

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

RESPONSE INSURANCE COMPANY

(DIRECT RESPONSE CORPORATION)

BY

THE FLORIDA DEPARTMENT OF INSURANCE



DATE FILED: 6/03/02

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INTRODUCTION

Response Insurance Company (Company) is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this market conduct examination. The scope of this examination was January 1999 through November 2001. The examination began November 4, 2001 and ended December 8, 2001. This is the first property and casualty market conduct examination conducted by the Florida Department of Insurance.

The purpose of the examination was to review business written for verification of compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included private passenger automobile policies, cancellations/nonrenewals, agent 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 requested 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.

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

Response Insurance Company was incorporated on May 26, 1983, as John Hancock Indemnity Company (JHIC), under the laws of Delaware, and commenced business on July 6, 1983. JHIC was sold by John Hancock Property and Casualty Insurance Company to Direct Response Corporation (DRC) on September 12, 1996, and later was renamed Response Insurance Company.

The Company's affiliated insurance companies are Response Indemnity Company of California (CA) and Warner Insurance Company (IL). Its subsidiary insurance companies are Response Insurance Company of America (DC), Response Indemnity Company of Delaware (DE), and Response Indemnity Company (NY).

The Company's home office is located at 4 Gannett Drive, White Plains, New York. DRC and its affiliated insurance companies maintain branch offices in Melville, New York; Suisun City, California; Meriden, Connecticut; and Earth City, Missouri. The Company is a privately held Delaware corporation that is wholly-owned by DRC, a privately held Delaware company.

The Chairman of the Board, President, and Chief Executive Officer is Mory Katz. The Vice President, General Counsel and Secretary is August P. Alegi, and the Vice President and Treasurer is George Kowalsky. The Vice Presidents are Kathleen Anne Gleeson, Donald R. Moser, Steven B. Oakley, Thomas Rocchio, and Clifford Wess.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company has a Hitachi mainframe, for which IBM provides all software. The employees use desktop computers that are connected directly to the mainframe. The mainframe is designed to handle information entered by the sales force, rate policies, and serve as a storage facility. IBM has a back-up mainframe, on which data is maintained off-site and can be installed if needed.

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. The Company's Plan was filed with the Department of Insurance, Division of Insurance Fraud.

Disaster Recovery Plan

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

Internal Audit Procedures

The Company has not developed internal audit procedures for use in reviewing Florida business. The Company has been requested to develop a plan and provide it to the Florida Department of Insurance within ninety days of receipt of this examination report.

Privacy Plan

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

Statistical Affiliations

The Company reports statistics for its private passenger automobile line of business to the Insurance Services Office.

Credit Reports

During the examination period, the Company used credit reports as an underwriting tool. This tool is not the sole criterion used in the underwriting process of new business. Prior to October 15, 2001, credit information was used to determine insurability of an applicant. The credit service assigns a credit score to the applicant. If the applicant falls below the pre-determined score, the Company will not quote a rate for this insured. If the score passes, the only other use is to determine if a payment plan will be offered and the amount of down payment required.

OPERATIONS/MARKETING

The Company has no offices within Florida, other than through a contractual arrangement with a licensed third party administrator that is employed for the purpose of claims handling.

Marketing

The Company is a direct writer in the preferred and standard market. The Company advertises throughout Florida on television, in print, and on the Internet. During the policy review, it was noted that risks were in all areas of the State.

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

The Company does no marketing except as described in the operations/marketing narrative. Claims adjusting is performed under contract with a licensed independent adjuster, who in turn makes assignments to other licensed independent adjusters.

Lines of Business

Private passenger automobile is the only line of business that the Company is writing in the State of Florida.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

The Company is writing full coverage private passenger automobile insurance in the preferred and standard markets offering bodily injury and property damage liability coverages with limits up to \$1,000,000 (bodily injury) and \$500,000 (property damage). Medical payment coverage is offered with \$25,000 in coverage, and uninsured motorist coverage with \$1,000,000 limits.

Full personal injury protection coverage is offered, and the standard deductibles can be added if desired, as can various alterations for insureds who are retired or in the military service.

In addition, comprehensive, collision, and towing and labor coverages are available, and a variety of deductibles are offered.

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 | \$ 4,603,994 | 5,338 |
| 2000 | \$ 5,816,133 | 6,536 |
| 2001 | \$ 2,175,121(7/01) | 6,589 |

Examination Findings

One hundred (100) policy files were examined.

No errors were found.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Policies that were nonrenewed were provided with prior notice in excess of 45 days. Notices were sent through the local post office, and proof of mailing was made available for inspection. Of the ten files reviewed, all were nonrenewed for driving violations.

Cancelled policies were also given in excess of 45 days notice with copies to the lienholders. The only exception to this was 10 day notices for cancellations due to nonpayment of premium.

CANCELLATION REVIEW

Forty (40) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Ten (10) 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:

COMPANY RECEIVED COMPLAINTS

| Consumer Services Ref. Number* | Consumer's Last Name | Alleged Violation | Violation Found | Corrective Action Requested |
|---------------------------------------|-----------------------------|---|------------------------|------------------------------------|
| Company Received | Myers | Company would not insure | None | None |
| Company Received | Dortzbach | Objection to contents of privacy law notice | None | None |
| Company Received | Townsend | Objection to contents of privacy law notice | None | None |
| Company Received | Bryant | Objection to contents of privacy law notice | None | None |
| Company Received | Wagner | Objection to contents of privacy law notice | None | None |
| Company Received | Kisshauer | Objection to contents of privacy law notice | None | None |
| Company Received | Amass | Objection to contents of privacy law notice | None | None |
| Company Received | Harris | Objection to contents of nonrenewal notice | None | None |
| Company Received | Taylor | Objection to contents of nonrenewal notice | None | None |
| Company Received | Farrar | Objection to contents of nonrenewal notice | None | None |

Ten (10) consumer complaints were reviewed.

No errors were found.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEW

These claims involved private passenger automobile coverages, including bodily injury and property damage liability, personal injury protection, collision, comprehensive, uninsured motorist, and towing and labor.

Examination Findings

Fifty (50) claims were examined.

No errors were found.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Claims examined included those under personal injury protection, medical payments, and bodily injury coverages all written under the private passenger automobile line of business.

Examination Findings

Fifty (50) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company is a direct writer using licensed non-resident 9-20 agents based at the home office in White Plains, New York, and at a call center in Suisun City, California. It does not have any MGA arrangements or any resident licensed agents with the exception of the countersigning agent.

Examination Findings

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

No errors were found.

PENDING ISSUES

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

CORRECTIVE ACTIONS

The Company does not have an Internal Audit Plan. The Company has been requested to develop a Plan and provide it to the Department of Insurance within 90 days of its receipt of the final examination report.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

INTERNAL AUDIT PROCEDURES

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