

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

PACIFIC EMPLOYERS INSURANCE COMPANY

(ACE USA)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 9/7/01

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## I. INTRODUCTION

Pacific Employers Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1996 through December 1998. This examination began June 11, 2000 and ended July 8, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1995.

The purpose of the examination was to verify that the Company is conducting business according to Florida Statutes.

During this examination, records reviewed included policies, audits and unit statistical reporting for the period of January 1996 through December 1998, 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, an amount yet to be determined, will be returned to approximately 180 Florida consumers due to overcharges of premium.

II. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Pacific Employers Insurance Company is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The Company also makes some independent filings. The NCCI acts as statistical agent for this line of business.

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> |
|-------------|--------------|---------------------|
| 1996        | \$11,216,367 | 70                  |
| 1997        | \$10,461,020 | 118                 |
| 1998        | \$15,983,830 | 104                 |

b. Error Percentages

Ninety (90) policies and audits were examined.

Forty-seven (47) errors were found.

Errors affecting premium resulted in thirty-one (31) overcharges. See Exhibit I.

The errors are broken down as follows:

1. Thirty-one (31) errors were due to failure (when the policy was subject to a large deductible), to apply the appropriate premium discount after the deductible credit is applied to the standard premium on the policies and/or final audits, as provided for in the Company's filed and approved Large Deductible Plan. These errors resulted in overcharges, totaling an amount to be determined, which will be refunded by the Company upon rerating each affected policy. This constitutes a violation of Section 627.191, Florida Statutes. Exhibit I.
2. Sixteen (16) errors were due to failure to advise the insured of the Florida Mandatory Offer of Deductible. This constitutes a violation of Section 627.191, Florida Statutes.

2. Unit Statistical Review

The review of statistical cards is for the purpose of verifying that premium and claim statistics are properly reported to the NCCI. Workers' Compensation statistics are utilized in the rate making process when rate filings are presented to the Department of Insurance for consideration, as well as, in the development of experience modification factors on individual risks.

a. Audit Comparison

Twenty-five (25) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Twenty-five (25) claim statistical cards were examined.

Eleven (11) errors were found.

Errors affecting statistical reporting resulted in no overreports or underreports.

The errors are broken down as follows:

1. Eleven (11) errors were due to failure to report the correct injury type. Injury type 05 or injury type 09 was reported instead of injury type 03 when applicable for impairment benefits. This constitutes a violation of Section 627.191, Florida Statutes.

### III. PENDING ISSUES

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

1. The Company failed to apply the appropriate premium discount, as allowed for in the Company's filed Large Deductible Plan, when a policy was written subject to this plan. These errors resulted in overcharges with the amount yet to be determined. The number of policies affected is estimated to be 180. Established rerate/refund procedures, along with the unclaimed funds requirements, were provided to the Company with instructions for following them in accomplishing the directed rerate/refund of overcharges on the affected policies.

IV. EXHIBITS

| <u>SUBJECT</u> | <u>EXHIBIT NUMBER</u> |
|----------------|-----------------------|
|----------------|-----------------------|

|   |  |
|---|--|
| COMPANY RESPONSE TO ADVISORY<br>LARGE DEDUCTIBLE PLAN |  |
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