

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN AMBASSADOR CASUALTY COMPANY  
(LIBERTY MUTUAL INSURANCE COMPANY)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 6/21/02

## TABLE OF CONTENTS

| <u>PART NUMBER</u> | <u>SUBJECT</u>                      | <u>PAGE NUMBER</u> |
|--------------------|-------------------------------------|--------------------|
| I.                 | INTRODUCTION                        | 1                  |
| II.                | PRE-EXAM REVIEW OF COMPANY WRITINGS | 3                  |
| III.               | COMPANY OPERATIONS/MANAGEMENT       | 4                  |
| IV.                | REVIEW OF POLICIES                  |                    |
| A.                 | PRIVATE PASSENGER AUTOMOBILE        | 7                  |
| V.                 | AGENTS/MGA REVIEW                   | 10                 |
| VI.                | CANCELLATIONS/NONRENEWALS REVIEW    | 11                 |
| VII.               | CLAIMS REVIEW                       | 12                 |
| VIII.              | COMPLAINTS REVIEW                   | 13                 |
| IX.                | EXHIBITS                            | 15                 |

## I. INTRODUCTION

American Ambassador Casualty 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 1999 through June 2001. The examination began August 17, 2001 and ended October 6, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was completed on September 5, 1997.

The prior examination included the review of private passenger automobile insurance. Violations cited included failure to follow filed rates, rating schedules, rating rules or underwriting guidelines and failure to provide timely notice of renewals, nonrenewals or cancellations.

The purpose of this target 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 1999 through June 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 requested 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 of this examination, \$232,702.68 was returned to Florida consumers due to overcharges of premium.

## II. PRE-EXAM REVIEW OF COMPANY 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 the 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

American Ambassador Casualty Company is a wholly-owned subsidiary of Liberty Mutual Insurance Company. American Ambassador Casualty Company was originally incorporated in the State of Illinois on August 19, 1963, as Ambassador Mutual Insurance Company. On September 1, 1969, Ambassador Mutual Insurance Company merged with Ambassador Insurance Company, and on May 23, 1980, the Company name was changed to American Ambassador Casualty Company. American Ambassador Casualty Company is owned by Atlas Assurance Company of America.

The Company uses only staff adjusters in its home office to handle claims. Appraisals are conducted by outside appraisal firms as needed.

The Company's home office is located at 1100 Arlington Heights Road, Suite 300, Itasca, IL. The Company has a regional office located at 350 E. 96<sup>th</sup> Street, Indianapolis, IN. There are no branch offices.

#### B. MANAGEMENT

##### 1. Company Computer System

The Company utilizes an AS400 server, which allows employees to process new business applications and endorsements and access policy information to handle customer service needs. Other independent systems are used to access internal e-mail and administrative systems.

2. Anti-Fraud Plan

The Company has a designated Special Investigation Unit to identify and investigate cases of suspected fraud. The Special Investigation Unit is also responsible for training claims and underwriting personnel in the detection of suspicious and fraudulent claims and for maintaining a database of information on such claims. The Special Investigation Unit files referral forms with the National Insurance Crime Bureau and the Florida Division of Insurance Fraud. The Company has filed a detailed description of its Special Investigation Unit with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Company has formulated a Disaster Recovery Plan, which details the strategies, procedures and resources to be used to respond to any type of business interruption.

The Plan highlights and coordinates the issues and steps to be taken if a disaster of any type impacts the Company.

4. Internal Audit Plan

The Company's internal operational and financial audits are handled by Liberty Mutual Corporate Internal Audit (CIA) and are scheduled annually. CIA also coordinates its audit plan with Ernst & Young, external auditors for Liberty Mutual Insurance Company.

5. Privacy Plan-4ER01

The Company has complied with the requirements of Emergency Rule 4ER01 by including a notice with all policies advising insureds of their privacy rights.

C. OPERATIONS

The Company specializes in and markets non-standard automobile insurance coverages in the State of Florida through two separate programs, the Metro and the Non-Metro. The Metro Program is used in Dade, Broward and Palm Beach Counties. The Non-Metro Program is used in the remainder of the state. Marketing is handled solely through independent insurance agents. In February 2001, the Company ceased accepting new business applications throughout the State of Florida and, in addition, suspended binding authority for any added, increased or broadened coverages on existing in-force policies. Policies in the Company's Non-Metro Program are being non-renewed, and agency contracts for this program have been terminated. The Company is continuing to renew policies in the Metro Program but has no plans in the immediate future to accept any new business.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

American Ambassador Casualty Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

American Ambassador Casualty Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Services 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        | \$ 7,099,625 | 13,423              |
| 2000        | \$25,181,239 | 36,580              |
| 2001        | \$ 8,786,786 | 15,733              |

The premiums and policy count for 2001 reflect only the policies written through June 2001.

The increase in premium and policy count from 1999 to 2000 was due to an aggressive marketing campaign to produce new business. The decrease in the premium and policy count from 2000 to 2001 was due to the Company's decision to stop writing new business effective February 2001. This decision was made due to an adverse loss ratio.

3. Exam Findings

One hundred (100) policy files were examined.

Thirty-three (33) errors were found.

Errors affecting premium resulted in sixteen (16) overcharges totaling \$1,374.38.

The errors are broken down as follows:

1. Thirty-three (33) errors were due to failure to provide safety device discounts. This constitutes a violation of Section 627.0653, Florida Statutes. Nine (9) errors were due to failure to apply safety device discounts to vehicles equipped with one or more factory-installed airbags. Twenty-four (24) errors were due to failure to apply safety device discounts to vehicles equipped with factory-installed anti-lock brake systems. These errors resulted in overcharges totaling \$1,374.38, which have been returned to the policyholders.

The Company was requested to and did re-rate all policies issued during the scope of the examination, January 1, 1999 through June 30, 2001 and to apply statutorily required safety device discounts to all qualified vehicles. Exhibit I.

V. AGENTS/MGA REVIEW

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

Two (2) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Two (2) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes. These agents no longer represent the Company.

## VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Thirteen (13) errors were found.

Two (2) errors resulted in underreturns totaling \$140.91.

The errors are broken down as follows:

1. Eleven (11) errors were due to failure to comply with the return of unearned premium requirements. This constitutes a violation of Section 627.7283, Florida Statutes. The Company failed to return unearned premiums on canceled policies within thirty (30) days of the receipt or issuance of the notice of cancellation. These errors resulted in interest totaling \$10.04. However, the interest due on each canceled policy was below the premium waiver rule.
2. Two (2) errors were due to failure to comply with premium finance cancellation requirements. This constitutes a violation of Section 627.848, Florida Statutes. The Company failed to calculate the unearned premium on canceled policies using the day after the premium finance company's effective date of cancellation. These errors resulted in underreturns totaling \$140.91, which have been returned to the policyholders.

## VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Six (6) 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. Five (5) errors were due to use of unappointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes. The Company no longer employs these adjusters.
2. One (1) error was due to failure to disclose policy information within thirty (30) days. This constitutes a violation of Section 627.4137, Florida Statutes. The Company failed to respond to a request for policy information within the required time period.

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. Procedures for handling these complaints have been established by the Company. Complaint handling procedures have been revised and are described in Exhibit III.

Fifty-two (52) consumer complaints received during the scope of examination were reviewed and findings are as follows:

A. DOI REFERRALS

| Consumer Referral Number or Last Name | Alleged Violation    | Findings            |
|---------------------------------------|----------------------|---------------------|
| S-0001-0058018                        | Invalid cancellation | No violations found |
| Reid                                  | Invalid cancellation | No violations found |

B. DOI COMPLAINTS RECEIVED BY COMPANY

Fifty (50) complaints received by the Company from the Florida Department of Insurance were examined.

Four (4) errors were found.

One (1) error resulted in interest due totaling \$15.39.

The errors are broken down as follows:

1. Three (3) errors were due to failure to comply with return of unearned premium requirements. This constitutes a violation of Section 627.7283, Florida Statutes. The Company failed to return unearned premiums on canceled policies within thirty (30) days of the receipt or issuance of the notice of cancellation. One (1) error resulted in interest due totaling \$15.39 which has been paid to the insured, and two (2) errors resulted in interest due which was below the premium waiver rule.
2. One (1) error was due to failure to communicate timely. This constitutes a violation of Rule 4-166.024, Florida Administrative Code. The Company failed to respond within fourteen (14) days to a revised repair estimate and did not respond until a complaint was received from the Florida Department of Insurance.

C. COMPANY RECEIVED COMPLAINTS

One (1) error was found.

None of the errors affected premium.

The error is broken down as follows:

1. One (1) error was due to the Company's failure to maintain a complete record of all written complaints received since the date of the last examination. This constitutes a violation of Section 626.9541(1)(j), Florida Statutes. The Company only maintained a record of the complaints received from the Florida Department of Insurance. The Company's record keeping procedures have been revised in accordance with Exhibit III.

IX. EXHIBITS

| <u>SUBJECT</u> | <u>EXHIBIT NUMBER</u> |
|----------------|-----------------------|
|----------------|-----------------------|

|   |   |
|---|---|
| DIRECTIVE TO COMPANY ON<br>RERATE OF POLICIES | I |
|---|---|

|                            |    |
|----------------------------|----|
| CLAIMS HANDLING PROCEDURES | II |
|----------------------------|----|

|                                |     |
|--------------------------------|-----|
| COMPLAINTS HANDLING PROCEDURES | III |
|--------------------------------|-----|