2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

WARNER INSURANCE COMPANY
(RESPONSE INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 2/05/03

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EXECUTIVE SUMMARY

Warner Insurance 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 October 1, 2001 to November 20, 2002. This is the first market conduct examination conducted by the Florida Department of Insurance on Warner Insurance Company.

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 claim denials, cancellations/nonrenewals, and rating issues. Several complaints were generated due to insureds losing coverage due to premium being received late by the Company. However, the renewal notice sent to the insured was very specific that coverage would cease if the premium was not received by the Company on or before a certain date AND no further notice would be provided to the insured.

A total of four hundred (400) files were examined for this Company with fifteen (15) errors. The following represents general findings; however, specific details are found in each section of the report.

Files Reviewed – 400

- One hundred (100) private passenger automobile
- One hundred (100) cancellations and nonrenewals
- One hundred (100) complaints
- One hundred (100) claims

Findings

- Private Passenger Automobile – One (1) errors.
    - The Company used an accident with a payout less than the exception rule used by the Company to place the insured in a higher tier.

- Complaints – one (1) error.
    - The Company uses “no hits” on credit scores to place insureds in the highest rated tier.

- Claims – thirteen (13) errors.
    - The Company failed to secure a salvage title on a total loss automobile.
    - The Company failed to fully investigate a claim where it was known that a bodily injury exposure existed.
    - The Company failed to pay PIP bills as required.

Corrective Actions

- The Company has already changed the salvage procedures to include securing the salvage title as required.

- The Company has already started the process to reprocess the PIP claims that were not paid when first presented. The process includes any interest due as well and the Company is to provide the Department with the final information as to the amounts paid when completed.
- The Company has been requested to refund $428 to insureds due to wrong tier placement.

The Company was requested to complete all corrective actions within 90 days of receipt of the examination report with written documentation to the Department of Insurance that the corrective action has been taken.

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.

No errors were found.

COMPANY OPERATIONS/MANAGEMENT

HISTORY/MANAGEMENT

Warner Insurance Company writes private passenger automobile insurance and is a wholly owned subsidiary of Response Insurance Group. Response purchased Warner in October of 2001 from Firemans Fund Insurance Group. The home office has just been moved from White Plains, New York to Meriden, CT, within the last year. Presently, there is also a call-center located in St. Louis. This office is being phased out of operation.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company maintains its own system for use in rating, underwriting, claims, and management of the business written for Warner Insurance Company. This system operates on a mainframe located on site with access by desktop computers for the staff. Backup data is maintained at an offsite location. The mainframe of the system is managed by the Company on-site. Employees have access by individual computers located throughout the office. The system previously used by Warner has been replace by the working system being used by Response effective November 15, 2002.

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. This unit is involved in all suspected fraud cases. This unit determines if a referral to the Division of Insurance Fraud is warranted. 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.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business. Through its home office, the Company conducts audits based on an annual review. The claims office had just been audited prior to our arrival.

Privacy Plan

The Company has developed a Plan to meet the requirements of Rule 4-128.005, Florida Administrative Code, and Rule 4-128.006, Florida Administrative Code. The privacy notice is printed and mailed with all renewal business. The Company is not presently writing any new business in Florida.

Statistical Affiliations

The Company presently independently files its rules, rates and forms. It also is a member of Insurance Service Office (ISO).

Credit Scores

The Company does use Credit Scores as an underwriting tool. The Company uses a four tier rating plan, which has been filed with and approved by the Department of Insurance. As one part of determining which tier an insured would be place in, is what credit score does he or she maintain. Other factors include driving history, including time licensed, and any accidents or violations within a certain time frame.

When the Company receives a "no hit" on the credit score the insured is then placed in the highest premium tier. This is part of the filed and approved rating plan under which the Company is operating at this time. The Company also re-evaluates insureds upon renewal and moves insureds up or down in the tiers depending on the information secured during the re-evaluation process. The policy advises the insured that credit will be checked periodically. The Company also advises the insured when credit adversely affects the premium charged to the insured.

OPERATIONS/MARKETING

Marketing

There are no plans to offer any type of marketing plan on behalf of the Company for new automobile business in the state of Florida. The Company is maintaining the book of business it presently has on a renewal basis only.

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

The Company is maintaining the underwriting portion of the business from the home office in Meriden, CT. All policy service is being done from this location. All claims are processed in Florida through the independent adjusting firm of Fleming and Hall.

Lines of Business

During the scope of this examination, the Company wrote private passenger automobile coverage. This business was written on a renewal basis only. No new business is being written in this company by the holding company.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

The examination involved a complete review of private passenger automobile coverages including bodily injury liability, property damage liability, personal injury protection, uninsured motorist, underinsured motorist, comprehensive and collision coverages. The Company does use tier rating combined with credit scores in its underwriting procedures.

The Company has four different tiers used for placing business as written. Besides confirming the vehicle is registered in Florida, and the insured has a valid Florida drivers' license, the Company also uses convictions within the last 36 months, at-fault accidents, incidents, and verification of the Insurance Bureau Credit Score. If no score is available under this plan, the insured is rated in the highest premium tier. The Company re-underwrites policies at renewal and moves the policyholder up or down depending on the new information secured during the underwriting process.

Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

Year	DPW	Policy Count
2001	44,306,662	87,436
2002*	13,704,219	20,502

*Includes premium for the first three months of 2002.

Examination Findings

One hundred (100) policy files were examined.

One (1) error was found.

Errors affecting premium resulted in an overcharge totaling $148.

The errors are broken down as follows:

1. One (1) error was due to the Company using an accident with a payout figure of $148 to place the insured in a higher rated tier. The Company has a $500 limit filed with the Department of Insurance for use in determining which accidents are chargeable. Any loss or payment of less than $500 should not be surcharged. While the Company maintains this is a tier placement and not a surcharge, the

examiner feels the movement to a higher tier is in fact a surcharge to the insured due to the fact the premium amount owed is increased. This is a form of surcharge and is barred by the underwriting guidelines of the Company. Retiering based on any incident is allowed under the filed and approved tier guidelines. This constitutes a violation of Section 626.9541(1)(o)(3)(a), Florida Statutes. This error was due to the Company creating a conflict within the guidelines and rules used to rate policies. This error resulted in one (1) overcharge totaling $68, which has not been refunded by the Company because the Company disagrees with the findings.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

The files reviewed in the examination revealed the following procedures were followed: the Company cancels and nonrenews policies giving the insured the number of days notice required by Florida Statutes, plus at least three (3) days mailing time. Notices are sent to the insured, agent and lienholder, when applicable. Return premiums are calculated as of the effective date of cancellation. Return premiums generated from cancellations originated by the Company are calculated on a pro-rata basis. Return premiums generated from cancellations requested by insureds are calculated at ninety percent (90%) of pro rata.

CANCELLATION REVIEW

Eighty (80) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Twenty (20) nonrenewed policies were examined.

No errors were found.

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.

Examination Findings

One hundred complaints were reviewed.

One (1) error was found.

This error affected premium and resulted in one overcharge of $205.

The error is broken down as follows:

1. One (1) error was due to the Company using "no-hits" to place the insured into a higher tier for rating purposes. This was the sole reason the insured was placed in this tier and effectively surcharged for the "no-hit" by the Company. The Company has refunded the $205 difference in premium to the insured.

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

DOI RECEIVED COMPLAINTS/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Alleged Violation	Violation Found	Comments
S-0102-0020925	Use of consumer reports	None	Driver added and credit score used.
S-0102-0001833	Non-renewal	None	Premium arrived late and policy non-renewed as stated on renewal notice.
S-0102-0024464	Cancellation	None	Policy cancelled at request of insd.
S-0102-0027749	Coverage denial	None	Equipment excluded from policy and insd did not buy endors to add to policy.
S-0102-0029942	Service delays	None	Delay due to insd wanting to collect from clmt carrier first
S-0102-0032034	Use of consumer reports	None	Credit score used as filed and approved.
S-0102-0031496	Non-renewal	None	Company never rec'd checks and policy non-renewed as stated on renewal notice.
S-0102-0031593	Rate increase	None	Credit score and rate increase used as filed.
S-0102-0038960	Coverage denial	None	No coverage for this vehicle per dec page
S-0102-0038109	Rate increase	None	Credit score used
S-0102-0042681	Excessive premium	None	Driver added with FL address.
S-0102-0040795	Service delays	None	File reflects Co trying to settle with insd.
S-0102-0043390	Rate increase	None	Credit score and rate increase used as filed.
S-0102-0044211	Non-renewal	None	Insd changed address w/o notifying Co. Notice went to last known address
S-0102-0049741	Rate increase	None	Credit score and rate increase used as filed.
S-0102-0050018	Use of consumer	None	Credit score and rate increase used as filed.

	reports		
S-0102-0051962	**Cancellation**	**None**	**Notice sent to last known address**
S-0102-0052514	**Cancellation**	**None**	**Co recinded cancel as claims office advised of new address. Policy in force.**
S-0102-0052286	**Rate increase**	**None**	**Insd sent payment late after arguing about increase in premium**
S-0102-0052662	**Cancellation**	**None**	**MVR showed insd had license revoked 12/19/01.**
S-0102-0056404	**Cancellation**	**None**	**Payment rec'd late and policy non-renew as required by notice.**
S-0102-0056974	**Cancellation**	**None**	**Payment rec'd late and policy non-renew as required by notice.**
S-0102-0060225	**Cancellation**	**None**	**Payment rec'd late and policy non-renew as required by notice.**
S-0102-0064141	**Non-renewal**	**None**	**MVR showed 2 convictions and sent timely non-renew to insd.**
S-0102-0044441	**Excessive premium**	**None**	**Insd son had FL license and policy mid-term cancel for suspended license.**
S-0102-0067002	**Non-renewal**	**None**	**Co renewed and payments have been made by the insd.**
S-0102-0068971	**Cancellation**	**None**	**Credit score and rate increase used as filed.**

COMPANY RECEIVED COMPLAINTS

Consumer's Number	Alleged Violation	Violation Found	Comments
1	**Rate Increase**	**None**	**Credit score and rate increase used as filed.**
2	**Rate Increase**	**626.95441(1)(i)(2)**	**Lack of credit score caused increase. Insd failed to provide ss number to confirm.**
3	**Rate Increase**	**None**	**Surcharge removed after letter from atty.**
4	**Service-rudeness**	**None**	**Co wrote change as requested when request.**
5	**Non-renewal**	**None**	**Insd had undeclared driver with 2 accidents.**
6	**Rate Increase**	**None**	**Rate increase used as filed and approved.**
7	**Excessive Premium**	**None**	**Credit score and rate increase used as filed. Credit notice sent to insd as well.**
8	**Cancellation**	**None**	**Co did not receive premium timely from insd and policy cancelled as required by notice.**

The examiner reviewed the complaints to determine if they were justified in that the Company was non-renewing policies due to premium being rejected after the renewal notice had been sent to the insured. It was found that the Company was not rejecting premium but was following the system in place by nonrenewing policies when premium was not received by the date shown on the renewal notice sent to the insured.

The notice to the insured for renewal stated as required that if premium wasn't received by the Company, the policy would lapse. The system in use by Warner would then cancel the policy effective the last day of coverage. This resulted in several policies being nonrenewed due to premium being received after the date noted on the renewal notice.

In an effort to reduce the number of complaints, the Company has changed the system used effective November 15, 2002, to now send a notice to the insured if the premium has not been received by the date noted on the renewal notice.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

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

Examination Findings

Eighty (80) claims were examined.

Four (4) errors were found.

None of the errors affected payments.

The errors are broken down as follows:

1. Three (3) errors were due to failure to secure a salvage title on a total loss automobile. This constitutes a violation of Section 319.30, Florida Statutes. These errors were due to the Company not processing salvage vehicles as required by the above statute. There was no evidence presented by the Company that a salvage title had been secured in the name of the Company as required or that when the owner retained the unit, a salvage title had been requested.

2. One (1) error was due to failure to fully investigate a claim where a known bodily injury exposure existed. This constitutes a violation of Section 626.9541(1)(i)(3)(a), Florida Statutes. This error was due to the Company failing to determine facts of claimant injuries so that an adequate reserve could be placed on the file to keep an accurate accounting of existing exposures faced by the Company. Instead, the Company opted to advise the PIP carrier to forward bills for subrogation purposes and then do nothing else on the bodily injury exposure.

As part of this review, the examiner conducted a time study on the payment of all claims closed within the scope of the examination. The following chart indicates the coverage involved, the number of claims in that coverage closed, and the average number of days taken to close those claims.

COVERAGE	NUMBER OF CLAIMS	AVERAGE DAYS TO CLOSE
Collision	1139	30
Comprehensive	697	21
Med Pay	44	112
Rental Reimbursement	209	57
Tow and Labor	139	14
Uninsured Motorists	26	155
Uninsured Property	18	33

Bodily Injury (3rd Party)	108	106
Property Damage (3rd Party)	776	43
Personal Injury Protection	194	111

A sample review of closed claims involving each of the above coverages indicated satisfactory review processes to bring claims to conclusion within reasonable time frames. A further study of the timeframes involved to close claims is below. This chart illustrates the percentage of claims within each of the coverages closed within the timeframe shown.

COVERAGE	CLOSED WITHIN 30 DAYS	CLOSED WITHIN 60 DAYS	CLOSED WITHIN 90 DAYS	CLOSED WITHIN 120 DAYS	CLOSED AFTER 120 DAYS
Collision	68%	18%	8%	4%	2%
Comprehensive	82%	11%	4%	2%	1%
Med Pay	12%	10%	13%	22%	43%
Rental Reimbursement	20%	45%	23%	6%	6%
Tow and Labor	96%	3%	1%	0%	0%
Uninsured Motorists	8%	8%	12%	8%	64%
Uninsured Property	60%	28%	6%	0%	6%
Bodily Injury (3rd Party)	20%	11%	10%	17%	42%
Property Damage (3rd Party)	55%	21%	9%	8%	6%
Personal Injury Protection	10%	11%	15%	24%	40%

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

The examination included the review of claims made under private passenger automobile insurance policies to determine if independent medical examinations and file reviews were properly handled.

Examination Findings

Twenty (20) claims were examined.

Nine (9) errors were found.

Nine (9) errors resulted in underpayments totaling $12,487.35.

The errors are described as follows:

1. Nine (9) errors were due to failure to pay PIP medical bills as required. This constitutes a violation of Section 627.736, Florida Statutes. These errors were due to the Company using an independent vendor to review medical bills and seek reductions from providers of service for their services. The vendor, National Healthcare Resources, Inc. (NHR), did not have contracts with these providers and the reductions taken by the Company on the advice of NHR resulted in several lawsuits being filed by the providers seeking the original amount of the billing. The Company has since gone back and paid the funds previously deducted plus interest to the providers plus the legal expenses. This has amounted to a total of $12,487.35 in PIP benefits, interest, and attorney fees. All files involving NHR have been pulled or are in the process of being pulled for the purpose of reimbursement. This reimbursement process started prior to the examiner arriving for this review. The Company is requested to provide the Department with a reconciliation of the re-evaluation project including the total number and amount of reimbursements.

PENDING ISSUES

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

MONETARY ISSUES

1. Private Passenger Automobile – The Company used an accident with a payout of $148 to place the insured in a higher premium tier as allowed by the Company guidelines. A surcharge will occur if the payout reaches $500, however, a retiering will result from any incident. Effectively, the insureds premium is increased and solely for this one reason.
2. Claims – The Company will be sending a final report to the Department outlining the claim PIP payments made to correct the errors noted here. Presently, $12, 487.35 has been noted and corrected.
3. Complaints – The Company has already reunderwritten the policy of an insured and sent a refund to the insured for $205 representing the overcharge by placing this insured in the highest tier verses where he should have been placed.

CORRECTIVE ACTIONS

1. Company has changed procedures on securing total loss salvage titles on all total loss automobile claims.
2. The Company has already started to correct the PIP files where medical bills were held up due to a third party vendor's recommendations.
3. Effective November 15, 2002, the Company has rolled it's computer system over to the Oasis System used by the parent Company in order to reduce the number of complaints cited by the Department of Insurance. This is true even though the Company is not violating the law and this is an effort to try to get the number of complaints down this year.