

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

STATE FARM INSURANCE COMPANIES

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 10/02/02

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## **SCOPE**

The scope period for this review was from November 2001 to March 2002. The examination began on Monday, May 13, 2002 and ended June 4, 2002. The examination was conducted at the Naples, Florida Service Center for State Farm Insurance Companies. The Company coordinator was Bill Matchell from the State Farm Regional Office in Winter Haven, Florida. The on-site Company representative was Terri Maricque, Claims Superintendent.

The scope issue was to review 100 claims files selected from a computer run provided by the Company to determine if the payments on mold claims were appropriate and if the claims were being paid in accordance with policy provisions. In other words, our assumption in the review process is that mold as a peril is NOT covered. However, if there is damage from a named peril, with resulting mold damage, the coverage would exist to repair both the water damage and resulting mold damage. Therefore, the goal was to determine if the coding was correct for payments made in these files, as well as if the payments were in line with covered damages, and that coverage did exist for the payments made.

## FINDINGS

The review indicates that the Company has paid out over 3.6 million dollars in one hundred (100) claim files involved in this examination. The Company paid a total of \$1,771,786.61 on the files coded to water loss.

Ninety-six (96) of the files showed a payment coded to mold damage. A total of \$1,835,488.65 was paid out and coded to mold by the Company.

However, the review also indicated that twenty-four (24) files contained payments coded to water that should have been coded to mold totaling \$393,098.72. It was also determined that twenty-seven (27) files showed payments coded to mold which should have been coded to water totaling \$198,707.30. This would indicate more severity in the mold payments if the coding corrections were used. It was also determined that in six (6) files, there was no link established between a covered peril and the resulting mold damage. There were three (3) files where expense payments were coded as indemnity payments thereby reducing the amount of coverage available to the insured. None of the three (3) files resulted in the reduction of any recovery by the insured. However, these nine files did total \$99,751.66 being paid where no documentation of coverage existed in the file. See Exhibit I.

## OBSERVATIONS

To see the influence of mold on the payment of these types of claims, when mold is present, the total claim is almost the same for mold as it is for water.

To summarize our findings, it appears that the Company is paying for mold damage when there is a direct link to a covered peril linking the mold to coverage. The expense factors in this type of claim are very high. Most claims require testing twice to conclude the claim and the additional living expense claims are very high as well. When mold is included in a claim, the amount of loss averages the same amount as water. Several of the claims reviewed included files for insureds residing in Florida in the Winter, going back to the northern United States or Canada for the Summer. Any malfunction of the water supply in the house creates a mold claim by the time the insured returns in the Fall.

X. EXHIBITS

SUBJECT \_\_\_\_\_ EXHIBIT NUMBER

SUMMARY

I

Exhibit I

<b>TOTAL MOLD PER COMPANY</b>	<b>\$1,835,488.65</b>
<b>TOTAL WATER PER COMPANY</b>	<b>\$1,771,786.61</b>
<b>TOTAL CLAIM PER COMPANY</b>	<b>\$3,607,275.26</b>
<b>CORRECTED MOLD</b>	<b>\$1,978,445.55</b>
<b>CORRECTED WATER</b>	<b>\$1,529,078.05</b>
<b>NOT COVERED MOLD</b>	<b>(\$51,434.52)</b>
<b>NOT COVERED WATER</b>	<b>(\$48,317.14)</b>
<b>TOTAL NOT COVERED</b>	<b>(\$99,751.66)</b>
<b>Average Claim Mold</b>	<b>\$18,354.89</b>
<b>Average Claim Water</b>	<b>\$17,717.87</b>