

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**INTEGON GENERAL INSURANCE CORPORATION
(GMAC INSURANCE HOLDING)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 02/04/03



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EXECUTIVE SUMMARY

Integon General Insurance Corporation (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 2001 through March 2002. The examination began April 21, 2002 and ended June 26, 2002. The last property and casualty market conduct examination of this insurer by the Florida Department of Insurance concluded in February 2000.

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed against the Company, the Department focused on rating issues and claim delays.

A total of two hundred and fifty-three (253) files were examined for this Company with seven (7) errors identified. The following represents general findings; however, specific details are found in each section of the report.

Files Reviewed – 253

- Fifty-three (53) complaint files
- Fifty (50) Private Passenger Automobile
- Fifty (50) cancellations and nonrenewals
- Seventy (70) claim files
- Thirty (30) agent files

Findings

- Complaint – one (1) error due to failure to pay a claim timely
- Claims - six (6) errors
 - failure to use licensed/appointed adjusters
 - failure to send title to Department of Highway Safety and Motor Vehicles
 - failure to pay sales tax
 - failure to provide notice of PIP benefits

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority and Renewal Invoices were reviewed for all years within 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

Integon General Insurance Corporation was incorporated on December 30, 1960, under the laws of North Carolina, and began business on January 1, 1961. Business of the Company was conducted under the name Security General Insurance Company from organization until December 31, 1969, when the present name was adopted.

The Company was acquired by GMAC Insurance, a wholly-owned subsidiary of GMAC Insurance Holdings Inc., which is a wholly-owned subsidiary of GMAC Financial Services, which is a wholly-owned subsidiary of General Motors Corporation, in 1997.

Affiliated companies, identified by National Association of Insurance Commissioners (NAIC) number 79, are: National General Insurance Company, MIC General Insurance Corporation, National General Assurance Company, GMAC Direct Insurance Company, Integon National Insurance Company, GMAC Insurance Company Online, Inc., Integon Casualty Insurance Company, New South Insurance Company, Integon Indemnity Corporation, Integon Specialty Insurance Company, Integon Preferred Insurance Company, Motors Insurance Corporation, CIM Insurance Corporation, and MIC Property and Casualty Insurance Corporation.

The Company is a provider of preferred, standard and non-standard automobile insurance.

The current corporate officers of the company are: Gary Y. Kusumi, President; Sheena E. Poe, Secretary; and Donald J. Bolar, Treasurer.

The Company is licensed in Alabama, Alaska, Arkansas, Colorado, Florida, Georgia, Illinois, Kentucky, Maryland, Maine, Missouri, Nebraska, North Carolina, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Virginia, Washington, and Wisconsin.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

Data communications include two types of networks:

1. An internal PC/LAN that connects user terminals and the PC/LAN server or the Mainframe and Midrange Processors.
2. A Wide Area Network (WAN) for the sending or receipt of application input and output transmissions.

Anti-Fraud Plan

The Company has filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet the requirements and establishes a Special Investigation Unit (SIU) that services business written in the State of Florida. The SIU investigative activities include inquiry into suspicious property and casualty claims and questionable underwriting submissions. The SIU national and state managers provide basic training and fraud awareness to adjuster trainees. The SIU provides fraud training on specific types of fraud to claims, underwriting, marketing and independent agent staff.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. The plan documentation details relocation of physical and staffing resources depending on the extent of the disaster.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The Internal Audit Division is an independent appraisal activity established to serve the Board of Directors, as well as all levels of management by reviewing and testing financial and operational controls. On a quarterly basis, significant issues, as determined by the Chief Auditor, are summarized and reported to the Chairman of the Board and the Auditing Committee of the Board.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Company sent its Privacy Policy to all policyholders by July 1, 2001. The Privacy Policy is sent with each policy issued, renewed and with each invoice to policyholders.

Statistical Affiliations

The Company is affiliated with National Association of Independent Insurers for reporting of statistics for all lines of insurance written in Florida.

Credit Reports

The Company uses Credit Reports as an underwriting tool. Credit Reports are used as one of four elements in determining the applicable program tier for a new applicant. The other three elements are: proof of prior automobile liability insurance; total of non-chargeable incidents for all drivers, and age of the named insured.

Terrorism Exclusion Endorsements

The Company does not write Commercial Property Insurance. The Company does not plan to write Commercial Property Insurance. The Company does not have a Terrorism Exclusion Endorsement filed with the State of Florida.

OPERATIONS/MARKETING

Marketing

Integon General Insurance Corporation is the primary company that GMAC Insurance uses to market private passenger automobile in the State of Florida. Historically, the Company has focused on the non-standard automobile market, however, during the scope of the examination the focus was to implement a product which transitions from strictly non-standard automobile to a blend of non-standard, standard and preferred risks.

The Integon General Insurance Corporation automobile product is marketed through a network of approximately 700 independent, appointed agents. The agency force has been reduced from 1,350 to 700 over the past two years. The Company's stated goal is to do more business utilizing fewer agencies by making the Company more valuable to the agencies. This has been accomplished through marketing the Company as part of GMAC Insurance for better brand awareness and developing a partnership program, Platinum Program, for agencies that increase production and maintain profitability.

The Company does business in every territory of Florida with five (5) territory sales managers and a Regional Sales Manager domiciled within the state.

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

Lines of Business

The only line of business written during the scope of the examination was Private Passenger Automobile.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

The Company writes private passenger automobile through independent agents. Private passenger automobile policies can include bodily injury, property damage, collision, comprehensive, personal injury protection, uninsured motorist, rental reimbursement and towing. The Company uses tier rating to differentiate between groups of coverage. At renewal, policies are not underwritten for current credit scoring. At each renewal, a new motor vehicle record is reviewed and the insured is rated at the appropriate level within the tier assigned at the policy's original issuance. The Company does write policies that only include property damage liability and personal injury protection coverage.

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> |
|-------------|--------------|---------------------|
| 2000 | \$17,172,000 | 41,246 |
| 2001 | \$46,289,000 | 35,793 |

Because the Company has only been writing this coverage in Florida for two years, the premium level has increased in excess of 25% within the past year.

Examination Findings

Fifty (50) policy files were examined.

No errors were found.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

From the sample reviewed, it appears that notices of cancellation and nonrenewal are issued in compliance with Florida Statutes. Nonrenewal notices are issued forty-five days in advance for private passenger automobile. Notices provide specific reasons for the action taken. Notices are sent by certified mail to the named insured and lienholders.

CANCELLATION REVIEW

Forty (40) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Ten (10) nonrenewed policies were examined.

No errors were found.

COMPLAINTS/INVESTIGATION 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.

A review of the consumer complaints received by the Florida Department of Insurance and those consumer complaints received directly by the Company did not indicate improper business practices.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

COMPLAINTS RECEIVED FROM DOI

| | Consumer | Alleged Violation | Violation Found | Comments |
|----|-----------|---|-----------------|--|
| 1 | Smith | information request – insured | 0 | Insured seeking coverage prior to 10/13/94, no record |
| 2 | Barber | claim -unsatisfactory offer - 3 rd | 0 | 3rd party wanted total loss, 33% repair to total, aftermarket parts used and 3rd party notified |
| 3 | Sutton | claim - unsatisfactory offer - insured | 0 | Insured settled claim one day after filing with FL DOI, insured says complaint sent in error. |
| 4 | Smith | premium - incorrect | 0 | Withdrew Preliminary Advisory, confusion about return premium, response did not clarify. Company correct |
| 5 | Barnes | information request - insured | 0 | Withdrew Preliminary Advisory, complaint answered as Integon Casualty and not Integon General. |
| 6 | L'Heureux | premium -refund | 0 | Withdrew Preliminary Advisory, incorrect return premium. Calculation correct. |
| 7 | Gallart | premium refund | 0 | Premium increased because UM not signed, when signed premium reduced. |
| 8 | Stanley | claim denial - 3rd | 0 | Insured policy cancelled for nonpay 12 days before accident. |
| 9 | Denny | claim handling - insured | 0 | Insured did not want car totaled and did not complete PIP forms until complaint filed with DOI |
| 10 | Byram | cancellation incorrectly | 0 | Cancellation in error, rescinded |
| 11 | Motta | cancellation incorrectly | 0 | Insured sent driver exclusion form to avoid cancellation. |
| 12 | Leiner | premium - insured | 0 | insured signed application for 6 month policy |
| 13 | Millien | claim handling | 0 | Withdrew Preliminary Advisory, insured provide further information |
| 14 | Smith | claim handling | 0 | Withdrew Preliminary Advisory, reservation of rights issue. |
| 15 | Dawson | Premium | 0 | Withdrew Preliminary Advisory, CLUE report showed open claim, removed from rating. |

| | | | | |
|----|-------------|--|----------|---|
| 16 | Johnson | Agent misdeed | 0 | Bureau of Agent Investigation file cs4250/ca6148 |
| 17 | Gonzalez | claim handling - 3rd | 0 | Claim paid, question of windshield |
| 18 | Campbell | premium | 0 | Rate change, premium increased at renewal |
| 19 | Hooks | premium - credit scoring | 0 | Credit score & MVR increase original quote |
| 20 | Schlueter | premium - | 0 | Premium refund correct |
| 21 | Miller | claim handling | 0 | Complaint sent to wrong company, belongs to Security National Insurance |
| 22 | Ford | premium | 0 | Insured misstated age on application, issued with correct age. |
| 23 | Atkins | claim handling - 3rd | 0 | Withdrew Preliminary Advisory, Failure to pay claim timely - Insured did not add vehicle until after accident |
| 24 | Gulck | claim handling - insured | 0 | Total loss value question, insured misrepresented d/I to DOI, claim settled |
| 25 | Monzon | policy confirmation | 0 | Company incorrectly notified DMV of no coverage, Company corrected. |
| 26 | D'Souza | claim handling - PIP - insured | 0 | Insured forgot she had requested stop payment on check and cashed replacement. |
| 27 | Monzon | policy confirmation | 0 | Company incorrectly notified DMV of no coverage, Company corrected. |
| 28 | McClendon | premium | 0 | insured misstated record on application, accident in 1998. |
| 29 | Davis | claim handling - 3rd | 0 | Reservation of Rights issued, claim accepted and pd deductible and out of pocket, awaiting subrogation. |
| 30 | Booth | premium | 0 | Insured driving misstated record on application, insured cancelled policy |
| 31 | Pearce | premium | 0 | Insured misstated driving record on application, insured cancelled policy |
| 32 | Fleming | claim handling - 3rd | 627.4265 | Preliminary Advisory, COMR-4-32, Requested claim file, no explanation of company taking 70 days to settle PD for \$900 |
| 33 | Lopez | claim handling - 3rd | 0 | No physical damage to front of insd vehicle, insured driver & insured owner deny being involved, no police report, no witness |
| 34 | Kermit Edie | premium refund | 0 | Follow-up complaint to 1/17/02, company action correct. |
| 35 | Edie | premium refund | 0 | Withdrew Preliminary Advisory, premium refund calculation correct and timely. |
| 36 | Peterson | premium | 0 | Withdrew Preliminary Advisory, cancellation and return premium are correct. |
| 37 | Pabon | premium - incorrect accident surcharge | 0 | Company correct accident record |
| 38 | Canter | premium discounts | 0 | AARP discount and MVR inspection charge |

| | | | | |
|----|------------|---|---|---|
| 39 | Martinez | premium & term | 0 | Policy term, insured thought they had purchased 12 month policy, application shows 6 month purchased |
| 40 | Wright | vehicle vin incorrect | 0 | Last six number of VIN do not affect rating but were corrected on record. |
| 41 | Bowers | cancellation incorrectly | 0 | Ab initio cancellation, misrepresentation failure to list 17 yr old daughter |
| 42 | Harrell | claim handling - insured | 0 | New policy, delay because of failure to confirm coverage, resolved |
| 43 | Lawrence | premium increase | 0 | Insured did not disclose accident within 36 months. |
| 44 | Audette | cancellation incorrectly | 0 | Non-pay, return premium correct |
| 45 | Deal | claim handling - 3rd | 0 | Withdrew Preliminary Advisory, 9 months then compromise on axle assembly - insured kept finding new damage & settle for like/kind/quality |
| 46 | Diemer | premium | 0 | Questioned premium calculation, answer is complete. |
| 47 | Memnon | claim handling -3rd | 0 | 3rd party requested insur cost on rental. Explanation ok. |
| 48 | Stephenson | premium - wrong vehicle | 0 | Insured questioned premium and additional vehicle, explanation ok. |
| 49 | McClelland | premium refund | 0 | Withdrawn Preliminary Advisory, Better Business Bureau Complaint - return premium was correct. |
| 50 | Hall | unsatisfactory auto claim offer - 3 rd | 0 | Mid car of 3 car accident, hit first vehicle before hit from rear, comparative negl |

Examination Findings

Fifty (50) complaints were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to pay a claim timely. This constitutes a violation of Section 627.4265, Florida Statutes. The Company took seventy days to settle a property damage claim for \$900 without explanation as to delay in settlement.

COMPLAINTS RECEIVED FROM CONSUMERS

| Consumer's Last Name | Alleged Violation | Violation Found | Comment |
|----------------------|---|-----------------|--|
| Drake | Improper cancellation, failure to pay increased premium | 0 | Resolved premium to insured's satisfaction |
| Hock | Premium different from quote | 0 | MVR shows 8 points instead of 2 |
| Peterson | Underwriting delays – Florida ID cards | 0 | Correct information provided, cards issued |

Examination Findings

Three (3) complaints were reviewed.

No errors were found.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Private passenger automobile types of claims reviewed included bodily injury, property damage, comprehensive, collision, and personal injury protection.

Examination Findings

Fifty (50) claims were examined.

Six (6) errors were found.

The errors are broken down as follows:

1. One (1) error was due to use of an unlicensed/unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
2. Three (3) errors were due to failure to send the automobile title on a totaled vehicle to Department of Highway Safety and Motor Vehicles. This constitutes a violation of Section 319.30, Florida Statutes.
3. One (1) error was due to failure to pay sales tax. This constitutes a violation of Section 626.877, Florida Statutes.
4. One (1) error was due to failure to provide notice of PIP benefits. This constitutes a violation of Section 627.7401, Florida Statutes.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Private passenger automobile personal injury protection (PIP) claims were reviewed to determine if independent medical examinations were properly handled.

Examination Findings

Twenty (20) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company did not utilize an MGA during the scope of the examination in Florida.

DESCRIPTION OF AGENTS ARRANGEMENTS

The Company markets through independent agents in Florida.

Examination Findings

Ten (10) applications/policies written during the scope of examination were examined.

No errors were found.

Twenty (20) agencies were selected from agencies that produced over \$25,000 in premium.

No errors were found.