

2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**KEMPER AUTO AND HOME INSURANCE COMPANY
(KEMPER INSURANCE COMPANIES)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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EXECUTIVE SUMMARY

The purpose of this examination of Kemper Auto and Home Insurance Company (Company) was to review the issues behind the volume of consumer complaints received by the Department of Insurance. This was also the first examination for this insurer. From a review of the consumer complaints filed against the Company, the Department focused on cancellation procedures particularly having to do with those policies cancelled for “adverse credit” or “insufficient credit” based on the credit reports obtained to determine compliance with Rule 4-125.004(3)(e).

Two hundred twenty-five (225) files were examined with 34 errors identified. There were \$502.00 in overcharges and \$81.25 in claim underpayments. There were \$20.00 in undercharges, and \$238.13 in claim overpayments.

Ten (10) complaint files were examined. The Company could only provide this number due to miscoding to other Companies within the group. No errors were found. Compliance with Rule 4-125.004(3)(e) was confirmed in cases where the complaint was based on insurance that was cancelled due to the insured’s credit score or insufficient credit.

One hundred (100) private passenger automobile policies were examined. Sixteen (16) errors were noted. The Company failed to comply with Rule 4-125.004(3)(e) when initial placement of business was in a higher priced tier due to the insured’s credit score, which is considered to be an “adverse underwriting decision.” Also, there were miscellaneous symbol errors, and in a few cases safety device discounts were not provided.

Fifty (50) cancellations were examined. No errors were found. Compliance with Rule 4-125.004(3)(e) as well as other motor vehicle cancellation Statutes and Rules were confirmed. There were no nonrenewals during the scope of this examination.

Fifty-five (55) claim files were examined. Eight (8) errors were identified. The Company failed to correctly compute sales tax on total losses.

Ten (10) private passenger automobile files were examined for the agents/MGA/advertising review with 10 errors noted. The Company failed to use a properly appointed countersigning agent.

INTRODUCTION

Kemper Auto and Home Insurance Company (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 January 2000 through December 2001. The examination began February 10, 2002 and ended March 30, 2002. This is the first examination for this insurer.

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance.

During this examination, records reviewed included private passenger automobile policies, cancellations, agent licensing, claims, and consumer complaints. This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances the Company was requested 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, \$583.25 was returned to Florida consumers due to overcharges of premium and underpayments of claims. Also, \$60.00 is to be paid to the Florida Department of Insurance for appointment fees owed due to an unappointed countersigning agent used by the Company. See Pending Issues Section.

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

Kemper Auto and Home Insurance Company is an Illinois domestic insurer organized on June 3, 1998. The Company was authorized to transact business in the State of Florida in February 1999. The Company is a wholly-owned subsidiary of Lumbermens Mutual Casualty Company, which is a part of the Kemper Insurance Companies insurance holding company system. The Kemper Insurance Companies market commercial and personal lines property/casualty insurance products.

Kemper Auto and Home's directors are, President and Chief Executive Officer, Steven C. Andrews, Vice Presidents, Bret A. Conklin, Robert A. Daniel, Robert P. Hames, John J. Javaruski, and Mural Robert Josephson, Corporate Secretary and General Counsel, John K. Conway.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company uses an NT server based application for all quoting, policy administration and processing. The system is housed in Long Grove, Illinois, with employees in Scranton and Norristown, Illinois having access through application security.

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. The Company submitted an Anti-Fraud Plan to the State of Florida on May 9, 1996. The most recent update was submitted to the Florida Division of Insurance Fraud on February 5, 2001.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. In the event of a disaster, the Company maintains an off-site facility where backups are done daily and stored weekly. This off-site facility maintains all the software and hardware needed to continue business operations. Incoming phone calls would be routed to this alternate site.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business by subjecting all Florida business to periodic Internal Audit Department procedures. Developed audit procedures specific to particular business processes are used.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Plan is communicated to the policyholders by a policyholder notice.

Statistical Affiliations

The Company uses Insurance Services Office (ISO) as its statistical agent.

Credit Reports

The Company does use Credit Reports as an underwriting tool. Credit reports are used along with other factors weighted about the same as filed in the tiering algorithm. Credit scores from credit reports were used to determine eligibility for the Company's private passenger automobile program from August 2000 until June 7, 2001. After June 7, 2001, credit reports were a factor used to determine tier eligibility.

OPERATIONS/MARKETING

Marketing

The Company currently writes standard private passenger automobile business in Florida. Business is written throughout Florida.

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

The Company markets its private passenger automobile insurance policy products via direct response methods. Individuals have the options of responding either by telephone using the toll free number provided or by mail. In addition, the internet serves as a primary medium for direct response marketing. Licensed and appointed Florida non-resident agents are utilized for quoting and sales of Florida business. Sales personnel are located at the Scranton, Pennsylvania, regional sales and service center. Claims are adjusted by licensed and appointed Company employee and independent adjusters at the Charlotte, North Carolina, claims office.

The Company maintains a web site, www.ekemper.com, for use by policyholders and individuals interested in obtaining an automobile quote.

Lines of Business

Currently the Company writes only private passenger automobile insurance here in Florida.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

This is a monoline program for standard risks. Credit reports and rating tiers are used. Credit scores are used in the tiering process. Retiering is currently not done on renewal. The amount of premium charged depends upon the make and age of vehicle, renewal policy discount, usage of the vehicle, point surcharges from MVR, age of the driver, multi-car discounts, safety device discounts, amount of coverage selected, rating tier, and other normal underwriting criteria.

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>
2000	\$3,894,919	3,041
2001	\$7,024,055	5,161

The increase in direct premium written and policy count for 2001 was due to transfer of Reliance Direct Insurance Company business as a result of an asset purchase agreement, as well as increased writings of new business.

Examination Findings

One hundred (100) policy files were examined.

Sixteen (16) errors were found.

Errors affecting premium resulted in ten (10) overcharges totaling \$502.00 and one (1) undercharge totaling \$20.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to advise the applicant of the means by which a copy of their credit report can be obtained when they were affected by an adverse underwriting decision. This constitutes a violation of Rule 4-125.004(3)(e), Florida Administrative Code. These errors were caused by failing to advise the applicants as to how they could obtain a copy of their credit report. The insureds initially were placed in a higher rated tier due to the credit scores obtained from the credit reporting bureau.
2. Eight (8) errors were due to failure to follow the filed rates. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to the use of incorrect automobile symbols on physical damage coverages. These errors

resulted in six (6) overcharges totaling \$337.00, which have been refunded by the Company and one (1) undercharge of \$20.00. The remaining error was under the \$5.00 waiver rule.

3. Six (6) errors were due to failure to provide safety device discounts. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were caused by a failure to apply appropriate safety device discounts where eligible. These errors resulted in four (4) overcharges totaling \$165.00, which have been refunded by the Company. The remaining two (2) errors were under the \$5.00 waiver rule.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

From the sample reviewed, the Company mails cancellation notices to insureds and lienholders a minimum of 45 days in advance for Company cancellations/nonrenewals, and a minimum of 10 days in advance for nonpayment of premium. Unearned premium is computed using pro-rata from the effective date of the policy to the effective date of cancellation. The date of return premium is documented on the Company computer. A proof of mailing register is maintained.

CANCELLATION REVIEW

Fifty (50) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

There were no nonrenewals for review for the scope of this review.

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.

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

DOI RECEIVED COMPLAINTS

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-0001-0037143		Cancellation dispute	None	None
S-0001-0041043		Cancellation dispute	None	None
S-0102-0012045		Additional premium	None	None
S-0001-0055737		Premium increase	None	None
S-0001-0042897		Premium dispute	None	None
S-0001-0033822		Cancellation dispute	None	None
S-9900-0045719		Premium dispute	None	None

COMPANY RECEIVED COMPLAINTS

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
	Boyd	Cancellation dispute	None	None
	Cavallo	Cancellation dispute	None	None
	O'Meara	Cancellation dispute	None	None

The purpose of this examination was to address consumer complaints. The complaints reviewed were not indicative of improper business practices. The number of consumer complaints available for review was decreased due to the majority of the complaints actually being against other Companies within the group despite being shown as complaints against this Company.

This review focused on private passenger automobile cancellation procedures particularly for compliance with Rule 4-125.004(3)(e), Florida Administrative Code, and complaints pertaining to policies cancelled due to adverse credit or insufficient credit. The cancellation notices did inform the insured of their right to obtain a copy of their credit report, and supplied the name of the credit reporting bureau along with a contact telephone number in order for the complainant to receive a detailed analysis of their credit report.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

The types of claims reviewed included private passenger automobile first and third party claims, litigated claims, and subrogated claims. The types of losses included, bodily injury, property damage liability, PIP, comprehensive, and collision.

Examination Findings

Fifty (50) claims were examined.

Eight (8) errors were found.

Four (4) errors resulted in underpayments totaling \$81.25, and (4) errors resulted in overpayments totaling \$238.13.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to properly adjust claims. This constitutes a violation of Section 626.877, Florida Statutes. These errors were due to incorrect sales tax applied to private passenger automobile total losses. These errors resulted in four (4) underpayments totaling \$81.25, which have been paid by the Company, and four (4) overpayments totaling \$238.13.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

The review included PIP claims referred to independent medical examiners (IME) for medical review.

Examination Findings

Five (5) PIP claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company does not utilize MGAs.

Examination Findings

Ten (10) applications/policies written during the scope of examination were examined.

Ten (10) errors were found pertaining solely to countersignature.

The errors are broken down as follows:

1. Ten (10) errors were due to failure to appoint the Company's countersigning agent. This constitutes a violation of Section 624.425, Florida Statutes, and is considered a business practice of the Company. The Company owes \$60.00 to The Florida Department of Insurance for appointment fees, due to the use of an unappointed countersigning agent for the scope of this examination.

The Company markets private passenger automobile insurance policies products via direct response methods. Licensed and appointed Florida nonresident agents are utilized for quoting and sales of Florida business.

PENDING ISSUES

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

MONETARY ISSUE

Agent/MGA - The Company owes \$60.00 to the Florida Department of Insurance for licensing appointment fees due to the use of an unappointed countersigning agent.

CORRECTIVE ACTIONS

The Company is in violation of Section 624.425, Florida Statutes, regarding the use of an unappointed countersigning agent and should properly appoint same. In addition, \$60.00 in licensing appointment fees should be remitted to the Florida Department of Insurance for the retroactive period of time the agent was unappointed.

The Company is requested to complete all corrective actions within ninety (90) days of receipt of this examination report.

