

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

ALLSTATE INSURANCE COMPANY  
(THE ALLSTATE CORPORATION)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

Filed 12/21/01

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## I. INTRODUCTION

Allstate 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, January 1996 through December 1998. The examination began March 13, 2000 and ended June 30, 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, claims and consumer complaints 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.

## II. PRE-EXAM REVIEW

### 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. PRIVATE PASSENGER AUTOMOBILE

##### 1. Application of Rules, Rates and Forms

###### a. Rate/Rule Filings

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

###### b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

###### c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$811,623,438	6,663,889
1997	\$802,193,428	6,764,244
1998	\$401,840,398	3,379,727

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Fifty (50) policy files were examined. The review did not encompass the proper placement of risks based upon eligibility requirements.

No errors were found.

Driver classifications of the policies reviewed fell into the following categories:

- 1- Married males and married females 25 to 70 years of age = 47 policies (94%)
- 2- Single males and single females 16 to 20 years of age = 0 policies
- 3- Single males 21 to 24 years of age = 0 policies
- 4- Single females 21 to 24 years of age = 1 policy (2%)
- 5- Married males 16 to 24 years of age = 0 policies
- 6- Males or females over age 70 years = 2 policies (4%)

Of the fifty (50) policies and underwriting files reviewed, four (4) or eight percent (8%), were surcharged for violations and/or accidents. Principal locations for garaging in Florida fell into thirty-eight (38) different cities. The spread of risks covered the entire State of Florida, with the exception of Miami and Pensacola, where no risks were found.

B. COMMERCIAL AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$33,755,523	24,280
1997	\$32,513,230	23,956
1998	\$16,969,690	13,158

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Fifty (50) policy files were examined.

Three (3) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Three (3) errors were due to failure to offer/obtain/maintain a signed Uninsured Motorist acceptance/rejection form. This constitutes a violation of Section 627.727, Florida Statutes.

C. BUSINESS PACKAGE POLICY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$47,372,621	77,410
1997	\$36,914,515	34,878
1998	\$22,251,583	17,785

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Forty (40) policy files were examined.

No errors were found.

D. FIDELITY AND SURETY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$72,811	379
1997	\$67,943	422
1998	\$30,060	263

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Twenty-seven (27) policy files were examined.

No errors were found.

E. BURGLARY AND THEFT

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$332	1,264
1997	(\$2,886)	1,406
1998	(\$137)	878

The Florida Insurance Fund Hurricane Andrew Bond Program assessments and recoupments from 1993-1997 were being coded to direct and ceded premium in error. As a result, the Company incurred taxes and other overhead expenses on these amounts, which it should not have incurred. The adjustment to accurately reflect, on a cumulative basis, the 1993-1997 years assessments/recoupments, was made to the 1997 financials.

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Twenty-seven (27) policy files were examined.

No errors were found.

F. FIRE AND ALLIED LINES

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$60,383,032	32,092
1997	(\$13,429,277)	4,061
1998	\$114,046	2,756

The Florida Insurance Fund Hurricane Andrew Bond Program assessments and recoupments from 1993-1997 were being coded to direct and ceded premium in error. As a result, Allstate Insurance Company incurred taxes and other overhead expenses on these amounts, which it should not have incurred. The adjustment to accurately reflect, on a cumulative basis, the 1993-1997 years assessments/recoupments, was made to the year 1997 financials.

The Florida Windstorm Underwriting Association changed from a partnership to a corporation. The regulation changed resulting in the member companies no longer sharing in the profits of the Florida Windstorm Underwriting Association. A gross write-off to account, due to the FWUA's change in status, was processed in December of 1997 which impacted DPW for Allied Lines by (\$25,675,674).

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Forty (40) policy files were examined.

No errors were found.

G. INLAND MARINE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$11,218,800	116,089
1997	(\$793,483)	3,162
1998	\$202,811	1,991

The Florida Insurance Fund Hurricane Andrew Bond Program assessments and recoupments from 1993-1997 were being coded to direct and ceded premium in error. As a result, Allstate Insurance Company incurred taxes and other overhead expenses on these amounts, which it should not have incurred. The adjustment to accurately reflect, on a cumulative basis, the 1993-1997 years assessments/recoupments, was made to the year 1997 financials.

The direct premium written and in-force policy counts for 1998 only represents six months.

3. Exam Findings

Twenty-five (25) policy files were examined.

No errors were found.

H. OTHER LIABILITY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Allstate Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$4,119,685	21,587
1997	\$3,660,600	2,121
1998	\$2,169,704	2,355

The decrease in policy count in 1997 was due to the boatowners program, which was included under other liability in 1996, being re-written in another Allstate company. This line of business only represented a small amount of premium written in contrast to the policy counts.

The direct premium written and policy counts for 1998 represents six months.

3. Exam Findings

Forty (40) policy files were examined.

No errors were found.

IV. AGENTS/MGA REVIEW

Thirty (30) 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.

One (1) error was found.

The error did not affect premium calculation.

The error is described as follows:

1. One (1) error was due to failure to give the specific reason for cancellation on the cancellation notice. This constitutes a violation of Section 627.4091, Florida Statutes.

## VI. CLAIMS REVIEW

Fifty (50) claims were examined.

Three (3) errors were found.

None of the errors affected payments.

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 use licensed company claims adjusters and/or use of unlicensed claims adjusters to adjust claims. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to failure to respond to a request for disclosure of policy information within 30 days. This constitutes a violation of Section 627.4137, Florida Statutes.

## VII. IME REVIEW

### A. GENERAL COMMENTS

This review was conducted for the purpose of obtaining information pertaining to processing of PIP medical claims using chiropractors and other licensed physicians sent for peer/paper review and/or independent medical examination review, as well as assess the proper handling of such claims by the Company. The review was limited to a review of information contained within the claim files.

### B. EXAM FINDINGS

Eighteen (18) files were reviewed. Of these files, ten (10) utilized IME's, seven (7) utilized paper reviews, nine (9) involved chiropractic physicians, seven (7) involved medical doctors, and six (6) files involved a second injury (pre or post accident). No files involved allegations of fraud. Three (3) were bodily injury litigation files.

### C. SUMMARY OF FINDINGS

Of the ten (10) IME reviews, eight (8) of the examining doctors agreed with the treatment; two determined that some part of the treatment was not needed or that further treatment was unnecessary, however, the Company advised the claimants to send in any further bills for consideration.

Of the seven (7) paper reviews, five (5) were denied as being unnecessary based on the paper reviews.

The three (3) reviews from the bodily injury litigation files were handled in the same manner as non-BI files. In each case, the defense attorney arranged the IME.

## 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 II.

Twenty-six (26) complaints were reviewed.

No violations were found.

Below is a list of complaints:

<u>CONSUMER</u>	<u>COMPLAINT NUMBER</u>	<u>VIOLATION</u>
Ryan	1092	None
Martin	990	None
Dey	864	None
Vecchione	849	None
Schulte	841	None
Fulfree	322	None
Newport	1130	None
Miller	1134	None
Lorch	1156	None
Addington	1187	None
Carichael	1201	None
Lynch	1032	None
Collins	1044	None
Riggins	1045	None
Herold	1053	None
Green	1054	None
Edgecomb	1055	None
Knotts	1088	None

Daniels	1110	None
Kimble	1129	None
Junkin	1031	None
Susz	945	None
Shone	940	None
Mendelson	S-9596-72650	None
Ramirez	S-9900-0037371	None
Webb	S-9900-0022050	None

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS HANDLING PROCEDURES	I
COMPLAINTS HANDLING PROCEDURES	II