

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SECURITY INSURANCE COMPANY OF HARTFORD
(ROYAL & SUNALLIANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	2
III.	COMPANY OPERATIONS/MANAGEMENT	3
IV.	REVIEW OF POLICIES	
A.	OTHER LIABILITY	6
B.	WORKERS' COMPENSATION	9
V.	AGENTS/MGA REVIEW	13
VI.	CANCELLATIONS/NONRENEWALS REVIEW	14
VII.	CLAIMS REVIEW	15
VIII.	COMPLAINTS REVIEW	16
IX.	EXHIBITS	17

I. INTRODUCTION

Security Insurance Company of Hartford (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, which was January 1998 through December 2000. The examination began May 6, 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 November 13, 1998.

The prior examination report included the review of professional liability. Violations cited included failure to display the telephone number and purpose on policies, failure to follow filed rating plans, rating schedules or rating rules, failure to document/substantiate debits/credits and failure to display agent name/license identification number or insurer name on applications.

The purpose of the current examination was to verify whether the Company is conducting business in compliance with Florida Statutes and Rules.

During this examination, records reviewed included policies, audits, statistical information reporting, agent/MGA licensing, 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, \$230.00 was returned to Florida consumers due to overcharges of premium.

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 the 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

Security Insurance Company of Hartford was organized under the name Mutual Security Insurance Company in May of 1841, by a resolution adopted by the General Assembly of the State of Connecticut and began writing business in 1844. The Company name was changed to Security Insurance Company of New Haven in 1873 and the present name was adopted January 1, 1965.

The Company was controlled by Textron, Inc., from July 1973 until March 1978, when it was purchased by Orion Capital Corporation. On November 16, 1999, the Orion Capital Companies were acquired by Royal & SunAlliance USA, Inc.

The affiliated companies in the Royal & SunAlliance group, in addition to Security Insurance Company of Hartford are American and Foreign Insurance Company, The Connecticut Indemnity Company, Design Professionals Insurance Company, EBI Indemnity Company, Employee Benefits Insurance Company, The Fire and Casualty Company of Connecticut, Globe Indemnity Company, Grocers Insurance Company, Phoenix Assurance Company of New York, Royal Indemnity Company, Royal Insurance Company of America, Royal Surplus Lines Insurance Company, Safeguard Insurance Company, The Sea Insurance Company of America, Financial Structures Insurance Company, Royal and SunAlliance Personal Insurance Company, Marine Indemnity Insurance Company of America, Royal Lloyd's of Texas, Connecticut Specialty Insurance Company, Orion Insurance Company, Viking Insurance Company of Wisconsin, Guaranty National Insurance Company, Viking County Mutual, Landmark American Insurance Company, Peak Property and Casualty Insurance Corporation, Guaranty National Insurance Company of Connecticut, Atlantic Security Insurance Company, Atlantic Indemnity Company, Unisun Insurance Company, and Carolina American Insurance Company.

Business is marketed by means of “operational units” (which are actually programs) through the independent agency system and no MGA are used. The operational units that were a part of the exam are: grocers, (commercial umbrella liability and workers’ compensation), DPIC, (professional liability) EBI (workers’ compensation) and ARTIS (workers’ compensation). The Company does not solicit business by means of direct response and does have a website that DPIC offers professional liability insurance, loss prevention education, claims and risk management. There is an application displayed which small firms can complete to receive a quote from the Florida agent. Thus far, no business has been sold by this method of distribution.

Claims handling functions are administered from the home office Claims Division Charlotte, North Carolina. DPIC claims handling functions are administrated from their office in Monterey, California. Florida claims are handled by a licensed resident company adjuster, who reports to a regional claims manager.

Business is conducted through the home office, regional and branch offices strategically located throughout the country.

B. MANAGEMENT

All Company offices are inter-connected on the corporate computer system, which is an integral part of a comprehensive disaster recovery plan. A Business Recovery Procedures Manual that outlines general procedures to be followed during a business recovery has been developed and furnished to each office. The purpose of the manual is to assist each office in planning how to handle a business recovery according to Company policy in the event of a disaster.

The Company has established a special Anti-Fraud Division within the Company. A detailed description of the Anti-Fraud Plan has been filed with the State of Florida in compliance with Section 626.9891 (1) (a), Florida Statutes. Exhibit I. Comprehensive internal audit procedures have been established for reviewing underwriting policy files, as well as claims with specific guidelines for each. A schedule for conducting audits in each of the regional offices is developed during the fourth quarter of the year for the next year. The goal set forth in the procedures is to review each office twice each year.

The Company has a privacy plan in place which complies with Emergency Rule 4ER01.

C. OPERATIONS

Security Insurance Company of Hartford is marketing business in the State of Florida with “operational units” or programs. The Grocers Program provides customized coverages, two of which are workers’ compensation and commercial umbrella liability coverage for grocery stores, convenience stores and some restaurants through independent agencies located in Florida, Georgia and Alabama. The DPIC program markets professional liability insurance for architects, engineers and environmental consultants. It is handled by an independent agency with three locations in Florida. The EBI program provides workers’ compensation through many appointed agencies and large brokers for health care facilities, manufacturing, educational institutions and hospitality and service industries. The typical account solicited is between \$100,000 and \$1,000,000. The ARTIS program provides customized coverages, one of which is workers’ compensation, for existing and start-up accounts with low to medium risk characteristics and better than average loss experience. This program is marketed through an agency located in Florida and other agencies in Alabama, New York, North Carolina, Illinois, Tennessee and California. Business is marketed throughout the entire State of Florida.

IV. REVIEW OF POLICIES

A. OTHER LIABILITY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Security Insurance Company of Hartford 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

Security Insurance Company of Hartford is a member of 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

ISO acts as the Company's official statistical agent.

2. Premium and Policy Counts

- a. The review of other liability included professional liability and commercial umbrella liability. Professional liability is written for architects, engineers and environmental consultants. The commercial umbrella policy is written for grocers. The required filing of rules, rates and forms for this program has been made. This was a new program started in 1999 and has very little business in Florida.
- b. Direct Premiums Written and in-force policy counts for both products for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1998	\$11,468,377	968
1999	\$11,508,060	1,117
2000	\$11,167,224	864

3. Exam Findings

One hundred (100) policy files were examined.

One hundred four (104) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

- 1. Ninety-six (96) errors were due to use of an unfiled rating plan, rating schedule or rating rule. This constitutes a violation of

Section 627.062, Florida Statutes. The Company failed to file the rating plan and rules being used with the professional liability program which is an “A” rated program.

2. Four (4) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The policy file did not contain sufficient information to verify the commercial umbrella premium. The underlying liability premium was not indicated.
3. Three (3) errors were due to use of an unfiled schedule rating plan. This constitutes a violation of Section 627.062, Florida Statutes. Schedule rating was not included in the Company’s rate filing for commercial umbrella.
4. One (1) error was due to use of an unfiled rate. This constitutes a violation of Section 627.062, Florida Statutes. The policy limit of liability was shown as \$10,000,000 and the Company’s filed rate plan does for commercial umbrella not provide rating for limits in excess of \$5,000,000.

B. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Security Insurance Company of Hartford is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. 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>
1998	\$ 600,130	117
1999	\$5,102,189	309
2000	\$8,570,433	756

The increase in written premiums and number of policies was due to the Company opening a claims and accident prevention office in Tampa, Florida, which made it possible to take a more aggressive marketing approach to produce business in Florida. There were also several accounts that experienced large growth, resulting in increased premiums.

b. Error Percentages

One hundred (100) policies and audits were examined.

Thirty-nine (39) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$146.00 and eleven (11) undercharges totaling \$244,855.00.

The errors are broken down as follows:

1. Four (4) errors were due to failure to follow the filed rate, rating schedule, rating rule or underwriting guidelines. This constitutes a violation of Section 627.191, Florida Statutes. Incorrect experience modification factors were used in calculating the premium. These errors resulted in one (1) overcharge totaling \$59.00, which has been refunded, and two (2) undercharges totaling \$4,289.00. The remaining error did not affect premium.
2. Three (3) errors were due to failure to follow the filed rate, rating schedule, rating rule or underwriting guidelines. This constitutes a violation of Section 627.191, Florida Statutes. The anniversary rating date was not applied in accordance with the rule. These errors resulted in one (1) overcharge totaling \$87.00, which has been refunded, and one (1) undercharge totaling \$166.00. The remaining error did not affect premium.
3. One (1) error was due to failure to follow the filed rate, rating schedule, rating rule or underwriting guidelines. This constitutes a violation of Section 627.191, Florida Statutes. The final audit billing did not include the audited payroll for uninsured sub-contractors. This error resulted in an undercharge totaling \$221,923.00.

4. One (1) error was due to failure to follow the filed rate, rating schedule, rating rule or underwriting guidelines. This constitutes a violation of Section 627.191, Florida Statutes. The classification code applicable to the insured's business was not used. This error resulted in an undercharge totaling \$627.00.
5. Thirty (30) errors were due to failure to audit the policy and return the premium in a timely manner. This constitutes a violation of Section 627.191, Florida Statutes. The audit on fourteen (14) of the policies was not completed in a timely manner. The audit on six (6) of the policies was not billed in a timely manner. The audit for four (4) of the policies was not completed at all. The audit on six (6) of the policies was not billed resulting in six (6) undercharges totaling \$17,850.00.

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

Eight (8) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Six (6) claim statistical cards were examined.

Two (2) errors were found.

Errors affecting statistical reporting resulted in one (1) overreport totaling \$266.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to properly report statistical information to NCCI. This constitutes a violation of Section 627.191, Florida Statutes. The amount of the claims payments reported to NCCI did not match the claim file. These errors resulted in one (1) overreport totaling \$266.00.

V. AGENTS/MGA REVIEW

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

Three (3) errors were found.

The errors are broken down as follows:

1. Three (3) errors were due to use of unlicensed nonresident agents. This constitutes a violation of Section 626.741, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Seven (7) errors were found.

One (1) error resulted in an underreturn totaling \$84.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to provide a timely notice of renewal, nonrenewal, or cancellation. This constitutes a violation of Section 627.4133, Florida Statutes.
2. Four (4) errors were due to failure to audit the policy and return the premium in a timely manner. This constitutes a violation of Section 627.191, Florida Statutes.
3. One (1) error was due to failure to follow the filed rate, rating schedule, rating rule or underwriting guidelines. This constitutes a violation of Section 627.191, Florida Statutes. The cancellation was based on short rate instead of prorata when the insured no longer had any employees. This error resulted in an underreturn totaling \$84.00, which has been refunded.

VII. CLAIMS REVIEW

Twenty-five (25) claims were examined.

No errors were found.

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

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 III.

A. COMPANY RECEIVED COMPLAINTS

No errors were found.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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EVIDENCE OF FILING OF ANTI-FRAUD PLAN	I
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