

2002 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

**TRAVELERS INDEMNITY COMPANY
(TRAVELERS)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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EXECUTIVE SUMMARY

Travelers Indemnity 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 1, 1999 through May 31, 2001. The examination began December 30, 2001 and ended May 24, 2002.

The purpose of this examination was to complete a previously postponed, routinely scheduled examination and to verify that the business practices of the Company are in compliance with Florida Statutes and Rules.

A total of three hundred forty (340) files were examined for this Company with eighty-one (81) errors identified. The following represents general findings; however, specific details are found in each section of the report.

Ten (10) complaint files were examined with no errors identified.

One hundred (100) homeowner policies were examined with seven (7) errors identified. The errors were due to incorrect premium computations, incorrect CAT Fund factors, and incorrect protection classes.

One hundred (100) commercial automobile policies were examined with sixty-four (64) errors identified. The errors were due to incorrect premiums caused by incorrect rates, incorrect territories, failure to apply fleet factors, failure to apply credits/debits within filed range, failure to apply credits/debits within 25% range, failure to offer/obtain/maintain UM forms, and failure to provide timely notice of renewal premiums.

Fifty (50) cancellations and nonrenewals were examined with three (3) errors identified. The errors were due to failure to provide proof of mailing.

Fifty (50) claim files were examined with four (4) errors identified. The errors were due to failure to properly adjust claims, failure to disclose information and failure to maintain records.

Thirty (30) files were examined for the agents/MGA/advertising review with three (3) errors identified. The errors were due to use of unappointed agents and failure to properly countersign.

As a result of the findings of this examination, \$8,689.73 was returned to Florida consumers due to overcharges of premium and underpayments of claims. Also, it has been estimated that approximately \$120.00 is to be paid to the Florida Department of Insurance for licensing/appointment fees owed due to unappointed agents. See Pending Issues Section.

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

Travelers Indemnity Company was incorporated on March 25, 1903, under the laws of the State of Connecticut. The Company was part of Travelers Property Casualty Corporation, which was an indirect, wholly-owned subsidiary of Citigroup, Inc. Since completion of the examination, the property and casualty business of Travelers was spun-off from Citigroup.

The Company's home office is located at One Tower Square, Hartford, CT. The Company's website can be accessed at: www.travelers.com.

The Company's corporate officers are listed in Exhibit I.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company is supported by a Data Center and two LAN Centers. The Data Center houses a multitude of large, mid-range and small online, batch processing and data access servers. The LAN Centers support the distributed environment. Servers in this environment run Microsoft Windows, UNIX and Novell. The Company utilizes multiple levels of security to ensure the integrity of the network, integrity of the data and the systems, the identification and authentication of the users, access control, non-repudiation, and accountability.

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. The disaster recovery plan is designed to restore critical systems and is tested regularly. The current plans have been updated as recently as March 2001 for host environments and August 2000 for LAN-based environments. The plan is reviewed and updated annually to accommodate major changes with updated pages or sections distributed to team members.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Underwriting, Operational and Claims internal audits are conducted periodically on Florida exposures by dedicated home office auditing and field office

personnel. Follow-up audits are performed as needed and focus solely on performance issues addressed in the full audit review. Additional audits may be conducted after a market conduct exam to review deficiencies and develop solutions. The Corporate Audit and Risk Review Department of the ultimate parent company also conducts audits of Florida exposures.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Company provides a written Privacy Notice to each new and renewal policyholder.

Statistical Affiliations

Insurance Services Office (ISO) acts as the Company's official statistical agent.

Credit Reports

The Company was using Credit Reports as an underwriting tool for Personal Lines. However, the Company has ceased writing Personal Lines insurance in Florida.

OPERATIONS/MARKETING

Marketing

The Travelers Indemnity Company operates on a nationwide basis through dozens of offices located throughout Florida and the country. Business is serviced through Florida branch marketing and claims offices as well as regional service centers in Elmira, NY and Richmond, VA for commercial lines. Personal Lines was serviced through another service center located in Glen Falls, NY. The Company no longer writes homeowners business in Florida. All personal lines business is now written under other companies within the group.

The Company uses fliers, brochures and on-line advertising through the internet.

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

The Company markets products statewide through licensed and appointed independent agents, with some exceptions as noted in the Agents/MGA Review Section of this report. The Company also has some exchange of business arrangements.

Claims are handled through claims offices located in Tampa and Orlando, Florida.

Lines of Business

During the scope of the examination, the Company wrote the following lines of business: homeowners, fire and allied lines, farmowners, commercial multi-peril, inland marine,

workers' compensation, other liability, commercial automobile, fidelity, surety, burglary and theft, boiler and machinery, and glass.

REVIEW OF POLICIES

HOMEOWNERS

Description of Product/Lines of Business

The Company has independently filed its homeowners program in the State of Florida. The types of policies in the program include: 633, 634 and 636, which are similar to ISO's HO-3, HO-4 and HO-6 policies, respectively. This program was written under a standard rating tier.

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	\$1,383,431	2,788
2000	\$ 252,051	407
2001*	\$ (6,459)	0

* as of 5/31/01

The Company discontinued writing homeowners in 2000. All personal lines business is now being written under other companies within the group.

Examination Findings

One hundred (100) policy files were examined.

Seven (7) errors were found.

Errors affecting premium resulted in five (5) overcharges totaling \$63.00 and two (2) undercharges totaling \$104.00.

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 627.062, Florida Statutes. These errors were due to an incorrect premium computation. These errors resulted in one (1) overcharge totaling \$37.00, which the Company has refunded, and two (2) undercharges totaling \$104.00.
2. Three (3) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to the use of incorrect protection classes. These errors resulted in three (3) overcharges totaling \$21.00, which have been refunded by the Company.

3. 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. This error was due to the use of an incorrect CAT fund surcharge factor. This error resulted in one (1) overcharge totaling \$5.00, which has been refunded by the Company.

COMMERCIAL AUTOMOBILE

Description of Product/Lines of Business

The Company has adopted ISO's commercial automobile program. In addition, the Company uses an independently filed program called "Auto Ultra Pac". This program was designed to afford consistent underwriting and pricing by creating and using non-discriminatory criteria. Risks are evaluated solely on their characteristics and risk management practices. The program is designed for the following industry segments: manufacturing, construction, institutions, services, transportation, energy and communications. A hazard and control engineering survey is required prior to quoting any prospective insured. Risks are classified as low, moderate or high hazard and each has a control risk grade of very effective controls, effective controls or ineffective controls.

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	\$4,100,750	724
2000	\$3,571,421	633
2001*	\$1,624,641	549

* as of 5/31/01

Examination Findings

One hundred (100) policy files were examined.

Sixty-four (64) errors were found.

Errors affecting premium resulted in thirty (30) overcharges totaling \$8,585.00 and thirty (30) undercharges totaling \$17,141.00.

The errors are broken down as follows:

1. Twenty-six (26) 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 the use of incorrect rates. These errors resulted in fifteen (15) overcharges totaling \$1,266.00 and eleven (11) undercharges totaling \$10,380.00. The Company has refunded the overcharges.
2. Eight (8) 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 the use of incorrect territories. These errors resulted in

- six (6) overcharges totaling \$1,558.00 and two (2) undercharges totaling \$565.00. The Company has refunded the overcharges to affected policyholders.
3. Three (3) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to failure to apply the fleet factor. These errors resulted in two (2) overcharges totaling \$76.00 and one (1) undercharge totaling \$95.00. The overcharges were offset by the undercharge on the same policy, therefore, no refund was made.
 4. Thirteen (13) errors were due to failure to apply credits/debits within the filed range. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. These errors were due to exceeding the maximum percentage filed for various risk characteristics of the Company's schedule rating plan. These errors resulted in four (4) overcharges totaling \$647.00 and nine (9) undercharges totaling \$3,528.00. The Company has refunded the overcharges.
 5. Four (4) errors were due to failure to document/substantiate credits/debits. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. These errors were due to failure to document the schedule rating credit or debit applied. These errors resulted in three (3) overcharges totaling \$5,038.00 and one (1) undercharge totaling \$990.00. The Company has refunded the overcharges to affected policyholders.
 6. Three (3) errors were due to failure to apply credits within the 25% range. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. These errors were due to exceeding the maximum 25% credit on the Company's schedule rating plan. These errors resulted in three (3) undercharges totaling \$1,204.00.
 7. Five (5) errors were due to failure to maintain/obtain signed UM forms. This constitutes a violation of Section 627.727, Florida Statutes. These errors were due to the Company not obtaining or maintaining a signed UM selection form from the insured. These errors resulted in three (3) undercharges totaling \$379.00.
 8. Two (2) errors were due to failure to provide timely notice of renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Based upon a review of the selected sample, cancellation/nonrenewal notices are to provide the minimum number of days required by law for the type of cancellation or nonrenewal. 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 made on a pro-rata basis and insured requests for cancellation at 90% pro-rata.

CANCELLATION REVIEW

Twenty-five (25) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Twenty-five (25) nonrenewed policies were examined.

Three (3) errors were found.

The errors are broken down as follows:

1. Three (3) errors were due to failure to maintain proof of mailing. This constitutes a violation of Rule 4-167.010, Florida Administrative Code. These errors were due to the Company's inability to maintain proof of mailing for the nonrenewal notices.

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:

COMPLAINTS RECEIVED FROM DOI

Consumer Services Ref. No.	Alleged Violation	Violation Found	Comments
S-9900-0010955	Collection for non-pay	None	Company's position correct
S-9899-0035202	Cancellation	None	Company's position correct
S-9899-0054480	Claim Delay	None	Company's position correct
S-0001-0009042	Claim Delay	None	Company's position correct
S-0001-0032989	Claim Denial	None	Company's position correct

Five (5) complaints received by the Company from DOI were examined.

No errors were found.

COMPLAINTS COMPANY RECEIVED FROM CONSUMERS

Company ID No.	Alleged Violation	Violation Found	Comments
MC9360	Cancellation	None	Company's position correct
SG4324	Cancellation	None	Company's position correct
MC12293	Credit Report	None	Company's position correct
SG2099	Claim Delay	None	Company's position correct
MC1093	Claim Delay	None	Company's position correct

Five (5) complaints received by the Company from consumers were reviewed.

No errors were found.

The complaints reviewed for this Company indicate no business practices were in violation of Florida Statutes and Rules.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Homeowners claims reviewed included: theft, liability, wind, water damage and fire. Commercial automobile claims reviewed included: bodily injury, property damage, collision, comprehensive, glass, uninsured motorists, medical payments and personal injury protection (PIP).

Examination Findings

Fifty (50) claims were examined. Thirty (30) were homeowners and twenty (20) were commercial automobile claims.

Four (4) errors were found.

One (1) error resulted in an underpayment totaling \$41.73.

The errors are broken down as follows:

1. Two (2) errors were due to failure to disclose information. This constitutes a violation of Section 627.4137, Florida Statutes. These errors were due to delays in responding to requests to disclose policy information.
2. One (1) error was due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. This error was due to the Company being unable to locate a claim file.
3. One (1) error was due to failure to properly adjust a claim. This constitutes a violation of Section 626.877, Florida Statutes. This error was due to the Company not paying the amount due after application of the deductible. This error resulted in an underpayment totaling \$41.73, which has been paid by the Company.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company does not have or utilize an MGA.

Examination Findings

Thirty (30) applications/policies written during the scope of examination were examined.

Three (3) errors were found.

Two (2) errors resulted in unpaid license fees totaling \$120.00.

The errors are broken down as follows:

1. Two (2) errors were due to the use of unlicensed/unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes. These errors resulted in unpaid license fees totaling \$120.00, which have not been paid by the Company as they were processing the appointment after the examiner's departure.
2. One (1) error was due to failure to properly countersign a policy. This constitutes a violation of Section 624.425, Florida Statutes. This error was due to a policy not being countersigned by a Florida resident agent.

PENDING ISSUES

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

MONETARY ISSUES

1. Agents/MGA Review/Advertising/Marketing
 - a. There were two (2) outstanding appointments totaling \$120.00 in unpaid license fees that were being processed after the examiner's departure.

CORRECTIVE ACTIONS

1. Commercial Automobile
 - a. The Company must establish procedures to ensure that the maximum percentage filed for the various risk characteristics of the Company's schedule rating plan are not exceeded. These procedures should be established within 90 days after receipt of the examination report, with written documentation to the Florida Department of Insurance certifying that corrective action has been taken.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

CORPORATE OFFICERS

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