

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN GUARANTEE AND LIABILITY INSURANCE COMPANY
(ZURICH NORTH AMERICA)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

American Guarantee and Liability 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 the examination was January 2000 through December 31, 2000. The examination began July 22, 2001 and ended September 1, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded September 30, 1996.

The purpose of the current examination was to verify that the Company's business practices and procedures are in compliance with the Florida Statutes and Rules.

During this examination, records reviewed included business automobile, general liability, workers' compensation, cancellations/nonrenewals, agent/MGA licensing, and claims for the period of January 2000 through December 2000, 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 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

American Guarantee and Liability Insurance Company is a member company in the United States of Zurich Financial Services Group, a Swiss multiple line financial services provider. American Guarantee and Liability is a commercial lines insurance company.

American Guarantee and Liability Insurance Company was organized under the laws of the state of New York in 1939. The administrative headquarters was located in Chicago, Illinois. At the end of 1952, Zurich Fire Insurance Company of New York, then a member of the Zurich Group, was merged into American Guarantee and Liability Insurance Company. In 1980, American Guarantee and Liability Insurance Company moved its administrative headquarters from Chicago to Schaumburg, Illinois. American Guarantee and Liability Insurance Company wrote personal and commercial lines insurance until 1989, when the personal lines business was shifted to Maryland Casualty Group, a part of the Zurich Group.

American Guarantee and Liability Insurance Company is licensed in all fifty states and writes most commercial property and casualty lines of business in the middle and large multi-state sectors of the admitted insurance market.

American Guarantee and Liability Insurance Company principally uses independent agents and brokers to market its commercial lines products. Both package and monoline business is solicited and underwritten for risks ranging from small proprietorships to major multi-national corporations. The Company's target market specializes in agribusiness, hospitality, light manufacturing, private schools, technology, and construction risks.

American Guarantee and Liability Insurance Company uses company adjusters to administer the claims. Some claims are assigned to independent adjusters, who in turn, report their findings to company adjusters. The company adjusters review the independent adjusters' recommendations and process the claims to conclusion.

B. MANAGEMENT

The Company's management oversees the general operations and is responsible for the security and maintenance of the computer systems, anti-fraud plan, disaster recovery plan and internal audit plans.

America Guarantee and Liability Insurance Company operates on four computer platforms. The main frame system is housed in Schaumburg, Illinois. As part of the LAN facility, the Company also uses personal laptop or notebook style personal computers that link with the LAN via dial up, Virtual Private Network, or cable access. Some portions of the systems are mixed main frame and LAN networks.

In 1987, the Company established an Anti-Fraud Plan and Special Investigative Unit. The Anti-Fraud Plan covers procedures for handling internal and external fraudulent activity. The Plan has been filed with the Florida Department of Insurance and the Company is in compliance with Section 626.9891, Florida Statutes.

The Company Disaster Recovery Plan covers a multitude of disaster events, from fire, bomb threats to hurricanes. The Plan has established a disaster recovery team and alternate personnel who will implement the Disaster Recovery Plan in the event of a disaster. Computer operations are overseen by both a Security Team that facilitates the protection of the computer systems, and a disaster

recovery team that plans for and prepares for the recovery from disasters,
damaging facilities and equipment.

American Guarantee and Liability Insurance Company has established internal audit procedures to insure the financial and operating activities are in compliance with the Company's operating guidelines.

The Company has established a Privacy Plan and has notified all insureds of the Privacy Policy in accordance with Emergency Rule 4ER01.

C. OPERATIONS

American Guarantee and Liability Insurance Company principally writes commercial lines business. The Company has established several business units, which are focused underwriting units. These units include agri-business, enterprise risk, middle markets, small business, construction, and special casualty.

The Company targets agricultural business, the hospitality business, light manufacturing, private schools, technology, and construction business. The specialty lines include large property and casualty risk, environmental hazards, political risk, directors and officer's liability, and energy production exposures. The Company writes throughout the State of Florida, with a concentration of business written in the greater Orlando area.

IV. REVIEW OF POLICIES

A. BUSINESS AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

American Guarantee and Liability Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

American Guarantee and Liability Insurance Company is a member of 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>
2000	\$1,113,002	29

3. Exam Findings

Twenty-two (22) policy files were examined.

One (1) error was found.

The error did not affect premium.

The error is described as follows:

1. One (1) error was due to failure to document/substantiate a credit. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. There was no documentation in the file to support the IRPM worksheet.

B. GENERAL LIABILITY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

American Guarantee and Liability Insurance Company is a subscriber of Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

American Guarantee and Liability Insurance Company is a subscriber of 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>
2000	\$70,485	3

3. Exam Findings

Three (3) 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 use of an unfiled form. This constitutes a violation of Section 627.410, Florida Statutes. Form U-GL-D-140-B CW (01/93) has not been filed for use.

C. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

American Guarantee and Liability Insurance Company is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The NCCI acts as statistical agent for this line of business.

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>
2000	\$6,233,658	17

b. Error Percentages

Sixteen (16) policies were examined.

No errors were found.

V. AGENTS/MGA REVIEW

Nine (9) applications/policies written during the scope of examination were examined.

Fourteen (14) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. One (1) error was due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. No policy application was maintained in the file.
2. Seven (7) errors were due to failure to display agent's name, or agent's license ID number, or Company name on the application. This constitutes a violation of Section 627.4085, Florida Statutes.
3. Six (6) errors were due to failure to properly countersign. This constitutes a violation of Section 624.425, Florida Statutes. An appointed licensed resident agent did not countersign the policies

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

Fourteen (14) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Two (2) errors were due to failure to provide specific reasons for cancellation or nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. The cancellation or nonrenewal reason “underwriting reason” is not a specific reason.
2. Twelve (12) errors were due to failure to provide timely notice of cancellation or nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes. The policies were being moved from one company in the group to another without notice of termination of the contract to the insured. Exhibit I.

VII. CLAIMS REVIEW

Twenty-five (25) claims were examined.

Twelve (12) 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 described as follows:

1. Twelve (12) errors were due to use of unappointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes. The following adjusters were not appointed by American Guarantee and Liability Insurance Company at the time the claim was adjusted: Latahyana Hudson (lic # D026404), Caroline Kern (lic # D032371), Elisabeth Pando (lic # D035832), Sherry Tommila (lic # D004551), Philip Mingarelli (lic # D020308), Joy Hinnie (lic # D027020), Ashley Elvington (lic # D034275), Diana Irving Hoppenworth (lic # D054637), and Wilma Kay Allen (lic # A004299).

VIII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
COMPANY TRANSFER DOCUMENTATION	I
CLAIM MANAGEMENT PROCESS AND STANDARDS	II