

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY
(KEMPER INSURANCE COMPANIES)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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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.	WORKERS' COMPENSATION	5
V.	CANCELLATIONS/NONRENEWALS REVIEW	8
VI.	PENDING ISSUES	9

I. INTRODUCTION

American Manufacturers Mutual 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 December 2000. The examination began January 28, 2001 and ended February 17, 2001. The last property and casualty examination of this insurer, by the Florida Department of Insurance, was concluded February 2, 1998.

The 1997/1998 examination report included the review of commercial package policies, commercial automobile, fidelity and surety, boiler and machinery, agents/MGA, cancellations/nonrenewals, and workers' compensation written by the Company during the scope of the examination. Violations cited included failure to maintain records, failure to provide timely notice of renewals, use of unfiled forms, failure to document debits and credits, failure to offer/obtain/maintain signed UM acceptance/rejection forms, failure to display telephone number on policies, failure to follow filed rates, rating schedules or rating rules by using incorrect rating factors, failure to display agent's name/license ID# or insurer's name on the application, use of unlicensed and unappointed agents, failure to comply with return of unearned premium requirements, failure to return premium timely and failure to provide specific reasons for denial, cancellation or nonrenewal.

The purpose of the current examination was to verify whether the Company had corrected the violations cited in the prior examination and is conducting business according to Florida Statutes and Rules.

During this examination, records reviewed included policies, audits, unit statistical reporting and cancellations/nonrenewals, for the period of January 1999 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.

As a result of the findings of this examination, an estimated \$32,731 will be returned to Florida consumers due to overcharges of premium.

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

American Manufacturers Mutual Insurance Company is a member of the Kemper Insurance Companies group of companies. The Company is licensed in all states and the District of Columbia to transact various lines of property and casualty insurance. All of the Kemper Companies share common executive management and are governed by a Board of Directors. Business is produced by a network of licensed and appointed independent agents. The Company has Branch and Regional Underwriting and Claims Offices located throughout the country.

B. MANAGEMENT

Communication between the Home, Branch and Regional Offices is accomplished through use of their computer system. An antifraud plan has been developed and is filed with the State of Florida. The Company has an internal audit department.

There is a comprehensive disaster recovery plan developed and in place.

C. OPERATIONS

The Company does not concentrate on any particular market. Business is accepted from appointed agents throughout the State.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

American Manufacturers Mutual Insurance Company is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The Company also has an independent filing for a Large Deductible Rating Plan. 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>
1999	\$14,165,270	515
2000	\$13,664,594	637

b. Error Percentages

Sixty-eight (68) policies and audits were examined.

Twelve (12) errors were found.

The errors affecting premium resulted in one (1) overcharge totaling an estimated \$32,731

The errors are broken down as follows:

1. Nine (9) errors were due to failure to charge a rate for the Waiver of Subrogation Endorsement. This constitutes a violation of Section 626.9541(1)(n), Florida Statutes.
2. Two (2) errors were due to failure to provide the final audit and billing within ninety days. This constitutes a violation of Section 627.191, Florida Statutes.
3. One (1) error was due to failure to use the correct experience modification factor. This constitutes a violation of Section 627.191, Florida Statutes. The incorrect modification factor of .75 was used instead of the correct factor of .72. This error resulted in an estimated overcharge of \$32,731 based on the difference in the modification factors. The Company was directed to correct the policy at audit and advise the Department of the final premium.

2. Unit Statistical Review

The review of statistical cards is for the purpose of verifying that premium and claim statistics are properly reported to the NCCI. Workers' Compensation statistics are utilized in the rate making process when rate filings are presented to the Department of Insurance for consideration, as well as, in the development of experience modification factors on individual risks.

a. Audit Comparison

Fourteen (14) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Four (4) claim statistical cards were examined.

No errors were found.

V. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Twelve (12) errors were found.

One (1) error resulted in an overreturn that is estimated to total \$3,000.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to provide the final audit and billing within ninety days. This constitutes a violation of Section 627.191, Florida Statutes.
2. Two (2) errors were due to failure to issue a notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.
3. One (1) error was due to failure to use the correct classification for the insured's business. This constitutes a violation of Section 627.191, Florida Statutes. Classification Code 5192-Vending Machines was used instead of the correct classification of 5183-Plumbing NOC. This error resulted in an undercharge which is estimated as approximately \$3,000.

PENDING ISSUES

There was one (1) issue pending at the conclusion of the examination. There was an incorrect experience modification factor used on policy 5BH03822300 which resulted in an estimated overcharge of \$32,731. This constituted a violation of Section 627.191, Florida Statutes. The Company was directed to correct the policy at audit and advise the Department the total of the final premium.