

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

UNDERWRITERS GUARANTEE INSURANCE CO.

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Underwriters Guarantee Insurance Company is a domestic insurance company licensed to conduct business in the State of Florida during the scope of this examination, January 1997 through December 1999. This examination began on October 2, 2000 and ended November 15, 2000. The last examination of this insurer by the Florida Department was completed in 1996.

The purpose of this examination was to verify 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 1997 through December 1999, as reflected in the report.

The prior examination, which was completed in 1996, reviewed one hundred (100) private passenger automobile policies and underwriting files. This review resulted in (100) errors due to failure to display the telephone number and its purpose on the policy and seventy- one (71) errors due to the use of an unfiled insurance policy and twenty (20) errors due to failure to show credits and/or surcharges on the Outline of Coverage. Also found were thirteen (13) errors due to failure to follow the filed rating plan. Three (3) errors were due to failure to place the fraud warning on the application and One (1) error was due to failure to follow the filed underwriting rules.

In the Agents/ MGA review, ten (10) applications/policies were examined. Seven (7) errors were due to failure to show the agent's license number on the application and one (1) error was due to the countersigning agent not being a producing agent.

In the Cancellations/Nonrenewals review, twenty five (25) policies were examined. Five (5) errors were due to failure to follow the underwriting rules and three (3) errors were due to failure to provide renewal notices 45 days prior to expiration.

In the Claims review, twenty-seven (27) claims were examined. One (1) error was due to failure to comply with requirements to conduct title searches on third party claims. One (1) error was due to failure to respond to a claimant's request for policy information within thirty days. Three (3) errors were due to a failure to disclose all relevant benefits to a first party claimant. Four (4) errors were due to failure to take into consideration sale tax on a total loss.

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, an amount that is still to be determined, was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

## II. PRE-EXAM REVIEW OF COMPANY'S 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

Underwriters Guarantee Insurance Company was incorporated in 1985 by John and Debbie Ricciardelli. Also in operation as part of the same group is Specialty Claims Adjusters, Inc., operating as an in-house independent adjusting company, Underwriters Financial of Florida Inc., and Specialty Premium Finance Company. All companies are operated from the Home Office, which is located in Miami, Florida.

#### B. MANAGEMENT

The company data processing and information systems staff included an MIS Director, two programmers and two computer operators. Computer hardware consists of an IBM Risc 6000 for the MGA and premium financing processing and AVIION 8500 dual processor for the policy and claims processing. Programming software is System Z, a fourth generation language and UBB-UBL, respectively.

Over 50% of the Company's agents connect on line via modem to access policy and premium finance contract history.

In 1997, the Company began imaging all of the policy and premium financing information.

The company has a written antifraud plan, and suspicious claims are investigated by two outside investigators. All inside adjusters have been trained to be on the alert for fraud indicators using training material provided by the Florida Department of Insurance Fraud Division.

A disaster recovery plan is in place, and the Company has off- site storage of all data. Arrangements have been made to secure replacement equipment within 24 hours should the need arise. Contact has also been made with an independent contractor to assist if the need should arise.

C. OPERATIONS

The Company principally writes nonstandard automobile in Florida, and has recently started writing private passenger automobile in Georgia. In addition, they have added a small Watercraft program and a Business Owners program in Florida. These are both in the start-up phase at the present time.

IV. REVIEW OF POLICIES

A. PRIVATE PASSANGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Underwriters Guarantee Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Underwriters Guarantee Insurance Company independently files rules/rates in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers 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        | \$35,854,478 | 61,430              |
| 1998        | \$18,096,816 | 33,509              |

1999            \$15,075,141            28,481

3.    Exam Findings

One hundred (100) policy files were examined.

Two (2) errors were found.

Errors affecting premium resulted in two (2) undercharges totaling \$73.00.

The errors are broken down as follows:

1.    Two (2) errors were due to failure to follow the filed underwriting plan by not adding the approved policy fee to the premium. These errors resulted in undercharges totaling \$73.00. This constitutes a violation of Section 626.0651, Florida Statutes.

V. AGENTS/MGA REVIEW

Ten (10) 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.

Six (6) errors were found.

Two (2) errors resulted in underpayments that have not been determined.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

- 1 Two (2) errors were due to failure to check for a lien on a third party total loss. This constitutes a violation of Section 627.743, Florida Statutes.
- 2 One (1) error was due to failure to respond to a request for disclosures within thirty days. This constitutes a violation of Section 627.4137, Florida Statutes.
3. One (1) error was due to failure to advise an insured of available benefits as a result of a loss. The loss is a theft of an auto and the item was loss of use. This error resulted in an underpayment which is yet to be determined. This constitutes a violation of Rule 4.166.026, Florida Administrative Code.
4. One (1) error was due to failure to advise an insured of payment of sales tax on a total loss payment. This error resulted in an underpayment which is yet to be determined. This constitutes a violation of Rule 4.166.023, Florida Administrative Code.
5. One (1) error was due to failure to deny a loss in writing. Damage to an auto involved in an accident was considered not to be covered and the insured was not advised in writing of this fact. This constitutes a violation of Rule 1.66.026, 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 not been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Complaint handling procedures are described in Exhibit II.

### A. INFORMAL COMPLAINTS

The company did not have any records of informal complaints received. This constitutes a violation of Section 626.9541, Florida Statutes.

IX. PENDING ISSUES

The following issues found in the Claims Section were were pending at the conclusion of the examination:

1. The Company is directed to readjust a pending claim to determine the amount of underpayment. This amount must be reported to the Department and reported as Unclaimed Property since the insured has moved leaving no forwarding address. See Preliminary Advisory 6, Exhibit III.
2. The Company is directed to contact the claimant and advise them of benefits available under the policy. Written follow-up should be provided with a copy to the Department. See Preliminary Advisory 7, Exhibit IV.

X. EXHIBITS

| <u>SUBJECT</u>             | <u>EXHIBIT NUMBER</u> |
|----------------------------|-----------------------|
| CLAIMS PROCECUDURES MANUAL | I                     |
| COMPLAINT PROCEDURE        | II                    |
| PRELIMINARY ADVISORY 6     | III                   |
| PRELIMINARY ADVISORY 7     | IV                    |