

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

UNITED SERVICES AUTOMOBILE ASSOCIATION
(USAA GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

United Services Automobile Association is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1996 through December 1999. The Examination began September 5, 2000 and ended October 28, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1995.

The 1995 examination report included the review of private passenger automobile, homeowners, dwelling fire, personal umbrella, inland marine and renter's insurance. Violations cited included the use of unfiled rates, failure to obtain UM selection/rejection forms, use of unfiled forms, failure to provide specific reason for denial, cancellation or nonrenewals, failure to issue written notices of denial of the application and failure to give a specific reason for denials.

The purpose of this target examination was to determine compliance with Florida Statutes and Rules.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1996 through December 1999, 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 this examination, \$768.44 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

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

United Services Automobile Association (USAA) is organized as a reciprocal insurance exchange which began business in June, 1922 as the “United States Army Automobile Insurance Association” with offices at Kelly Field, Texas. The present title was adopted when headquarters were established at Fort Sam Houston, Texas. USAA is licensed in all states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

Subscribers of the exchange (members) are limited to active and former commissioned, non-commissioned, warrant officers of the regular forces and enlisted personnel reserve components of the United States Armed Services and a group, including employees, set out in the bylaws. USAA specializes in writing personal lines property and casualty insurance: private passenger automobile, dwelling fire, homeowners, renters, personal articles floater, boatowners, and personal umbrella. USAA does not have an agency force. Operations are conducted by mail and telephone with policyholders on a direct basis from the Home and Regional Offices. Regional Offices are maintained in Colorado Springs, Colorado; Norfolk, Virginia; Sacramento, California; and Tampa, Florida. The majority of claims are handled through the regional and home office staff, with claims requiring additional handling referred to staff field adjusters. Additionally, USAA launched its Web Site, usaa.com, in March 1999, however, most business is still conducted by mail and telephone.

The USAA Group includes the following companies:

- United Services Automobile Association
- USAA Casualty Insurance Company
- USAA General Indemnity Company
- Garrison Property and Casualty Association

B. MANAGEMENT

USAA computing system environment consists of several mainframes and a network with systems running Windows NT and several forms of Unix. The Security Management Department ensures that industry best practice approaches are employed for all aspects of the computing environment. These controls include security options such as RACF security for the mainframes and native controls for the Windows NT and Unix environments. Workstation controls include password aging and strength testing. Unix system configuration compliance is actively monitored to eliminate potential vulnerabilities. Workstations require password to reconnect to the system after 15 minutes of inactivity. The mainframe session is logged off after 15 minutes of inactivity. Internet connectivity is protected by firewalls that are routinely monitored. A Corporate Information Security Manual is available for employee review through an enterprise-wide Intranet.

USAA has a disaster recovery plan in place with five employees on the disaster recovery team. In lieu of an antifraud plan, USAA has a Special Investigations Unit, in accordance with Section 626.9891 (1), Florida Statutes. A description of the unit and its functions has been placed on file with the Florida Department of Insurance. USAA is subjected to an internal audit of operational areas using a risk-based audit schedule and an annual independent audit by KPMG.

C. OPERATIONS

USAA insures eligible members throughout the State of Florida for private passenger automobile and homeowners insurance

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

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

b. Form Filings

United Services Automobile Association is a member/subscriber 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

The Insurance Service 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>
1997	\$174,224,817	139,122
1998	\$178,990,302	140,819
1999	\$183,073,669	147,153

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

United Services Automobile Association 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

United Services Automobile Association 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.

c. Statistical Affiliation

Insurance Service 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>
1997	\$81,000,884	98,176
1998	\$80,584,212	101,246
1999	\$95,303,194	105,561

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

No errors were found.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Three (3) errors were found.

One (1) error resulted in underpayments totaling 768.44.

The errors are broken down as follows:

1. One (1) error was due to failure to comply with the PIP benefits requirements. This constitutes a violation of Section 627.736, Florida Statutes. This error resulted in underpayments totaling \$768.44, which has been refunded by the Company.
2. One (1) error was due to failure to properly adjust the claim. This constitutes a violation of Section 626.877, Florida Statutes. The company failed to pay the pip claim within the required time frame.
3. One (1) error was due to failure to properly adjust claim within the contract provisions. This constitutes a violation of Rule 4-220.201, Florida Administrative Code.

VIII. COMPLAINTS 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:

A. INFORMAL COMPLAINTS

No errors were found.