

**2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**PROGRESSIVE EXPRESS INSURANCE COMPANY  
(PROGRESSIVE COMPANIES)**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**



**File Date: 5/23/02**

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## **INTRODUCTION**

Progressive Express Insurance Company (Company) is a domestic 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 June 2001. The examination began October 14, 2001 and ended December 22, 2001.

The purpose of this current examination was due to the volume of consumer complaints, therefore, the need to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included private passenger automobile policies, 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, \$ 61.00 was returned to Florida consumers due to failure to allow safety credits. An additional eight returns in the amount of \$344.80 should be refunded for failure to allow safety credits. A rerate of the underwriting files for private passenger automobile due to the Company's failure to allow a credit on factory installed anti-theft devices and anti-lock brake systems as well as due to the placement of insureds in higher rated tiers which resulted in increased premiums for comprehensive coverage due to non-chargeable incidents. These rerates should generate additional refunds, however; the Company disagrees with these findings. See Pending Issues Section.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

The Certificate of Authority/Renewal Invoices was 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 Progressive Corporation is an insurance holding corporation formed in 1965, which owns 83 subsidiaries. The insurance companies provide personal automobile insurance, other specialty property-casualty insurance, and related services throughout the United States. Personal lines business is generated either by agents or written directly by its licensed companies. Direct business includes business written through 1-800-AUTO-PRO, and the Internet.

Progressive Express Insurance Company is a wholly-owned subsidiary of The Progressive Corporation. The Company was incorporated on August 12, 1994, under the laws of the State of Florida as a stock property and casualty insurer wholly-owned by PC Investment Company. The Company was authorized to transact insurance in Florida on February 2, 1995. On March 21, 1997, all of Progressive Express Insurance Company's common stock was sold by PC Investment Company to The Progressive Corporation.

The corporate headquarters of The Progressive Corporation is located in Mayfield Village, Ohio. The home address for Progressive Express Insurance Company is 4030 Crescent Drive, Building B, Riverview, Florida 33569. Regional offices include a site in Tampa, Florida, which houses customer service, claims and marketing personnel. There are 351 claims branch offices located throughout the U.S., with 24 claims branch offices located in Florida.

The Company's website can be accessed at [www.progressive.com](http://www.progressive.com)

Progressive Express Insurance Company is corporately owned. The officers for the Company are listed below:

President	Brian C. Domeck
Secretary	Dane A. Shrallow
Treasure	Stephen D. Peterson
Asst. Secretary	Kathleen M. Cerny
Asst. Treasurer	James W. Kusmer
VP	Jeffery W. Basch
AVP	Timothy F. Kaselonis
	W. Thomas Forrester, II
	Charles E. Jarrett
	Thomas A. King
	James L. Kusmer
	Dane A. Shrallow

## **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

### **Computer System**

The Company utilizes mainframe systems for policy issuance, maintenance and direct billing. For claims management purposes, the Company utilizes an automated system named PACMan (Progressive's Automatic Claims Management System).

### **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 by establishing a Special Investigation Unit.

### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business

### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business.

### **Privacy Plan**

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01.

### **Statistical Affiliations**

The National Association of Independent Insurers (NAII) acts as the Company's official statistical agent.

### **Credit Reports**

The Company does use credit reports as an underwriting tool. It is one of three primary factors used to determine the eligibility of the pricing tier in which the applicant is placed. The two other factors are prior insurance and non-chargeable incidents.

## **OPERATIONS/MARKETING**

The Company has five integrated markets and two commission levels for each market differentiated by service requirements. A market corresponds to a class of business separated by distinct, verifiable underwriting criteria. The markets are Ultra Preferred, Preferred, Standard, Middle Market and Nonstandard. The commission levels are differentiated based on the services that an independent agent provides to a client. The full service commission level is called "Classic" for the nonstandard and middle markets and "Advantage" for the standard, preferred and ultra preferred markets.

### **Marketing**

The Company marketing activities cover the entire State of Florida. The Company uses direct marketing and the Internet to reach prospective customers.

### **Agents/Agencies/MGA/Exchange of Business/Direct Reponse/Internet Adjusters and Claims Handling**

Personal lines business is generated either by agents or written directly by its licensed companies. Direct business includes business written through 1-800-AUTO-PRO and the Internet.

Claims are handled by the Company's claims offices located throughout the state. The Company uses licensed and appointed company adjusters for processing claims in Florida.

### **Lines of Business**

The lines of business produced are private passenger automobile, motorcycles and boats.

## REVIEW OF POLICIES

### PRIVATE PASSENGER AUTOMOBILE

#### Description of Product/Lines of Business

The Company has independently filed a private passenger automobile program in the State of Florida. The Company's underwriting guidelines encompass a number of factors. Eligibility is determined by whether the risk meets underwriting rules for five (5) areas: registration, operators, vehicles, business use and driving record. Through their underwriting guidelines, the automobile program is divided in five (5) tiers. The lowest rated tier is zero (0) and the highest is four (4). Tier assignment is determined by three (3) categories: prior insurance, non-chargeable incidents and financial responsibility. These three (3) categories are weighted and the result determines a preliminary tier. The Company's filed underwriting guidelines do not allow for re-tiering at 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	\$657,590,068	1,275,835
2000	\$564,204,977	1,219,675
*2001 <small>*As of 6/30/01</small>	\$273,219,827	761,747

#### Examination Findings

One hundred (100) policy files were examined.

Eleven (11) errors were found.

Errors affecting premium resulted in nine (9) overcharges totaling \$ 405.80. The Company refunded one (1) overcharge in the amount of \$61.00. The remaining eight (8) were pending at the conclusion of the field work. See Item 2 below. Also the Company was requested to re-evaluate this line which would generate additional refunds. See Pending Issues Section.

The errors are broken down as follows:

1. One (1) error was due to failure to obtain a signed Uninsured Motorist (UM) election/rejection form as required. This constitutes a violation of Section 627.727, Florida Statutes. This error resulted in one (1) undercharge totaling \$91.00.

2. Nine (9) errors were due to failure to follow the filed rate, rating plan or rating schedule. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were due to failure to apply a credit on factory installed anti-lock brake systems. These errors resulted in nine (9) overcharges totaling \$405.80. The Company made one (1) refund in the amount of \$61.00, as they did not agree with the findings. The Company is requested to rerate this line and provide all eligible insureds with refunds. See Pending Issues Section.
  
3. One (1) error was due to placement of insureds in rating tiers due to non-chargeable incidents which caused the comprehensive coverage premium to be surcharged. This constitutes a violation of Section 626.9541(1)(0)(10). The Company is requested to implement corrective action if this product will continue to be marketed in this Company. See Pending Issues Section.

## **CANCELLATIONS/NONRENEWALS REVIEW**

### **DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES**

The cancellation/nonrenewal notice procedures provide the required number of days plus mailing time. Notices are sent to the insured and lienholder when applicable. Return premiums are calculated as of the effective date of the cancellation. Company cancellations are on a pro-rata basis and insured requests are on a pro-rata minus 10% basis. The Company does not transfer any business from this Company to other group member company, as the automobile program is a five-tier program.

### **CANCELLATION REVIEW**

Twenty-five (25) cancelled policies were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to provide a specific reason for denial, cancellation or nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes.

### **NONRENEWAL REVIEW**

Twenty-five (25) nonrenewed policies were examined.

No errors were found.

## COMPLAINTS/INVESTIGATION 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.

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

### DOI RECEIVED COMPLAINTS/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Corrective Action Directed
S-9899-006-7235	Ryan	Failure to Disclose	627.4137	Previously Corrected
S-9899-004-3166	Lowery	Failure to Disclose	627.4137	Previously Corrected
S-9899-003-2364	Gerson	Failure to Disclose	627.4137	Previously Corrected
S-9899-006-9456	Files	Claim Denial	None	Claim Paid

### COMPANY RECEIVED COMPLAINTS

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Corrective Action Directed
S00010032743	GRIFFIN	CLAIM DENIAL	NONE	N/A
S00010039028	BEAULIEU	CLAIM DENIAL	NONE	N/A
S00010046482	SHOEMAKER	CANCELLATION	NONE	N/A
S00010067890	JOHNS	PREMIUM	NONE	N/A
CO. REC'D	ROSEN	CONSUMER REQUEST	NONE	N/A
S01020000729	TURNER	CLAIM	NONE	N/A
CO. REC'D	BOLAND	CLAIM	NONE	N/A
S00010047250	BREEDEN	RT. PREMIUM	NONE	N/A
S00010054979	LAVALLEE	ADD'L PREM	NONE	N/A
S01020001099	WALSH	UNSATISFACTORY CLAIM SETTLEMENT	NONE	N/A
N/A	GARCIA	ILLEGALLY SURCHARGED	NONE	N/A
N/A	VASS	UNDERWRITING	NONE	N/A
N/A	RADER	CANCELLATION	NONE	N/A
N/A	SLEDGE	RENEWAL PREMIUM	NONE	N/A
N/A	JONES	NONRENEWAL	NONE	N/A
N/A	SISISTERRA	CANCELLATION	NONE	N/A
N/A	MENEGERICK	RATE INCREASE	NONE	N/A
N/A	WALLS	PREMIUM	NONE	N/A
N/A	GOLDSBURY	RATE INCREASE	NONE	N/A
N/A	MONTGOMERY	CANCELLATION	NONE	N/A
N/A	ARA	PREMIUM	NONE	N/A
N/A	GARCIA	SURCHARGE	NONE	N/A
N/A	DAY	CLAIM	NONE	N/A
N/A	PERONE	PREMIUM	NONE	N/A
N/A	GIL	CLAIM	NONE	N/A
N/A	SPENCE	CLAIM	NONE	N/A
N/A	DEJUSUS	CLAIM	NONE	N/A
N/A	DEMATTIA	CLAIM	NONE	N/A
N/A	ODIEAN	CLAIM	NONE	N/A
N/A	MITCHEL	CLAIM	NONE	N/A
N/A	LOPEZ-GOTTARDI	CLAIM	NONE	N/A
N/A	GUZMAN	CLAIM	NONE	N/A

N/A	HIRSCH	DISCLOSURE	627.4137	YES
N/A	DASSUA	CLAIM	NONE	N/A
N/A	KING	CLAIM	NONE	N/A
N/A	WHITE	CLAIM	NONE	N/A
N/A	MIJARES	CLAIM	NONE	N/A
N/A	YOXTHEMER	CLAIM	NONE	N/A
N/A	LANDWEHR	CLAIM	NONE	N/A
N/A	VERA	CLAIM	NONE	N/A
N/A	MELDRUM	CLAIM	NONE	N/A
N/A	CRITCHFIELD	CLAIM	NONE	N/A
N/A	JACKSON	CLAIM	NONE	N/A
N/A	CLARK	CLAIM	NONE	N/A
N/A	DARWIN	CLAIM	NONE	N/A
N/A	GALVEZ	CLAIM	NONE	N/A
N/A	SKIPWITH	CLAIM	NONE	N/A
N/A	TOUCHETTE	CLAIM	NONE	N/A
N/A	ARBRAMS	CLAIM	NONE	N/A
N/A	MONTCHAL	CLAIM	NONE	N/A

### **EXAMINATION FINDINGS**

Fifty-four (54) complaint files were reviewed.

Four (4) errors were found.

The errors are broken down as follow:

1. Four (4) errors were due to failure to disclose certain information as required. This constitutes a violation of Section 627.4137, Florida Statutes. The Company acknowledged this and had taken corrective action with management to avoid reoccurrence of this matter prior to this examination.

## **CLAIMS REVIEW**

### **DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS**

Private passenger automobile types of claims reviewed included bodily injury, property damage, comprehensive, collision, uninsured motorist, medical payment and personal injury protection .

#### **Examination Findings**

Fifty (50) claims were examined.

No errors were found.

### **DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS**

Private passenger automobile personal injury protection (PIP) and uninsured motorist (UM) claims were reviewed.

#### **Examination Findings**

Twenty-five (25) claims were examined.

No errors were found.

## **AGENTS/MGA REVIEW/ADVERTISING/MARKETING**

### **DESCRIPTION OF MGA ARRANGEMENTS**

The Company is a direct writer and does not utilize any Managing General Agents (MGA) to produce business.

### **Examination Findings**

Ten (10) applications/policies written during the scope of examination were examined.

Advertising materials used by the Company during the scope of this examination were also reviewed.

No errors were found.

## **PENDING ISSUES**

The following issues were pending at the conclusion of the examination field work:

### **MONETARY ISSUES**

1. Private Passenger Automobile
  - a. There were eight (8) overcharges totaling \$344.80 that were not refunded due to the Company's disagreement with the findings on factory installed anti-lock brake system credits. The Company was requested to rerate this line and provide documentations to the Department of Insurance within 90 days of receipt of this exam.

### **CORRECTIVE ACTIONS**

1. Private Passenger Automobile

The Company should establish procedures to ensure that all vehicles equipped with factory installed anti-lock brakes receive a credit. These procedures should be established within 90 days after receipt of the examination report, with written documentation provided to the Florida Department of Insurance certifying that corrective action has been taken. Also, the Company is requested to review all policies during the scope of this examination and provide credit refunds to all eligible vehicles. Documentation of the refunds is to be provided to the Department within 90 days of receipt of the examination report.