

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

ACE AMERICAN INSURANCE COMPANY

formerly Cigna Insurance Company

ACE USA

BY

THE FLORIDA DEPARTMENT OF INSURANCE

File Date 12/13/01

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I. INTRODUCTION

Ace American Insurance Company (formerly Cigna Insurance Company) 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 1998. This examination began October 10, 1999 and ended January 1, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1994.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, and claims for the period of January 1996 through December 1998, 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, \$368.00 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. Error Percentages

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. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings:

Cigna Insurance Company is a member of Insurance Service Offices and as such ISO is authorized to file rules on the Company's behalf in accordance with Section 627.062, Florida Statutes. The Company independently files rates. In addition, the Company does make some independent filings.

b. Form Filings:

Cigna Insurance Company is a member of Insurance Service Offices (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

Insurance Service Offices 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>
1996	\$1,145,602	2598
1997	\$ 656,098	1709
1998	\$ 130,783	1602

3. Exam Findings

Fifty (50) policy files were examined.

Twelve (12) errors were found.

None of the errors affected the premium.

The errors are broken down as follows:

1. Eleven (11) errors were due to failure to provide timely written notice to new and renewal business prior to 4/1/96 offering a separate wind or hurricane deductible and advising deductible to be applied if policyholder failed to choose. New policies issued from 4/1/96 to 10/1/96 and renewals issued from 4/1/96 to 11/21/96 constitutes a violation of Section 627.701, Florida Statutes.

2. One (1) error was due to failure to maintain and provide records for force-placed business written by a financial institution in California.
This constitutes a violation of Section 624.318 Florida Statutes.

B. COMMERCIAL MULTI PERIL

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings:

Cigna Insurance Company is a service purchaser of Insurance Service Offices (ISO) and as such independently files ISO rules/loss cost in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings:

Cigna Insurance Company is a service purchaser of Insurance Service Offices (ISO) and as such files ISO forms in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

Insurance Service Offices 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>
1996	\$2,582,244	795
1997	\$2,847,625	858
1998	\$ 514,208	898

3. Exam Findings

Fifty (50) policy files were examined.

Eleven (11) errors were found.

Errors affecting premium resulted in five (5) overcharges totaling \$368 and two (2) undercharges totaling \$1,167.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to follow filed rating plan. These errors resulted in overcharges totaling \$333, which have been refunded by the Company. Two (2) errors resulted in undercharges totaling \$1,167.00 and the remaining errors did not effect premium. This constitutes a violation of Section 627.062, Florida Statutes.
2. Three (3) errors were due to failure to document or substantiate debits and credits. These errors resulted in overcharges totaling \$35, which have been refunded by the Company. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.

IV. AGENTS/MGA REVIEW

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

No errors were found.

V. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

No errors were found.

VI. CLAIMS REVIEW

Fifty (50) claims were examined.

Two (2) errors were found.

None of the errors affected the payments.

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

The errors are broken down as follows:

1. One (1) error was due to failure to document files. System indicates a denial letter was sent; however, hard copy of file failed to contain copy of letter for verification of compliance with Florida Administrative Rule 4-166.026(1). This constitutes a violation of Section 624.318, Florida Statutes
2. One (1) error was due to failure to communicate timely. File was received 4/2/97 and contact was not made until four months later 8/22/97. This constitutes a violation of Rule 4-166.024, Florida Statutes.

VII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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Claims Procedures

I

IN THE MATTER OF:
01-CO

CASE NO.: 40845-

ACE AMERICAN INSURANCE COMPANY

2000 Property and Casualty Target Market
Conduct Examination

CONSENT ORDER

THIS CAUSE came on for consideration as the result of an agreement between **ACE AMERICAN INSURANCE COMPANY**, hereinafter referred to as **ACE AMERICAN** and the **FLORIDA DEPARTMENT OF INSURANCE**, hereinafter, referred to as the **DEPARTMENT**. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the Treasurer and Insurance Commissioner, as head of the **FLORIDA DEPARTMENT OF INSURANCE**, hereby finds as follows:

1. The Treasurer and Insurance Commissioner, as head of the **DEPARTMENT**, has jurisdiction over the subject matter of, and parties to, this proceeding.

2. **ACE AMERICAN** is a foreign property and casualty insurer authorized to transact insurance business in Florida and is subject to the jurisdiction and regulation of the **DEPARTMENT** pursuant to the Florida Insurance Code.

3. The **DEPARTMENT** conducted a property and casualty target market conduct examination of **ACE AMERICAN** covering the period of January 1996 through December 1998, pursuant to Section 624.3161, Florida Statutes. As a result of such

examination, the **DEPARTMENT** determined that **ACE AMERICAN** committed the following violations of the Florida Insurance Code or Florida Administrative Code as outlined in total in the Fine Worksheet provided with the Report of Examination Findings. A partial listing of the citations noted on the Fine Worksheet includes but is not limited to:

a. **Homeowners**

1. Section 627.701, F.S., Failure to Attach Hurricane Deductible Notice.
2. Section 627.318, F.S., Failure to Maintain Records.

b. Commercial Multi-Peril

1. Section 627.062, F.S., Failure to Follow Filed Rate, Rating Schedule or Rating Rule.
2. Rule 4-170.004, Failure to Document/Substantiate Debit/Credit.

c. Claims

1. Section 627.318, F.S., Failure to Maintain Records.
2. Rule 4-166.024, Failure to Communicate Timely.

4. The **DEPARTMENT** and **ACE AMERICAN** expressly waive a hearing in this matter and the making of Findings of Fact and Conclusions of Law by the **DEPARTMENT** and all further and other proceedings herein to which the parties may be entitled by law. **ACE AMERICAN** hereby knowingly and voluntarily waives the rights to challenge or to contest this Order, in any forum now available to it, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

5. For each violation noted in Paragraph 3, which was not corrected during the examination and verification provided to the **DEPARTMENT, ACE AMERICAN** shall provide written documentation to the **DEPARTMENT** no later than November 15, 2001, detailing the corrective action taken in order to comply with Florida Statutes for each of the remaining violations noted in Paragraph 3. All pending refunds shall be completed within 60 days of the execution of the Consent Order and documentation provided to the department.

6. **ACE AMERICAN** agrees that upon the execution of this Consent Order it shall be subject to the following terms and conditions:

(a) **ACE AMERICAN** shall pay an administrative penalty of \$1,200 and administrative costs of \$300 on or before the 30th day after this Consent Order is executed.

(b) **ACE AMERICAN** shall henceforth comply with all of the provisions of the Florida Insurance Code and Florida Administrative Code, and will implement the recommendations contained in this report within 90 days after execution of Consent Order.

(c) **ACE AMERICAN** is hereby placed on notice of the requirements of the above referenced sections of law and agrees that any future violations of these sections by **ACE AMERICAN** may be deemed willful, subjecting **ACE AMERICAN** to appropriate penalties.

7. **ACE AMERICAN** agrees that the failure to adhere to one or more of the above terms and conditions of this Order

shall constitute a violation of a lawful order of the **DEPARTMENT**, and shall subject **ACE AMERICAN** to such administrative action as the Treasurer and Insurance Commissioner may deem appropriate.

8. Except as noted above, each party to this action shall bear its own costs and attorney's fees.

9. **THEREFORE**, the agreement between **ACE AMERICAN INSURANCE COMPANY** and the **DEPARTMENT**, the terms and conditions of that are set forth above, is approved.

FURTHER, all terms and conditions above are hereby **ORDERED**.

DONE AND ORDERED this ____ day of _____,

KEVIN MCCARTY
DEPUTY INSURANCE

By execution hereof **ACE AMERICAN INSURANCE COMPANY** consents to entry of this Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. I am authorized to execute this document.

ACE AMERICAN INSURANCE COMPANY

By: _____

Title: _____

Date: _____

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