

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

COMMERCE AND INDUSTRY INSURANCE COMPANY
(AIG, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

Filed Date: 6/22/01

TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	POLLUTION LIABILITY RATE REVIEW	3

I. INTRODUCTION

Commerce and Industry Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, June 2000 through October 2000. The examination began October 30, 2000 and ended December 8, 2000. The last examination of this insurer by the Florida Department of Insurance was completed July 1, 2000.

The purpose of this target examination was to conduct a follow up review of the findings of the examination concluded July 1, 2000. The July 1, 2000 examination was for the purpose of verifying proper rating of Pollution Liability policies. The findings of the July 1, 2000 examination revealed the following violations:

- (a) Section 627.062, Florida Statutes - Ten (10) errors - Use of unfiled rates, rating schedule or rating rule. Unapproved discounts or credits.
- (b) Section 626.9541, Florida Statutes - Ten (10) errors - Failure to comply with unfair trade practice requirements - Use of new rates prior to effective date.
- (c) Section 626.9541, Florida Statutes - Nine (9) errors - Failure to comply with unfair trade practice requirements - Use of old rates after effective date of new rates.
- (d) Rule 4-170.004, Florida Administrative Code - Four (4) errors - Failure to document/substantiate debits/credits.

A total of one hundred (100) pollution liability policies were reviewed. This number consisted of six (6) new business quotes, fourteen (14) renewal quotes, thirty-two (32) new policies issued and forty-eight (48) renewal policies.

During this examination, policy files were reviewed for the period of June 2000 through October 2000, as reflected in this 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, \$756.00 was returned to Florida consumers due to overcharges of premium.

II. POLLUTION LIABILITY RATE REVIEW

A. POLLUTION LIABILITY

1. General Comments

A review of Pollution Liability policies was conducted to determine if the Company was following filed rating plans in developing premium.

2. Exam Findings

One hundred (100) policy files were examined.

Nine (9) errors were found.

Errors affecting premium resulted in two (2) undercharges totaling \$95.00 and seven (7) overcharges totaling \$756.00.

The errors are broken down as follows:

1. Six (6) errors were due to failure to provide a credit for tank management service when a 5% credit was due. These errors resulted in overcharges totaling \$584.00, which have been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
2. Three (3) errors were due to failure to apply the proper multi-tank credits, by not following the rule for interpolation on certain numbers of multi-tanks. These errors resulted in one (1) overcharge totaling to \$172.00,

which has been refunded by the Company. The other two errors developed undercharges amounting to \$95.00. This constitutes a violation of Section 627.062, Florida Statutes.

In addition to the errors noted above, the following observation and recommendation is made:

Of the one hundred (100) policies reviewed, twenty-six (26) were minimum premium policies, therefore, schedule rating did not impact the final premium. A review of the remaining seventy-four (74) policies that could be eligible for schedule rating revealed that sixty-nine (69) or 93% contained the following schedule credits. No schedule debits were given.

Loss History	-25%	40 policies
Loss History & Tank Management	-25%	12 policies
Tank Management	-25%	10 policies
Individual Risk Characteristics	-25%	3 policies
Loss History	-10%	4 policies
		69 policies

A breakdown of Schedule credits allowable under filed rates are as follows:

Tank Management	+/-25%
Loss History	+/-25%
Individual Risk Characteristics	+/-25%

Schedule rating is designed for the above-average or lower-than-average exposures. Rates that are filed should be for the average risks.

The Company's application of credits to reduce 93% of the policies reviewed for both new and renewal policies would indicate that rates actually charged are approximately 25% lower than those filed. In view of this, Company management agreed that a new rate filing should be developed and submitted to the Florida Department of Insurance for approval. The Company is directed to provide a copy of the new rate filing within 60 days of the execution of the Consent Order for this examination.