

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

AUTO-OWNERS INSURANCE COMPANY

AS OF

October 26, 2007

NAIC COMPANY CODE: 18988



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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Office of Insurance Regulation, Market Investigations (Office), pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of Auto-Owners Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was January 1, 2006 through June 1, 2007. The examination began on August 27, 2007, and ended on October 26, 2007.

The purpose of this examination was to verify that Homeowners non-renewals, cancellations and extended coverage were given in compliance with Florida Statutes and the Florida Insurance Code. Company records were examined at 6101 Anacabri Blvd., Lansing, Michigan.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners.

Error tolerance levels applied are as follows: monetary returns under \$5.00 were waived; zero tolerance levels were applied to all improprieties by the Company which were in violation of the Florida Insurance Code.

COMPANY OPERATIONS

Auto-Owners Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida.

Total Homeowners Direct Premiums Written during the scope of the examination are broken down as follows:

Year	Total Direct Premiums Written (Florida)
2006	\$39,265,045.30
2007*	\$19,728,094.91

* As of August 31, 2007

CANCELLATION AND NON-RENEWAL REVIEW

Effective January 30, 2007, Florida Emergency Rule 69OER07-1, suspended all cancellations and non-renewals (terminations) with certain exceptions, and tolled the cancellation period until the company made the presumed factor filing required by the passage of House Bill 1A. Once the Company made its presumed factor filing it could continue the cancellation and non-renewal process. Additionally, the passage of House Bill 1A modified the notice requirements for non-renewals and cancellations from 90 days to 100 days. As required by Florida Emergency Rule

69OER07-1, the Company made a rate filing on March 9, 2007, in which the Company adopted the presumed factors.

The effects of Florida Emergency Rule 69OER07-1 and House Bill 1A resulted in distinctly different notice requirements for terminations within the following three time periods:

- Terminations having an effective date prior to January 31, 2007 were unaffected by House Bill 1A and Florida Emergency Rule 69OER07-1. The Company correctly applied the 90 day notice requirement in notices sent prior to January 31, 2007.
- Those policyholders who had previously received termination notices mailed prior to January 31, 2007 were subject to the tolling of the terminations during the suspension period mandated by Florida Emergency Rule 69OER07-1 and the revision of the notice requirements required by House Bill 1A. This resulted in an increase in the number of days notice required to be given. In an effort to compensate for the additional notice requirements caused by those actions, the Company sent a letter to each of the policyholders within that group which extended the effective date of those policy terminations until April 2, 2007. No additional premium was charged for the additional periods of coverage. In 34 instances, those extensions of time were less than the revised 100 day notice requirement but satisfied the 90 day requirement of Section 627.4133, Florida Statutes, that was in effect at the time of mailing. These 34 instances were not considered errors.
- On March 9, 2007 the Company was able to resume normal termination operations subject to the 100 day notice requirement set by House Bill 1A. The Company correctly applied the revised 100 day requirement in notices sent after March 9, 2007.

To analyze the Company's compliance with Florida Emergency Rule 69OER07-1 and House Bill 1A, the following data were considered:

1. A computer run including all Homeowners non-renewal notices sent to policyholders during the scope dates. This list produced a total of 2,657 notices.
2. A computer run including all Homeowners cancellation notices sent to policyholders during the scope dates. This list produced a total of 1,593 notices.
3. A computer run including all Homeowners non-renewal notices sent to policyholders during the scope dates that extended coverage due to Florida Emergency Order 69OER07-1. This list produced a total of 216 notices.
4. A computer run including all Homeowners cancellation notices sent to policyholders during the scope dates that extended coverage due to Florida Emergency Order 69OER07-1. This list produced a total of 3 notices.

A total of 511 notices were selected for review during the examination.

The Company's premium refund procedures were reviewed without exception. Cancellations of a policy at the insured's request were calculated on a pro-rata basis.

Findings

511 cancellations and non-renewals were reviewed.

Three errors were found.

1. 3 errors were due to the Company's failure to maintain records. The Company was unable to provide copies of 3 non-renewal notices. This constitutes a violation of Section 627.318, Florida Statutes.

Corrective Action: The Company should implement procedures to ensure there is proper documentation available to support all policy non-renewals and/or cancellations.

REPORT SUMMARIZATION

A sample of 511 cancellations and non-renewals was reviewed for this Company. 3 errors were found. The following summary represents general findings, however, specific details are found in each section of the report.

Sample Files Reviewed – 511 Files

- Non-renewals/Cancellations – 511 files

Findings

- Non-renewals and Cancellations – 3 errors – page 3 of the report
 - Failure by the company to maintain records.

EXAMINATION FINAL REPORT

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.