

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

MARYLAND CASUALTY COMPANY  
(ZURICH NORTH AMERICA)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Maryland Casualty Company is a domestic 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 1998 through December 2000. The examination began May 13, 2001 and ended July 14, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded December 1, 1996.

The prior examination report included the review of private passenger automobile, antique automobile, dwelling fire, homeowners, personal umbrella, pleasure craft, commercial automobile, commercial fire, commercial general liability, commercial inland marine and workers' compensation. Violations cited included failure to provide a Company telephone number and its purpose, failure to maintain uninsured motorist acceptance/rejection forms signed by the insured, failure to document schedule credits, failure to display the agent's license identification number on applications, failure to countersign policies, use of unlicensed nonresident agents, use of unlicensed resident agents, failure to affix the fraud statement to claim forms, and use of unappointed Company employee adjusters.

The purpose of this target examination was to ensure compliance with Florida Statutes and Rules.

During this examination, records reviewed included homeowners and commercial multi-peril policies, applications for the agents/MGA review, cancellations/nonrenewals, claims and consumer complaints for the period of January 1998 through December 2000, 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.

As a result of the findings of this examination, \$6,192.25 was returned to Florida consumers due to overcharges of premium. An estimated additional refund of \$333,588 will be made by Maryland Casualty Company due to over recoupment of Florida Hurricane Cat Fund Surcharges. While this issue was found in this Company examination, it also applies to the other companies in the Zurich North America Group. Therefore, estimated refunds will also be made by Northern Insurance Company of New York, \$19,049; Assurance Company of America, \$137,229; and Valiant Insurance Company, \$336,402. The total refund for the Zurich North America Group is estimated to be \$826,268. See Pending Issues Section.

II. PRE-EXAM REVIEW OF COMPANY 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. Exam 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

Maryland Casualty Company commenced writing business on March 1, 1898. American General Insurance Company of Houston, Texas purchased the Company on November 20, 1964. On May 25, 1989, it was sold to Zurich Insurance Group, now Zurich North America, a part of Zurich Financial Services Group, a Swiss multiple line financial services provider. The Company writes almost all lines of property and casualty insurance and is licensed in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam. The Company principally uses independent agents and brokers to market both commercial and personal insurance products.

The Company utilizes several focused underwriting units housed in Florida. These include agribusiness, hospitality, light manufacturing, private schools, technology, and construction risks. Within these units most commercial lines of business are underwritten for risks ranging from small proprietorships to major multi-national corporations.

#### B. MANAGEMENT

For compliance with Section 626.9891, the Company has established a special investigative Unit (SIU) within the Company to investigate possible fraudulent claims and recently entered into a strategic alliance agreement with Risk Enterprise Management to handle overflow of investigations. The plan was filed with the Department of Insurance, Fraud Division, on June 24, 1996. The plan encompasses both internal and external investigative units responsible for the prevention, detection, and investigation of fraudulent activities. The SIU has the primary responsibility of detection, prevention, investigation and file handling of all suspected claims' fraud by policyholders or claimants. Zurich established a Corporate Security unit in 1986 to address all fraud, integrity, and gross

misconduct incidents occurring both internally and externally. This unit is a part of the Corporate Internal Audit Department.

Internal auditing services are provided by Zurich North America group's internal audit department headquartered in Schaumburg, Illinois. Each internal audit activity is designed specifically for the nature of the activity being audited. Reports on audit activity are provided to the CEO upon completion of the audit.

The Company has implemented a disaster recovery team as part of their Disaster Recovery Plan responsible for the preparation of an off-site location in the event of destruction or unavailability of the Company office.

The IBM mainframe Generation 5 processor R46, along with two Z series processors comprise the primary computer system for the company.

In response to Emergency Rule 4ER01, the Company has developed a rule to comply with privacy requirements. See Pending Issues Section.

C. OPERATIONS

The Company's marketing plans target agribusiness, middle sized markets, small businesses, and the construction industry. Within these plans, most commercial lines of business (package and monoline) are marketed. Business is written in all areas of the State of Florida.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Maryland Casualty Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Maryland Casualty Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The Insurance Services Office (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>
1998	\$1,191,045	1,926
1999	\$1,089,930	1,695
2000	\$ 643,340	931

The decrease in policy count and direct premium written for 2000 was due to the decision to decrease writing in Florida.

3. Exam Findings

One hundred (100) policy files were examined.

One hundred and twenty-five (125) errors were found.

Errors affecting premium resulted in one hundred five (105) overcharges totaling \$6,176.25.

The errors are broken down as follows:

1. Ninety-nine (99) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company incorrectly applied the Florida hurricane catastrophe fund surcharge of 10% to policies effective after November 30, 1997. The Company filed to apply this surcharge only to policies effective between 12/1/96 and 11/30/97. This resulted in ninety-nine (99) overcharges totaling \$5,713.30, which have been refunded by the Company. In addition, the Company was directed to rerate all policies in effect for the scope of this examination: 1998, 1999, 2000 based on aforementioned error. Exhibit I. Refunds will go to approximately 5,109 insureds with an estimated total of \$333,588. See Pending Issues Section.
2. Eight (8) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect territory codes. This resulted in five (5) overcharges totaling \$451.85, which have been refunded by the Company. The remaining errors did not affect premium.

3. Eighteen (18) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect protection classes. This resulted in an overcharge totaling \$11.10, which has been refunded by the Company. The remaining errors were in the same protection class group which did not affect premium.

B. COMMERCIAL MULTI-PERIL

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Maryland Casualty Company is a member of Insurance Services Office (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

Maryland Casualty Company is a member of Insurance Services Office (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

Insurance Services Office (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>
1998	\$10,110,497	2,884
1999	\$13,693,563	2,688
2000	\$12,579,735	4,341

The increase in policy count for 2000 was due to the internal restructuring of business by companies within the Zurich North America Group. As a result, the company assumed middle market policies.

3. Exam Findings

One hundred (100) policy files were examined.

Twenty-four (24) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$16.00, and ten (10) undercharges totaling \$25,225.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect protection classes.
2. Ten (10) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect territory codes. This resulted in an overcharge totaling \$16.00, which has been refunded by the

Company. The remaining errors were in the same territory group and did not affect premium.

3. Two (2) errors were due to failure to provide the insured 45 days advance written notice of the renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes.
4. Ten (10) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.062, Florida Statutes. The Company incorrectly used a .94 tort factor for premises and operations coverage and a .92 tort factor for products and completed operations coverage on the general liability section of the policies. These factors were filed for use in 1988 for a limited amount of time, however, they were applied to the present rating structure due to a computer program coding error. This resulted in ten (10) undercharges totaling \$25,225.00.

V. AGENTS/MGA REVIEW

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

Seven (7) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Four (4) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to use of an unappointed nonresident agent. This constitutes a violation of Section 626.112, Florida Statutes.
3. Two (2) errors were due to use of unlicensed nonresident agents. This constitutes a violation of Section 626.741, Florida Statutes. This error occurred in the 1996 Examination, Page 25. Exhibit II.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Two (2) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Two (2) errors were due to failure to give a specific reason for nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. "Underwriting reasons" is not considered a specific reason.

## VII. CLAIMS REVIEW

Fifty (50) claims were examined.

One (1) error was found.

The error did not affect payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit III.

The error is described as follows:

1. One (1) error was due to use of an unlicensed nonresident adjuster. This constitutes a violation of Section 626.873, 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. Complaint handling procedures are described in Exhibit IV. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

### A. CONSUMER RECEIVED COMPLAINTS

Two (2) consumer received complaints were reviewed.

No errors were found.

IX. PENDING ISSUES

1. The Company was directed May 31, 2001 to rerate all Homeowners policies effective in 1998, 1999, and 2000 due to the incorrect application of the 10% Hurricane Catastrophe Fund Surcharge. Per Company estimate, refunds will go to approximately 5,109 insureds with an estimated total of \$333,588. Since this issue also applies to the other companies in the Zurich North America Group, estimated refunds will also be made by Northern Insurance Company of New York, \$19,049; Assurance Company of America, \$137,229; and Valiant Insurance Company, \$333,402. The total refund for the Zurich North America Group is estimated to be \$826,268. The company is directed to provide documentation of the refunds to the Florida Department of Insurance within 90 days of the receipt of this examination report. Exhibit V.
2. The Company is directed to provide a copy of their privacy plan to the Florida Department of Insurance within ninety 90 days of the receipt of this examination report.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
HOMEOWNERS RERATE LETTER TO COMPANY	I
PRIOR REPORT PAGE #25	II
CLAIMS HANDLING PROCEDURES	III
COMPLAINT HANDLING PROCEDURES	IV
COMPANY RESPONSE ON RERATE ISSUE	V