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## OFFICE OF INSURANCE REGULATION

**KEVIN M. McCARTY**  
COMMISSIONER

December 22, 2005

Ron Klein  
State Senator, District 30  
The Florida Senate  
420 Senate Office Building  
404 South Monroe Street  
Tallahassee, FL 32399

Dear Senator Klein:

Thank you for your recent correspondence of December 6, 2005, expressing concerns regarding the claims practices of insurers operating in Florida.

As you know, the Department of Financial Services (DFS), Division of Insurance Fraud, has more than 100 sworn law enforcement officers and has the statutory requirement to pursue all criminal investigations of insurance fraud. On a national level, Florida's Division of Insurance Fraud is considered the benchmark for investigating, fighting and prosecuting insurance fraud. Under Florida law, insurance companies are required to file their fraud plan with the Division of Insurance Fraud (Division) and insurance companies have established special investigation units (SIUs) to help identify and investigate suspicious claims (Florida is one of eighteen states that requires submission of a mandatory fraud plan).

The Office of Insurance Regulation (Office) fully supports Chief Financial Officer Tom Gallagher's plan to require stricter requirements for insurance companies to report insurance fraud, and in conjunction with DFS, we will carefully review any circumstances involving the inappropriate adjudication of claims.

Your letter requests the Office to immediately freeze all recently approved and pending rate increases. As Commissioner and a citizen of the state of Florida, I too am concerned about the impact of fraudulent claims on the cost of insurance in our state. However, the Office does not have the statutory authority to implement a rate freeze or rate moratorium on previous or pending rate filings. Neither the Florida Statutes nor

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KEVIN M. MCCARTY • COMMISSIONER

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Florida's Administrative Code provides the Commissioner of Insurance Regulation with the ability to freeze insurance rates or enact a rate moratorium.

Moreover, insurers who propose to change their insurance rates in the state of Florida are required to submit a rate filing with detailed statistical data justifying the proposed rate changes as specified in Section 627.062, Florida Statutes. As you know, the Office performs an in-depth actuarial analysis of this data to determine whether the rates proposed by the insurer are justified and are in compliance with all applicable statutes and rules. **Florida law prohibits insurance companies from basing rates on previous losses, and claims from the 2004 and 2005 hurricane seasons can not be used to project future losses or be contemplated in a rate filing.**

The Office's Catastrophe Event Data Reporting and Analysis (CEDRA) system provides claim and financial loss detail on numerous lines of business. Some recent news reports have indicated that the Office's system only includes homeowners claims and insured losses; however, CEDRA also receives reported losses on mobile homeowners, farmowners, fire and allied lines, commercial multi-peril, commercial auto physical damage, private passenger auto physical damage, and other lines.

The Office's CEDRA system was created to provide OIR staff with the ability to analyze financial loss information essential in monitoring the financial condition of property and casualty insurers in the aftermath of catastrophic events. This provides our citizens and policyholders added protection from future insolvencies. In addition, CEDRA provides valuable claims and financial loss information, by county, in order for our policymakers to make informed decisions on disaster response resource allocation as well as during the Revenue Estimating Conference process.

The Office has conducted a random sampling of the insurer reported data for Hurricane Wilma in Leon County and uncovered the following results:

- a. A majority of the claims (220 out of 279) are primarily related to automobile claims – private passenger auto or commercial auto
- b. Auto insurance claims are filed in the policyholder's county of residence regardless of the county in which the automobile may have been damaged

The Office continually reviews and analyzes the insurer data submitted into the CEDRA system and researches inconsistencies and discrepancies in order to ensure accurate information. Furthermore, the insurers' SIUs also analyze their own claim data in order to identify and appropriately report fraud to the Division.

I am confident the analysis conducted by the Office results in approval of rates that meet the statutory standards set forth by the Florida Legislature. In addition, I commend the Florida Legislature for their ongoing programmatic and financial anti-fraud support to uncover, fully investigate and prosecute insurance fraud.

Senator Ron Klein  
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Please do not hesitate to contact me directly to discuss any concerns or suggestions you may have to improve Florida's insurance marketplace and to protect the citizens of our state.

Sincerely,



Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation

cc: The Honorable Jeb Bush, Governor  
The Honorable Tom Gallagher, Chief Financial Officer  
The Honorable Charlie Crist, Attorney General  
The Honorable Charles H. Bronson, Commissioner of Agriculture  
The Honorable Tom Lee, Senate President  
The Honorable Allan Bense, Speaker of the House  
Mr. Eric Miller, Director, Division of Insurance Fraud