

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

CINCINNATI INDEMNITY COMPANY
(THE CINCINNATI INSURANCE COMPANIES)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

File Date: 11/8/01

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I. INTRODUCTION

Cincinnati Indemnity 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 1997 through December 1999. The examination began November 20, 2000 and ended January 26, 2001. The last examination of this insurer, by the Florida Department of Insurance, was concluded May 30, 1997.

The 1997 examination included the review of homeowners policies and underwriting files. Violations cited included failure to follow the filed rating plan, schedule or rule, failure to display telephone number and purpose on the policy and failure to display the agent's name and/or the insurer's name on the application.

The purpose of the current examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, 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.

This report also contains details concerning the refund of over-recoupment of fees collected by the Company in excess of those allowed by statute. The Company has been directed to proceed with the refund process and complete the required process as part of this examination. It is estimated that refunds will be made to 240 insureds totaling \$3,322.23.

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. Examination 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

Cincinnati Insurance Company, Inc., was established in Cincinnati, Ohio, in 1950. Its founders and stockholders were comprised of mostly independent agents. The Company was licensed as a foreign insurer in the State of Florida on August 12, 1958. The Company operates from the Home Office in Fairfield, Ohio, using independent agents to market its products. The Company uses staff adjusters throughout Florida.

B. MANAGEMENT

The Company has filed an Anti-Fraud Plan with the Department of Insurance. The Company does not have a written formal disaster preparedness plan at this time, nor does it have a formal written internal audit procedure at this time. Documentation regarding these issues can be found as Exhibit I.

C. OPERATIONS

The Company writes property and casualty lines of business in Florida using local independent agents. There are thirteen (13) active personal lines agencies in Florida representing the Company. These agencies report to one of two Regional Directors located in Lakeland, Florida and Dothan, Alabama. Production is concentrated in Sanford, Sarasota, Clearwater, Gainesville, Ft. Myers, Ocala, Naples, Pensacola, and Tallahassee. The Company only has product information and agency locator information available on the Internet. The Company web site is www.cinfin.com.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Cincinnati Indemnity Company is a member of Insurance Services Office, Inc., (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

Cincinnati Indemnity Company is a member of Insurance Services Office, Inc., (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>
1997	\$210,985	315
1998	\$220,411	359
1999	\$267,819	368

3. Exam Findings

Seventy-five (75) policy files were examined.

Two (2) errors were found.

The errors did not affect premium.

The errors are broken down as follows:

1. One (1) error was due to failure to maintain records for review. This constitutes a violation of Section 627.318, Florida Statutes.
2. One (1) error was due to failure to refund over collection of FIGA funds to the policyholders of the Company. This constitutes a violation of Section 627.062, Florida Statutes. This violation involves the return of approximately \$3,322.23 to approximately 240 policyholders of the Company. The Company has been instructed to complete this return of premium to the policyholders within ninety (90) days from the date of the completion of this examination and provide the Department of Insurance with documentation verifying the completion of this project.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of the examination were examined.

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Sixty (60) cancelled/nonrenewed policies were examined. This included fifty (50) cancellation policies and ten (10) nonrenewal policies.

One (1) error was found.

This error did not affect premium.

The error is described as follows:

1. One (1) error was due to the failure to provide 45 days notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Six (6) errors were found.

None of the errors affected payments.

The errors are broken down as follows:

1. Six (6) errors were due to the failure to maintain complete records of files requested.

This constitutes a violation of Section 627.318, Florida Statutes.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

The Company has advised this examiner that no complaints exist for this Company for the time frame of the examination within the scope of the examination. The Company explanation was that the Company has a small volume of business in Florida. This information is included in Exhibit I. It was also confirmed through the Department of Insurance that no complaints were received on the Company for the scope of the examination.

IX. PENDING ISSUES

The following issue was pending at the conclusion of the examination field work:

1. The Company overcharged insureds for FIGA recoupment fees during the scope of the examination and has failed to refund the overcharges. The Company has admitted under Exhibit II that these refunds have not taken place. The Company has been directed to make the refunds to the policyholders in accordance with the refund procedures of the Department of Insurance. Refunds are estimated to be \$3,322.23 to be returned to approximately 240 policyholders in Florida. The Company has ninety (90) days from the completion of this examination to complete the refund process and provide documentation to the Department of Insurance.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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JANUARY 17, 2001 LETTER FROM JIM BROWN ACKNOWLEDGING NO FORMAL DISASTER PLAN OR AUDIT PLAN, AND NO COMPLAINTS.	I
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DOCUMENTATION CONCERNING FAILURE TO REFUND OVERCHARGES OF RECOUPMENT FEES	II
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