

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**INTERSTATE INDEMNITY COMPANY
(INTERSTATE NATIONAL CORPORATION)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES 3

COMPANY OPERATIONS/MANAGEMENT..... 4

REVIEW OF POLICIES 7

 PRIVATE PASSENGER AUTOMOBILE LIABILITY INSURANCE..... 7

CANCELLATIONS/NONRENEWALS REVIEW 8

COMPLAINTS/INVESTIGATION REVIEW 9

CLAIMS REVIEW..... 10

AGENTS/MGA REVIEW/ADVERTISING/MARKETING..... 11

PENDING ISSUES..... 12

EXECUTIVE SUMMARY

Interstate Indemnity 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 1, 2001 through February 28, 2002. The examination began February 20, 2002 and ended April 20, 2002. The last property and casualty market conduct examination of this insurer by the Florida Department of Insurance was concluded in May 1999.

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 claims delays, claims denials based on coverage, and the lack of return of unearned premium on cancelled policies.

A total of three hundred (300) files were examined for this Company. Eight (8) errors were noted. The following represents general findings; however, specific details are found in each section of the report. In addition, twenty-five (25) agents and ten (10) adjusters were reviewed for appointment and licensure requirements.

One hundred (100) complaint files were examined. Four (4) issues were noted. The examination found that the Company: failed to provide the Department of Insurance with proper notice prior to starting the reduction of business process in Florida; surcharged a policy for a chargeable accident when the accident was not chargeable; and delayed payment on a claim without conducting a reasonable investigation to determine liability. Most of the complaints dealt with insureds complaining about no or little premium being refunded to them when the policy was cancelled. However, a review of these files indicates the Company secured information to indicate the proper premium was not being charged. The proper premium was then charged with notice to the insured. When the insured did not send the additional premium, the policy was cancelled and the unearned premium refund was based on the correct premium that greatly reduced the amount of money going back to the insured.

Fifty (50) private passenger automobile policies were examined with no errors.

Fifty (50) cancellations and nonrenewals were examined with two (2) errors. These errors were a result of the Company not providing the insured with at least a forty-five (45) day notice of nonrenewal.

One hundred (100) claim files were examined with two (2) errors. The errors were due to the Company accepting liability on a claim then offering the claimant's carrier less than the subrogation amount. The offer was not based on any negligence of the claimant driver. The Company was late paying medical bills under the Personal Injury Protection coverage on a file. When the Company found the mistake, due to misfiling according to the Company, the bills were paid with interest.

Twenty-five (25) files were examined for the agents/MGA/advertising review with no errors.

The Company was asked to start the investigation of liability claims when put on notice of the claim even if that notice is from the claimant, instead of from the insured. This practice of not starting to investigate claims and determining damages in the handling of claims until the insured is contacted creates a delay in the denial or payment of claims. A request was also made for the Company to provide the examiner with a copy of the letter sent to the Department of Insurance outlining the decision to reduce business but not beginning until after May 16, 2002.

The Company was requested to complete all corrective actions within ninety (90) days of receipt of this examination report.

As a result of the findings of this examination, \$19.96 was returned to Florida consumers due to overcharges of premium.

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.

One error was found.

The error is described as follows:

1. One (1) error was due to the Company failing to provide the Department of Insurance with at least ninety days notice of its intention to withdraw from the state. This constitutes a violation of Section 624.430, Florida Statutes.

The Company had previously delivered a letter to the MGA dated October 25, 2001 canceling the contract between the Company and the MGA and outlining specific instructions for the handling of business. The MGA challenged the Company on both the writing of new business and the renewal of existing business. The Company then followed up the challenge with a response dated April 12, 2002. In this letter, the Company maintains the original order to cease writing new business stands, however, the effective date of the rescinding of the contract was now February 1, 2002. Notice was mailed from the Company dated February 8, 2002 to the Department of Insurance as required by statute and received by the Department of Insurance on February 13, 2002.

The Company was requested to cease all withdrawal actions until May 15, 2002 as a result of the February 13, 2002 notification to the Department of Insurance.

COMPANY OPERATIONS/MANAGEMENT

HISTORY/MANAGEMENT

Interstate Indemnity Company (IIC) is a licensed Illinois corporation operating since 1962, having functioned under the licensed name Interstate Reinsurance Company until 1979. IIC is admitted to do business in 47 jurisdictions and the District of Columbia; IIC is also approved in the State of Michigan as a surplus lines carrier. It is licensed in Illinois and generally in the 47 jurisdictions in Fire, Commercial Multi-Peril, Inland Marine, Medical Malpractice, Earthquake, Other Liability, Private Automobile Physical Damage, Commercial Automobile Physical Damage, Aircraft, Fidelity, Surety, Glass, Burglary and Theft, Credit, Livestock, Industrial Extended Coverage, Mobile Home, Multi-Peril, Mobile Home Physical Damage, Crop Hail, Home Warranties and Service Warranties.

IIC is a member company of the Interstate Insurance Group, which includes Chicago Insurance Company, Interstate Fire and Casualty Company. Jefferson Insurance Company and Monticello Insurance Company have recently joined the Interstate Insurance Group. All of the companies in the Interstate Insurance Group are member companies of the Fireman's Fund Insurance Companies (FFIC), a wholly-owned subsidiary of Allianz of America, Inc., itself a subsidiary of Allianz AG, of Munich.

IIC was issued a Certificate of Authority to conduct business in Florida on April 15, 1993, amended effective June 10, 1993, to add credit as a line of business. Since that time, the Florida Certificate of Authority has remained current, with no changes in either the name or lines of business, and IIC has remained managed by FFIC and Allianz. In Florida, the Company writes its business through MGAs located within the borders of the State.

As we discovered during this examination, the Company is planning to withdraw from the State of Florida and has already placed the MGA on notice of the withdrawal.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company maintains computer links with the MGA and the MGA also is connected with agents throughout the State by way of computer interface. The MGA maintains policy files and records on computer. Information is maintained by way of paper files as well. The system allows agents to process quotes, new applications, policy endorsement requests, and payments.

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 by establishing a Special Investigation Unit. The MGA reviews each loss and conducts an investigation including coverage and liability questions to determine if coverage exists and if there is liability to be covered under the contract. If during the investigation, fraud is suspected, the claim is forwarded to the Company SIU for referral. The SIU investigates and then determines whether there is a basis for referral to the Division of Insurance Fraud. If so, a referral is prepared in compliance with Section 626.989(6), Florida Statutes, and forwarded to the appropriate office.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. The Plan provides details for all functions to be performed and responsibilities indicating names, phone numbers, titles, and Company response time line. The Plan lists all contact phone numbers and back-up phone contacts to make sure business is not interrupted. Details of backing up computer data and other information are also laid out in detail.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Through its home office Internal Auditing Department, the Company will conduct audits based on an annual review. The procedures have been supplied to the examiner and reviewed as part of the examination.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Privacy Notice is printed and mailed with all new business and annually to all renewal business.

Statistical Affiliations

The Company independently files its rules, rates, and forms.

Credit Reports

The Company does not use Credit Reports as an underwriting tool. This was verified during the review of the automobile policies.

OPERATIONS/MARKETING

Marketing

The Company writes private passenger automobile policies. However, during the course of this examination, it was discovered that the Company had started actions to withdraw from the automobile market in Florida. It is noted in the notification letter to the Florida

Department of Insurance that withdrawal will start no sooner than May 15, 2002 unless authorized by the Florida Department of Insurance.

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

The Company writes business in almost every territory in the State through the MGA Space Coast Underwriters, by using independent agents. These agents are licensed and appointed by Interstate Insurance Company. These agents have computers that are linked to the MGA and the MGA is linked to the Company. The agents also have binding authority on the part of the Company and they write business on binders that are then reviewed and underwritten by the MGA.

The MGA uses Harbor National Claims Service in Lake Mary, Florida, to handle claims under these policies. The adjusters for this firm are licensed and appointed by the State of Florida and during the review of claim files, those licenses were verified by the examiner.

Lines of Business

During the scope of this examination, the Company wrote private passenger automobile coverage. Under one program, full coverage was provided including comprehensive and collision coverage. The other program provided property damage and personal injury protection coverage as required by the State of Florida.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE LIABILITY INSURANCE

Description of Product/Lines of Business

Interstate Indemnity Company writes private passenger automobile insurance in two different programs in Florida. The first program offers full coverage policies that include property damage, personal injury protection coverage, collision, and comprehensive coverages. The second program includes only property damage 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>
2001	\$10,248,627	29,990

Examination Findings

Fifty (50) policy files were examined. All areas of compliance were reviewed including the underwriting manual as provided by the MGA.

No errors were found.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Of the files reviewed, the Company cancels and nonrenews policies giving the insured the number of days notice required by statutes, plus mail time. Notices are sent to the insured, agent and lienholder, when applicable. Return premiums are calculated as of the effective date of cancellation. These return premiums are also calculated based on any revised premium figures based on newly discovered information during the underwriting process that would increase the initial premium amount due.

CANCELLATION REVIEW

Thirty (30) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Twenty (20) nonrenewed policies were examined.

Two (2) errors were found.

The errors are described as follows:

1. Two (2) errors were due to failure to provide the insured with a timely notice of nonrenewal. This constitutes a violation of Section 627.728, Florida Statutes.

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. However, as the Company uses the MGA to write all business in Florida, the complaints from consumers go to the agent or to the MGA. They are then set up for handling at that point.

COMPLAINTS RECEIVED FROM DOI

Consumer Last Name	Alleged Violation	Comments	Violation
Blend	Improper surcharge due to not at fault accident	Violates Company u/w guidelines.	S. 627.0651, Florida Statutes
Kirkland	Delay in payment of claim	With no evidence in file, offered 50%.	S.626.9541(1)(i)3a
Vaughn	Delay in payment of claim	Delayed getting ACV on clmt cars.	S.626.9541(1)(i)3a
Fraze	Delay in payment of claim	Witness confirmed liab and Co. delayed pymt.	S.626.9541(1)(i)3a

Examination Findings

One hundred (100) complaints were examined.

Four (4) errors were found.

The errors are broken down as follows:

1. Three (3) errors were due to the delay of investigating liability claims. This constitutes a violation of Section 626.9541(1)(i)3a, Florida Statutes. The files did not contain documentation supporting the delays in bringing the claims to conclusion.
2. One (1) error was due to failure to follow the guidelines set forth in the Underwriting Manual. This constitutes a violation of Section 627.0651, Florida Statutes. This error was due to the Company applying a surcharge to the insured's policy for an at-fault accident, when the accident in question was a parked car loss. This error resulted in one (1) overcharge totaling \$19.96, which has been refunded to the insured by the Company.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

Private passenger automobile type of claims reviewed include: bodily injury, property damage, collision, comprehensive, uninsured motorists, underinsured motorists, medical payments and personal injury protection (PIP).

Examination Findings

Fifty-nine (59) claims were examined.

Two (2) errors were found.

The errors are broken down as follows:

1. One (1) error was due to failure to offer the amount of damages as confirmed by the claimant carrier with no evidence in the file to support the lower offer that was actually made. This constitutes a violation of Section 626.9541(1)(i), Florida Statutes. This error was due to the Company trying to offer less than the amount owed with no evidence in the file to justify the reduction.
2. One (1) error was due to failure to pay the PIP bills within the timeframe established by statute. This constitutes a violation of Section 627.736, Florida Statutes. This error was due to the file being misfiled in the office. When it was found, the outstanding bills were paid as was all interest due as a result of the late payment. Since the interest was already paid by the Company, no further action was required.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Private passenger automobile claims reviewed included: bodily injury, uninsured motorists, underinsured motorists, medical payments, and personal injury protection (PIP).

Examination Findings

Forty-one (41) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company writes business in Florida through Space Coast Underwriters, a MGA. The MGA is licensed and appointed. The MGA contract has been reviewed. It has also been determined that the Company is presently attempting to withdraw from this market in Florida and has attempted to cancel the contract with the MGA. However, notification was not forwarded to the Department of Insurance as required by statute. The Company has since rescinded the original letter of cancellation to the MGA, and forwarded another letter while also placing the Department of Insurance on notice as required.

The examiner also made a random selection of twenty-five agencies writing more than \$25,000 in premium for the Company to verify the agents are appointed and licensed under Florida Statutes.

No violations were noted.

Ten applications written during the scope of examination were examined. Each agent was licensed and appointed in Florida by the Company.

No violations were noted.

PENDING ISSUES

The following issues were pending at the conclusion of the examination field work:

CORRECTIVE ACTIONS

(1). The Company will re-emphasize to its staff, in writing, the need to respond to claims promptly including paying liability claims where coverage is clear, liability clear, and damages established.

The Company needs to prepare a written action plan to re-emphasize the existing guidelines outlined in the Claims Manual used by the Company.

The Company must submit these written documents to the Florida Department of Insurance within ninety (90) days of receipt of this examination report.