

**2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**WORKMEN'S AUTO INSURANCE COMPANY**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**

**DATE FILED: 7/12/02**



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## **EXECUTIVE SUMMARY**

Workmen's Auto Insurance 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 2001 through February 2002. The examination began February 24, 2002 and ended April 27, 2002. This is the first property and casualty examination of this insurer conducted by the Department of Insurance.

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed against the Company, the Department focused on claims handling delays, unsatisfactory claim settlement offers, the Company's cancellation procedures and the Company's premium calculation procedures. In addition to the above, compliance with Florida Statutes and Administrative Rules was verified.

A total of three hundred thirty-two (332) files were examined resulting in twenty-seven (27) errors. The following represents overall findings; however, specific details are found in each section of the report.

Fifty (50) complaint files were examined resulting in four (4) errors. The errors were due to failure to settle a claim in a timely manner, failure to acknowledge and act promptly upon communications with respect to a claim, failure to disclose information in a timely manner and failure to maintain a complete Complaint Log.

One hundred (100) private passenger automobile policies were examined resulting in six (6) errors. The errors were due to failure to provide safety discounts.

Fifty (50) cancellations and nonrenewals were examined resulting in two (2) errors. The errors were due to failure to provide forty-five (45) days advance notice of cancellation and failure to return premium in a timely manner.

One hundred (100) claim files were examined resulting in four (4) errors. The errors were due to failure to have the adjuster appointed and failure to provide claimant with the Personal Injury Protection Notice of Rights.

Thirty-two (32) files were examined for the agents/MGA/advertising review resulting in eleven (11) errors. The errors were due to failure to have agents appointed.

As a result of the findings of this examination, \$2,715.36 was returned to Florida consumers due to overcharges of premium and underpayments of claims. Also, \$840.00 is to be paid to the Florida Department of Insurance for licensing/appointment fees owed due to failure to have agents appointed. 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**

Workmen's Auto Insurance Company (WAIC) is a California domiciled insurer founded in 1949. WAIC is a corporation with a single stockholder, Nickolas Shammass. The WAIC Corporation has one subsidiary, Workmen's Life Insurance Company, which is domiciled in Arizona and is inactive.

The Company is primarily a writer of non-standard private passenger automobile insurance, operating in sixteen states with California being its dominant market. They were admitted in Florida in 1994 and began writing non-standard automobile in Florida in April 1995. There have been no acquisitions, mergers, or name changes since that time.

The Company's home office is located in Los Angeles, California and the claims function is conducted in a branch office in Maitland, Florida.

The following is a list of the Company's corporate officers:

Robert Sharp	President
G. Whelply	Executive Vice President/Financial Officer
R. Porter	Senior Vice President/Information Services
T. Budlong	Senior Vice President/Underwriting
G. Nevitt	Vice President/Marketing
C. Tillett	Vice President/Operations
M. McDermott	Vice President/Claims

The Company website address is: [www.waic.com](http://www.waic.com)

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company's computer system is an AS/400 applications processing system with Specialty Insurance Services vendor software for processing and accessing policy, claim and billing information.

#### **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 contracting with the firm of William Alvarez & Associates, to provide this service. Dan Alvarez is the contract administrator of the Special Investigation Unit in the home office and Robert Greer is the local investigator in Florida who performs all field investigations on SIU cases.

### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business. The data in the AS400 computer system is backed up nightly and taken off site. The entire system is backed up weekly and maintained by the Iron Mountain Off-site Data Protection storage systems. WAIC has contracted with SunGuard Availability Services to provide facilities for them if their offices are unusable. If a major disaster makes a local office solution impossible, they would use an off site facility in Phoenix.

### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Periodic checks of a random sample of underwriting and claims files are made to check accuracy of rating, claim payments and policy reserving.

### **Privacy Plan**

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. This notice is provided to all new policyholders.

### **Statistical Affiliations**

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

### **Credit Reports**

The Company does not use Credit Reports as an underwriting tool.

## **OPERATIONS/MARKETING**

### **Marketing**

The Company markets its private passenger automobile business throughout the state of Florida. No changes have been made in their Florida operations since they began writing business in the state. They do not advertise or market directly to the public. Its website is an information and productivity resource for WAIC agents, but not for marketing.

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

The Company markets its private passenger automobile business exclusively through independent agents. They do not advertise or market directly to the public. Its website is an information and productivity resource for WAIC agents, but not for marketing.

## **Lines of Business**

During the scope of this examination, the Company wrote private passenger automobile insurance.

## REVIEW OF POLICIES

### PRIVATE PASSENGER AUTOMOBILE

#### Description of Product/Lines of Business

The current examination involved a review of private passenger automobile coverages, including bodily injury liability (BI), property damage liability (PD), personal injury protection (PIP), uninsured motorists (UM), comprehensive, and collision coverage. The Company offered full coverage throughout the State of Florida. The Company does not use tier rating or credit scoring in their underwriting of private passenger automobile.

#### 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>
2001	\$17,894,574	40,788
*2002	4,221,581	8,741

\*as of March 31, 2002

#### Examination Findings

One hundred (100) policy files were examined.

Six (6) errors were found.

Errors affecting premium resulted in six (6) overcharges totaling \$177.00 .

The errors are broken down as follows:

1. Six (6) errors were due to failure to provide safety device discounts. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were due to the Company not giving all of the safety device credits the insured was entitled to. These errors resulted in six (6) overcharges totaling \$177.00, which have been refunded by the Company.

## **CANCELLATIONS/NONRENEWALS REVIEW**

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

On the cancellations and nonrenewals reviewed, WAIC calculated their cancellation return premium at pro-rata if cancelled for nonpayment of premium. Flat cancellation for non-sufficient funds on the original down payment of new business was cancelled in accordance with the Florida Statutes. Notices contained the prescribed language. The form D14-493 was completed and mailed to the Florida Department of Insurance on policies cancelled ab initio.

### **CANCELLATION REVIEW**

Forty (40) cancelled policies were examined.

Two (2) errors were found.

One (1) error resulted in interest due totaling \$3.36 which has been paid by the Company.

The errors are broken down as follows:

1. One (1) error was due to failure to provide forty-five (45) days advance notice of cancellation. This constitutes a violation of Section 627.728, Florida Statutes. This error was due to the Company cancelling a policy providing no advance notice in their cancellation form.
2. One (1) error was due to failure to return premium in a timely manner. This constitutes a violation of Section 627.7283, Florida Statutes. This error was due to the Company not returning the cancellation return premium within thirty (30) days. The insured was due interest on the amount of return premium. This error resulted in interest due totaling \$3.36, which have been paid by the Company.

The one error due to failure to provide forty-five (45) days advance notice of cancellation resulted in the Company checking why this happened in the computer software. The Company discovered a glitch in the program that only showed up if the policy was cancelled on the 60<sup>th</sup> day of coverage. On the 60<sup>th</sup> day only one (1) days notice was given. The Company advised the examiner that this error is being corrected in their system software.

### **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 not been maintained as is required by Section 626.9541(1),(j), Florida Statutes. Procedures for handling these complaints had not been completely established by the Company.

### COMPANY RECEIVED COMPLAINTS

Number	Consumer Services Ref. Number*	Alleged Violation	Violation Found	Comments
1	S-0102-0032152	Claims handling delay	626.9541(i)3.c.	Failure to make a cov decision & promptly settle claim until DOI received a complaint
2	S-0102-0034283	Claims handling delay	None	Co had trouble contacting the claimant but once contacted, payment was expedient and mailed to insured shortly before receiving complain from DOI
3	S-0102-0020231	Claims handling delay	None	Co does not believe insured at fault and has paid insured & subrogating claimants Co. Claimant was told in writing to contact their own Co for coverage.
4	S-0102-0026512	Unsatisfactory settlement offer	None	Settlement offer was fair and paid promptly, then body shop came back four months later wanting a supp of nearly \$4,000 which exceeded the insured's coverage limit, therefore only limits were paid
5	S-0102-0025518	Claims handling delay	None	Co. could not get hold of their insured creating some delay to claimant, but not excessive and Co. ended up using police report to determine liability
6	S-0102-0029550	Unsatisfactory settlement offer	None	Claimant agreed to settlement of 70% of value due to contributing negligence & Co handled claim properly
7	S-0102-0030759	Adjuster won't return phone calls	None	Adjuster's diary reveals that claimant contacted in several instances and nothing found wrong in claim handling
8	S-0102-0029021	Adjuster won't return phone calls	None	Adjuster's diary reveals that claimant contacted in several instances and nothing found wrong in claim handling
9	S-0102-0020308	Claims handling delay	None	Sent certified letter to claimant in timely fashion explaining the insured's policy had been canc prior to accident and no PD cov
10	S-0102-0023088	Claims handling delay	None	Billing appeared to be altered and advised DOI on 11/14/01 that they were waiting for a call to be returned from tree service to verify cost. PD loss paid of 11/26/01
11	S-0102-0024452	Cancellation Issue	None	Consumer didn't know why canc. & Co. provided DOI with copy of canc notice and payment history
12	S-0102-0018377	Claims handling delay	None	Insured had already signed and release and was paid, then Co worked out the settlement with the glass place and paid it after receiving signed release
13	S-0102-0013169	Premium Issue	None	Premium increase was due a rate increase filed with DOI
14	S-0102-0013728	Claim handling delay	None	Co. records show they have made numerous written and phone attempts to reach insured before making contact. Other party at fault, so Co paid insured's damages and are in subrogation with at fault party
15	S-0102-0022104	Claim handling delay	None	Adjuster's diary reveals that claimant contacted in several instances and nothing found wrong in claim handling
16	S-0102-0015436	Premium Issue	None	Premium increase was due a rate increase filed with DOI
17	S-0102-0018519	Claim handling delay	None	Money to plaintiff's attorney and complaint crossed in the mail.
18	S-0102-0012046	Claim handling inquiry	None	Co. couldn't find a policy for insured but has worked with agent and issued a policy and handled the claim
19	S-0102-0013784	Claim handling delay	None	File was misplaced for a few days but Co. found error and was processing claim prior to receiving DOI complaint

20	S-0102-0013049	Claim handling delay	None	Co. was having trouble contacting their insured so finally settled claim using police report prior to receiving DOI complaint.
21	S-0102-0010291	Premium Issue	None	Co. didn't have any evidence that they ever insured this individual
22	S-0102-0010961	Claim Issue	627.4137	Failure to disclose information in a timely manner
23	S-0102-0008779	Cancellation/nonrenewal	None	Insured did not understand why he was cancelled and Co. provided proof of nonpayment
24	S-0102-0013049	Claim handling delay		Co. was having trouble contacting their insured so finally settled claim using police report prior to receiving DOI complaint.
25	S-0001-0068052	Coverage Question	None	Insured had two policies with two companies and several vehicles, not all same vehicles on each policy. Co.'s sorted it out between the two of them and made appropriate corrections
26	S-0102-0008404	Claims handling delay	None	Insured's policy was cancelled prior to the accident and Co. had already sent ROR letter to claimant in a timely fashion advising they were investigating the loss
27	S-0102-0004390	Claims handling delay	None	Wrong Company. Complaint sent to this Co. in error
28	S-0102-0001121	Cancellation/nonrenewal	None	Insured did not understand why he was cancelled and Co. provided proof of nonpayment
29	S-0102-0000311	Claims handling delay	None	Consumer was paid within 5 days of Company receiving repair estimate on auto damage
30	S-0102-0002002	Claims handling delay	None	There was conflict about who was at fault so each Co. paid their own insured then negotiated percentage of fault between themselves
31	S-0001-0068052	Cancellation/nonrenewal	None	Co. cancelled for non-pay, in meantime insured procured other insurance & didn't advise Workmen's he no longer wanted coverage. Co. advised they will correct cancellation with proof of duplicate coverage.
32	S-0001-0056716	Claim denial	None	Insured was not operating a motor vehicle but rather a 4-wheel off-road vehicle which is not covered as an auto
33	S-0001-0056716	Claim Issue	None	Attorney claimed failure to forward disclosure information however Co. has done so in the required time frame
34	S-0001-0066834	Cancellation/nonrenewal	None	Insured's advised Co. cancelled for non-pay but payments had been made. In accordance with Co. records Co. correctly cancelled the policy for non-pay.
35	S-0001-0050683	Claim Denial		Policy was non-renewed by insured five months prior to accident date
36	S-0001-0059811	Claim Denial	None	Health Care provider is trying to collect for bills for treatment for a 6/99 claim and policy for patient has been inactive since 2/98
37	S-0001-0055360	Claim handling delay	626.9541(i)3.c.	Failure to acknowledge and act promptly upon communications with respect to the claim
38	Chapin	Claim handling delay	None	Appears Co. not liable for this BI claim, claimant refuses to submit to IME and so far treatments costs do not exceed own available med. pay. limits
39	S-0001-0050159	Coverage Question	None	Computer glitch in Agent's office was cause of Co. not receiving end. request and Co. has now handled the problem.
40	S-0001-0031463	Cancellation/nonrenewal	None	Trailer wasn't covered as insured had owned for more than 30 days and had never reported it to Co.
41	S-0001-0008452	Claim Settlement Question	None	Complainant questioned if death benefit had been paid for deceased's 3 children and it had three months earlier been paid to the estate
42	S-0001-0030441	Cancellation/nonrenewal	None	Consumer advised car totaled and why didn't company cancel. Canc had never been requested, but Co. has since cancelled and returned prem. to the insured.
43	9201	Claim denial	None	Insured wanting to collect UIM cov. however at fault carrier had not exhausted their BI limits so Co. is correct in denial
44	S-0001-0031463	Claim denial	None	Co. cannot find the name Clifton L. Rose in their database and do not believe it to be their insured.
45	S-0102-0042160	Claim handling delay	None	Adjuster talked with claimant on several occasions and claim handled properly
46	S-0102-0039186	Claim handling delay	None	Adjuster talked with claimant on several occasions and claim handled properly

47	S-0102-0039579	Claim handling delay	None	Auto involved in accident not listed on policy, insured stated they reported it, Company is investigating facts & keeping in contact with insured
48	S-0102-0035901	Claim handling delay	None	Auto involved in accident not listed on policy, insured stated they reported it, Company is investigating facts & keeping in contact with insured
49	S-0102-0037081	Claim handling delay	None	Adjuster talked with claimant on several occasions and claim handled properly
50	S-0102-0037703	Claim handling delay	None	Adjuster talked with claimant on several occasions and claim handled properly

### **Examination Findings**

Fifty (50) policy files were examined.

Four (4) errors were found.

An error affecting payment resulted in one (1) underpaid claim totaling \$2,535.00 which has been paid by the Company.

The errors are broken down as follows:

1. One (1) error was due to failure to settle claim in a timely manner. This constitutes a violation of Rule 4-166.024, Administrative Code. This error was due to the Company not handling the settlement of this claim in a timely manner. The Company had denied the claim until receiving the Department of Insurance complaint letter. The Company reevaluated the claim and determined they would pay the claim. This claim was still open when the examiner arrived for examination, but this claim has now been settled, resulting in one (1) underpayment totaling \$2,535.00, which has been paid by the Company.
2. One (1) error was due to failure to disclose information in a timely manner. This constitutes a violation of Section 627.4137, Florida Statutes. Disclosure information was not sent to the insured's attorney within thirty (30) days of the written request to do so. The claim has now been concluded.
3. One (1) error was due to failure to acknowledge and act promptly upon communications with respect to the claim. This constitutes a violation of Section 626.9541, Florida Statutes. This error was due to the Company's repeated delays in the claim handling. The claim has now been concluded.
4. One (1) error was due to failure to maintain a complete log. This constitutes a violation of Section 626.9541(1)(j), Florida Statutes. This error was due to the Company not maintaining a log of company received complaints. The Company has now established a complaint log containing both Department of Insurance complaints and company received complaints.

## **CLAIMS REVIEW**

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

A review of claims made under private passenger automobile insurance policies during the scope of the examination included the following types of coverage: bodily injury liability, property damage liability, medical payments, personal injury protection benefits, comprehensive and collision.

#### **Examination Findings**

Fifty (50) claims were examined. Six (6) claims were bodily injury liability. Eleven (11) claims were property damage liability. One (1) claim was medical payments. Six (6) claims were personal injury protection. Eleven (11) claims were comprehensive. Fifteen (15) claims were collision.

Four (4) errors were found.

The errors are broken down as follows:

1. Three (3) errors were due to failure to have adjusters appointed. This constitutes a violation of Section 626.112, Florida Statutes. These errors were due to the Company not appointing three employees during the scope of the examination that are no longer employed at the Company. These errors resulted in lost revenue due to the Florida Department of Insurance totaling \$180.00.
2. One (1) error was due to failure to follow Personal Injury Protection requirements. This constitutes a violation of Section 627.7401, Florida Statutes. This error was due to failure to provide the insured with Personal Injury Protection Notice of Rights.

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

The examination included the review of claims made under private passenger automobile insurance policies to determine if independent medical examinations were properly handled.

#### **Examination Findings**

Fifty (50) claims were examined.

No errors were found.

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

### **DESCRIPTION OF MGA ARRANGEMENTS**

WAIC does not utilize a Managing General Agency.

The Company uses licensed and appointed independent agents to produce private passenger automobile business throughout the State of Florida.

### **Examination Findings**

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

Twenty (20) agencies were examined.

Eleven (11) errors were found.

The errors are broken down as follows:

1. Eleven (11) errors were due to failure to have agent appointed. This constitutes a violation of Section 626.112, Florida Statutes. These errors were due to failure of the Company to appoint all general lines agents within an agency, when the agency has produced premiums in excess of \$25,000.00 during the calendar year. These errors resulted in lost revenue due to the Florida Department of Insurance totaling \$660.00. See Pending Issues Section.

All licensed agents within an agency which had written premiums in excess of \$25,000, in a calendar year, were not always appointed. The examiner provided the Company with the statute that advises the Company must have all licensed agents in the agency appointed. The Company advised the examiner that they would review all of their agencies and agents to determine who should be appointed.

## **PENDING ISSUES**

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

### **MONETARY ISSUES**

Agents – The Company failed to appoint all general lines agents within an agency, in addition to the originally appointed primary agent, when the agency produced premiums in excess of \$25,000.00 during the calendar year. The Company has been requested to appoint all general lines agents employed within an agency that produces premiums in excess of \$25,000.00 per year. The Company owes an estimated \$840.00 to the Department of Insurance for past agent appointment fees. The Company was requested to have this issue resolved and reply to the Department of Insurance within 90 days of receipt of the examination report.