Florida Statutes. This error was due to the Company failing to obtain pre-inspection and failing to cancel the physical damage coverages.

HOMEOWNERS

Description of Product/Lines of Business

The Company writes homeowners through direct agents. Homeowners Risk Guide has been filed with the Florida Department of Insurance. Homeowners Forms 3, 4, and 6 are available. Homes valued in excess of \$350,000 require inspection for replacement cost coverage and must be insured for at least 75% of replacement cost value.

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	\$175,949	275
2000	\$180,771	251
2001	\$147,677	242

Examination Findings

Fifty (50) policy files were examined.

Ten (10) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$30.00 and one (1) undercharge totaling \$33.00.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to failure of the Company to maintain applications as part of the policy record.
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. These errors were due to failure to apply correct discounts to policies. These errors resulted in one (1) overcharge totaling \$ 20.00, which was refunded by the Company and one (1) undercharge totaling \$33.00.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

From a review of the sample selected, it appears that notices of cancellation and nonrenewal are issued in compliance with Florida Statutes. Nonrenewal notices are issued fifty-five days in advance of expiration for homeowners and forty-five days in advance for private passenger automobile. Notices provide specific reasons for the action taken except as noted below. Return premiums are calculated on a pro-rata basis. Notices are sent by certificate of mailing to the named insured and mortgage holders.

CANCELLATION REVIEW

Forty (40) cancelled policies were examined.

Two (2) errors were found.

The errors are described as follows:

1. Two (2) errors were due to failure to provide specific reasons for cancellation or nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. These errors were due to the notice not providing the insured with specific reasons for the cancellation.

NONRENEWAL REVIEW

Ten (10) nonrenewed policies were examined.

No errors were found.

COMPLAINTS/INVESTIGATION REVIEW

The reason for this target examination was the number of consumer complaints received by the Florida Department of Insurance. Review of the consumer complaints received by the Florida Department of Insurance and those consumer complaints received directly by the Company did not establish an indication of improper business practices.

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:

DOI COMPLAINTS RECEIVED/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S0001 0001025	Mann	Claim Handling Delay	None	None
S0001 0023483	Kuhn	Premium Refund	None	None
S0001 0034076	Higgins	Cancel/Non-renew	None	None
S0001 0039701	Holland	Misrepresentation	None	None
S0001 0026202	Zielewicz	Information Request	None	None
S0001 0047796	Wolgemuth	Claim Handling Delay	None	None
S0001 0046522	Brown	Premium	None	None
S0102 0003165	Leet	Cancel/Non-renew	None	None
S0102 0000764	Marinero	Premium	None	None
S0102 0007100	Hayes	Cancel/Non-renew	None	None
S0102 0013961	Brown	Information Request	None	None
S0001 0049741	Aguilar	Premium Refund	None	None
S0001 0057772	Plyes	Premium	None	None
S0001 0066132	Jobba	Cancel/Non-renew	None	None
S0001 0065383	Arguelles	Premium	None	None
S0102 0014878	Matias	Premium	None	None
S0102 0019508	Miller	Cancel/Non-renew	None	None
S0102 0001466	Sullivan	Claim Denial	None	None

Eighteen (18) complaints were reviewed.

No errors were found.

COMPANY COMPLAINTS RECEIVED

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comment
Company Recd	Dixon	Rudeness, discourteous, disinterested	None	None
Company Recd	Wong	Request never processed	None	None
Company Recd	Rego	Rudeness, discourteous, disinterested	None	None
Company Recd	Pannullo	Conditions for renewal	None	None
Company Recd	Hensel	Payment problem	None	None
Company Recd	Robinson	Payment problem	None	None
Company Recd	Hayle	Claimant denied coverage/ insured policy not active	None	None
Company Recd	Wilson	Claim delay	None	None
Company Recd	McMurray	Premium misquote	627.0651	None
Company Recd	Haigh	Coverages/limits	None	None
Company Recd	Taylor	P&C agent/field service	None	None
Company Recd	Shah	On hold too long	None	None
Company Recd	Gordon	Claim delay	None	None
Company Recd	La	Billing/precollect	None	None
Company Recd	Price	Non-paid claim considered a loss	None	None
Company Recd	Rulli	Premium increase	None	None
Company Recd	Whittier	Rudeness, discourteous, disinterested	None	None
Company Recd	Royer	Premium increase	None	None
Company Recd	Leishman	Improper liability determination	None	None
Company Recd	Marinero	Premium misquote	None	None
Company Recd	Hall	Premium misquote	None	None
Company Recd	Visconti	Endorsement/cancellations request requirements	None	None
Company Recd	Clarke	Premium increase	None	None
Company Recd	McLoughlin	Rate	None	none

Twenty-three (23) complaints were reviewed.

One (1) error was found.

The error is described as follow:

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. The automobile premium was misquoted such that an additional premium was required at policy issuance. The insured requested flat cancellation.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Claims reviewed involved homeowners and private passenger automobile (PPA). The PPA claims include collision, comprehensive, rental and towing.

Examination Findings

Fifty (50) claims were examined. One (1) claim was homeowners. Seven (7) claims were automobile collision. Three (3) claims were automobile comprehensive. Eighteen (18) claims were automobile property damage. Seven (7) claims were automobile rental coverage. One (1) claim was towing coverage.

Four (4) errors were found.

The errors are broken down as follows:

1. One (1) error was due to failure to pay sales tax for replacement of total loss vehicle. This constitutes a violation of Rule 4-166.022, Florida Administrative Code. This error was due to failure to offer sales tax replacement to insured when insured retained salvage.
2. Three (3) errors were due to failure to send title of salvaged vehicle to State of Florida Department of Highway Safety and Motor Vehicles (DHSMV). This constitutes a violation of Section 319.30, Florida Statutes. These errors were due to the Company not sending the title to the State of Florida DHSMV within the required time limit.

DESCRIPTION OF CLAIMS REVIEWED – MEDICAL REVIEWS

Nineteen (19) claims were reviewed involving PIP. The PIP claims included nineteen (19) claims that had independent medical examinations (IME) as part of the record.

Examination Findings

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company does not have an MGA agreement in Florida. The Company is a direct writer and utilizes direct response agents who are employees of the Company. One independent agent, Seabury and Smith, has been appointed to write in Florida. That agent did not write in excess of \$25,000 in premium during any year of the scope of the examination.

Examination Findings

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

No errors were found.