

**2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**GOVERNMENT EMPLOYEES INSURANCE COMPANY  
(BERKSHIRE HATHAWAY, INC.)**

**BY**

**DEPARTMENT OF FINANCIAL SERVICES  
OFFICE OF INSURANCE REGULATION  
BUREAU OF MARKET CONDUCT**

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## **INTRODUCTION**

Government Employees Insurance Company (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. The scope of this examination was January 2002 through November 2002. The examination began December 2, 2002 and ended December 21, 2002. The last property and casualty market conduct examination of this insurer by the Office of Insurance Regulation of the Financial Services Commission with the Department of Financial Services, formerly known as the Florida Department of Insurance, concluded in January 2001.

The purpose of this examination was to verify that, since the previous examination, the Company had taken the necessary corrective action to ensure that employees selling or servicing insurance policies are properly licensed and appointed in the State of Florida and to determine if the Company's underwriting guidelines used for company placement had been properly filed.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

The Certificate of Authority and Renewal Invoices were reviewed for the scope of the examination.

### **EXAM FINDINGS**

The review included verification of the lines of business the Company was authorized to write during the scope of the examination versus those lines actually being written. It also included verification that notification requirements were met for any lines of business that were discontinued.

No errors were found.

## **COMPANY OPERATIONS/MANAGEMENT**

### **HISTORY/MANAGEMENT**

Government Employees Insurance Company was incorporated in the District of Columbia on November 30, 1937. The Company was re-incorporated on January 31, 1979, under the District of Columbia Business Corporation Act of 1954. Subsequent to the re-incorporation, the Company reorganized its corporate structure with the creation of a parent company, GEICO Corporation, on January 31, 1979. The Company transferred its domicile to the State of Maryland on January 3, 1986. GEICO Corporation became an indirect wholly-owned subsidiary of Berkshire Hathaway, Inc., on January 2, 1996.

The Company's home office is located at 5260 Western Avenue, Chevy Chase, Maryland 20815. Claims are handled by Company adjusters located in Lakeland, Florida, and in several claim offices throughout the state.

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company's data center houses a PC network system which is secured by a passcard system permitting access to authorized staff only. Remote users access the network through the Company's dedicated line connection. Dial-up connectivity requires each user to have a special password for entry into the network.

#### **Anti-Fraud Plan**

The Company has filed a Plan with the Florida Department of Financial Services, Division of Fraud, as required by Section 626.9891, Florida Statutes. The Plan does meet the requirements by establishing a Special Investigation Unit in Florida responsible for overseeing day-to-day anti-fraud activities. This unit works on all types of fraud cases in the State of Florida. All claims and underwriting associates are trained to identify and then refer cases of suspected fraud to the Special Investigation Unit. Claim files involving suspected and documented fraud are referred to the Division of Fraud. Restitution is pursued in all cases where fraud has been documented.

#### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business. The Plan documents the strategies, personnel, procedures and resources that the Company will use to respond to any interruption in its essential business functions.

## **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The Company provides each associate with a copy of its Code of Conduct and requires each associate to sign a Security Agreement. The Company furnishes specific training on internal fraud, proper issuance of drafts and provides each associate with user ID's and passwords. The Company randomly reviews claim payments and conducts payment verification programs to ensure that proper claim payments are made.

## **Privacy Plan**

The Company has developed a Plan to meet the requirements of Rule 4-128.005 and Rule 4-128.006, Florida Administrative Code. The Privacy Notice is printed and mailed with all new policies and annually with all renewal policies.

## **Statistical Affiliations**

The Company independently files its own rules, rates and forms. The Company is a member of the National Association of Independent Insurers (NAII).

## **Credit Reports**

The Company does use Credit Reports as an underwriting tool. The Credit Report is not used as the primary or sole underwriting tool but rather is used in conjunction with other underwriting criteria to determine company placement. The Company does not use credit as a sole factor in determining acceptability. If an applicant has no credit history, the Company determines company placement based upon the remaining underwriting factors used.

## **OPERATIONS/MARKETING**

### **Marketing/Lines of Business**

The Company writes private passenger automobile and umbrella insurance throughout the State of Florida. No change has occurred in the business operations of the Company since the date of the last examination.

### **Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling**

The Company uses various advertising media including television, radio broadcast and newspaper to generate inquiries statewide. The distribution system includes selected agents whose primary targets are the military and federal markets, along with the general public through Internet, direct mail and a telephone call center located in the Company's Regional Office in Lakeland, Florida.

## **REVIEW OF UNDERWRITING GUIDELINES**

### **PRIVATE PASSENGER AUTOMOBILE**

#### **Description of Product/Lines of Business**

The purpose of this review was to determine if the Company is using unfiled underwriting guidelines in conjunction with filed underwriting criteria for determination of placement of applicants for private passenger automobile insurance into one of the four GEICO Companies: GEICO, GEICO General, GEICO Casualty or GEICO Indemnity.

#### **Examination Findings**

The review revealed that the Company uses unfiled weights which define how factors identified in its filed underwriting guidelines are used for company placement. The model places scores on eighteen (18) various attributes of a risk such as age, occupation, prior coverage lapse, driving record, etc. After assigning a score to each attribute, the resulting total score along with territorial assignment determines placement. The higher the score, the lower the premium. Minimum acceptable scores also exist for each company and vary depending on the RUC (remedial underwriting criteria) or zip code groupings. The various counties in Florida are grouped into six (6) RUC letter groups ranging from A to F. Each group is assigned a minimum acceptable score for each eligible company. This is the final step in determining company placement.

The use of unfiled underwriting guidelines constitutes a violation of Section 627.0651(13), Florida Statutes.

## **AGENTS/MGA REVIEW/ADVERTISING/MARKETING**

### **DESCRIPTION OF MGA ARRANGEMENTS**

The Company does not have or utilize an MGA.

The Company markets approximately five percent (5%) of its insurance products through selected agents within the State of Florida who primarily target the military and federal markets. The majority of the Company's business is developed through its call center located in its Regional Office in Lakeland, Florida. Based upon the sample reviewed during the examination, the Company uses employees properly licensed and appointed in the State of Florida to handle all policy sales and transactions.

### **Examination Findings**

One hundred twenty-five (125) policy sale transactions completed during the scope of the examination were examined to determine if a properly licensed agent, customer representative, or limited customer representative sold the policy. Thirty-six (36) general lines agent licenses (2-20) were checked to determine if all twenty-seven (27) supervisors, two (2) managers and seven (7) mentors, supervisors in training, were properly licensed with the State of Florida. Licensing was verified by use of the Florida Department of Financial Services website. A review of twenty-five (25) Company employees conducting sales in the Company's Regional Office in Lakeland, Florida, was performed to verify properly licensed personnel were being used for insurance sales and policy transactions.

No errors were found.