

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

ALLMERICA FINANCIAL BENEFIT INSURANCE COMPANY

(ALLMERICA FINANCIAL CORPORATION)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

File Date: 4/10/02

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I. INTRODUCTION

Allmerica Financial Benefit Insurance 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, January 1999 through May 2001. The exam began July 1, 2001 and ended August 18, 2001. This is the first property and casualty market conduct examination of this insurer, by the Florida Department of Insurance.

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

During this examination, records reviewed included private passenger automobile policies, cancellations/nonrenewals, agent licensing, claims and consumer complaints for the period of January 1999 through May 2001, 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.

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

Allmerica Financial Benefit Insurance Company was incorporated June 4, 1976 as American Excel Insurance Company. In April 1991, Reliance Insurance Company purchased the insolvent American Excel Insurance Company and renamed it Firemark Insurance Company. The Hanover Insurance Company acquired Firemark Insurance Company on January 17, 1996 and the Company was titled Allmerica Financial Benefit Insurance Company on February 22, 1996.

Allmerica Financial Benefit Insurance Company is a wholly owned subsidiary of The Hanover Insurance Company, which is a wholly owned subsidiary of Allmerica Asset Management, Inc., which is a wholly owned subsidiary of Allmerica Financial Corporation.

The Company's home office is located at Worcester, Massachusetts. The Company markets business through independent agents as well as through representatives located in the Company's Atlanta Client Center.

Underwriting and Claims processing are handled in the Atlanta, Georgia regional office.

The Company's website address is www.allmerica.com.

B. MANAGEMENT

1. Company Computer System

All personal lines policy processing is done on the Policy Management System (V.4). This is a legacy mainframe application that also includes various sub-systems for policy billing and claims. The Company's network is password protected and users are restricted as to their capabilities and position in the Company. Procedures exist to ensure proper management and rotation of tapes used in storing backup data.

2. Anti-Fraud Plan

Allmerica Financial Benefit Insurance Company has established the Protect the Corporate Asset Process (PCA) as their Anti-Fraud Plan. The purpose of PCA is to act as the investigative support function to identify, investigate and resolve suspicious and fraudulent insurance practices. The Anti-Fraud Plan has been filed with the Florida Division of Insurance Fraud in compliance with Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

A Disaster Recovery Plan provides for immediate response and subsequent recovery from any unplanned services interruption. The Plan documents the strategies, resources and procedures to be used to respond to any short or long-term interruption to its essential business functions.

4. Internal Audit Plan

The Internal Audit Plan is in place as an independent appraisal that annually reviews the financial, operational, compliance and information systems activities for the Company. Written reports of audit findings are furnished to the Committee on Audit and such levels of management as may be necessary to effect remedial action.

5. Privacy Plan – 4ER01

The Company has developed a method to comply with the requirements of

Emergency Rule 4ER01.

C. OPERATIONS

Allmerica Financial Benefit Insurance Company writes private passenger automobile insurance on groups. They are in compliance with the requirements of Mass Merchandising. The Company's primary focus is on employee groups throughout Florida. Group accounts are generally referred to the Company through agent or broker relationships.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allmerica Financial Benefit Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Allmerica Financial Benefit Insurance Company 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. In addition, the Company does make some independent filings.

c. Statistical Affiliation

(ISO) 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>
1999	*\$ 716,887	819
2000	\$3,317,379	3,315
2001	**\$2,530,968	3,499

The growth from 1999 to 2000 was due to converting a large group of Policyholders from Hanover.

**2001 figures as of 3/30/01

3. Exam Findings

One hundred (100) policy files were examined.

One hundred Twenty (120) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. One hundred (100) errors were due to failure to obtain Personal Injury Protection Selection Forms as required by Florida Statutes. This constitutes a violation of Section 627.739, Florida Statutes.

2. Twenty (20) errors were due to failure to obtain Uninsured Motorists Selection Forms as required by Florida Statutes. This constitutes a violation of Section 627.727, Florida Statutes.

The Company has been advised to obtain the two above mentioned selection forms on every policy as it comes up for renewal, in addition to all new business written. See Exhibit I.

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.

Three (3) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Three (3) errors were due to failure to provide proof of mailing on cancellation notices. This constitutes a violation of Section 627,728, Florida Statutes.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Two (2) errors were found.

None of the errors affected payments.

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

The errors are broken down as follows:

1. Two (2) errors were due to failure to disclose information in a timely manner. This constitutes a violation of Section 627.4137, Florida Statutes.

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. Complaint handling procedures are described in Exhibit III.

Company received complaints received during the scope of examination were reviewed and findings are as follows:

A. INFORMAL COMPLAINTS

There were no consumer complaints during the scope of the examination to review.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
SELECTION FORM MEMORANDUM	I
COMPLAINT HANDLING PROCEDURES	II
CLAIMS HANDLING PROCEDURES	III