

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

LUMBERMENS MUTUAL CASUALTY COMPANY
(KEMPER INSURANCE COMPANIES)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

Lumbermens Mutual Casualty Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1999 through April 2000. The examination began July 16, 2000 and ended August 19, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1998.

The purpose of this target examination was to review the current book of business for those lines in which violations were found in the prior examination to determine if corrective action had been taken on all issues and to verify compliance with Florida Statutes and Administrative Rules.

During the prior examination thirty (30) Ameripac policies and underwriting files were reviewed. This review resulted in thirty (30) errors due to use of unfiled endorsements, eight (8) errors due to failure to provide timely notice of renewal, nonrenewal or cancellation and two (2) errors due to failure to document/substantiate debit/credit. Also during the prior examination, fifty (50) inland marine policies and underwriting files were reviewed. This review resulted in four (4) errors due to failure to display telephone number and purpose on policy/certificate, two (2) errors due to failure to provide timely notice of renewal, nonrenewal or cancellation and two (2) errors due to failure to maintain records.

During the Fidelity and Surety review, fifty (50) policy and underwriting files were reviewed. This review resulted in twenty-four (24) errors due to failure to maintain records, seventeen (17) errors due to failure to display telephone number and purpose on policy/certificate, two (2) errors due to failure to follow filed rate, rating schedule or rating rules – rates/credits, one (1) error due to failure to provide timely notice of renewal, nonrenewal or cancellation, and one (1) error due to failure to properly countersign/obtain power of attorney. During the Boiler and Machinery review, thirty (30) policy and underwriting files were reviewed. This review resulted in fifteen (15)

errors due to failure to maintain records, thirteen (13) errors due to failure to display telephone number and purpose on policy/certificate and four (4) errors due to failure to provide documentation. During the Workers' Compensation review, thirty (30) policy and underwriting files were reviewed. This review resulted in twenty-two (22) errors due to failure to maintain records. There were twenty-four statistical cards reviewed and eighteen (18) errors were found due to failure to maintain records, and three (3) errors were due to failure to follow filed rate, rating schedule, rating rules or underwriting guidelines. During the Agent/MGA review, thirty (30) applications/policies were reviewed, and six (6) errors were due to use of unappointed agents.

During the Cancellation/Nonrenewal review, thirty (30) files were examined. Thirteen (13) errors were due to failure to maintain records, six (6) errors were due to failure to provide timely notice of renewal, nonrenewal or cancellation, one (1) error was due to failure to comply with unfair trade practice requirements – collateral business, and two (2) errors were due to failure to provide proof of mailing. During the Claims review, seventy-seven (77) claim files were reviewed and four (4) errors were found due to failure to affix fraud statement to claim form or application.

During this examination, records reviewed included inland marine, fidelity, surety and workers' compensation policies and cancellations/nonrenewals for the period of January 1, 1999 through April 25, 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, \$2,199.00 was refunded to Florida consumers due to overcharges of premium and/or inappropriately charged fees. In addition, a rerate of 175 fidelity policies was conducted and \$32,817 was returned to Florida consumers.

II. PRE-EXAMINATION 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 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

Lumbermens Mutual Casualty Company, a member of the Kemper Insurance Companies, was incorporated in 1912. Lumbermens Mutual Casualty Company is licensed to transact property and casualty insurance business in all fifty states and in the District of Columbia. Lumbermens Mutual Company utilizes the agency distribution model and its Florida business is produced by a network of local independent insurance agents and by national brokers located throughout the country.

B. MANAGEMENT

Lumbermens Mutual Casualty Company has not changed its name since its incorporation, nor has it merged with or been acquired by any other entity.

C. OPERATIONS

The Company underwrites various lines of personal and commercial insurance, including auto, homeowners, commercial multi-peril, general liability, marine and surety and fidelity coverages. There have been no significant changes in marketing strategy since the date of the Company's last examination.

The Company has closed its Underwriting Office in Orlando, Florida and moved all files to the Atlanta, Georgia Branch as of August 4, 2000. They are currently maintaining a Claims Office located at 3501 Quadrangle Blvd., Suite 271, Orlando, Florida.

IV. REVIEW OF POLICIES

A. FIDELITY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Lumbermens Mutual Casualty Company is a member of the Surety Association of America (SAA) and as such SAA 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

Lumbermens Mutual Casualty Company is a member of the Surety Association of America (SAA) and as such SAA 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

Surety Association of America acts as the Company's official statistical agent.

2. 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>
1999	\$ 200,437	343
2000	\$ 56,207	112

3. Exam Findings

Thirty (30) policies and audits were examined.

Thirty-three (33) errors were found.

Errors affecting premium resulted in eight (8) overcharges totaling \$641.00 and four (4) undercharges totaling \$1,447.00. In addition, the Company was directed to rerate all policies within the scope of examination. The rerate resulted in refunds to 175 insureds for a total refund amount of \$32,817.

The errors are broken down as follows:

1. Ten (10) errors were due to failure to experience rate. Eight (8) of these errors resulted in overcharges totaling \$641.00, which have been refunded by the Company. The Company was directed to rerate this line of business. Refunds went to 175 insureds totaling \$32,817. Exhibit I. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.
2. Eight (8) errors were due to failure to document credits/debits. Company's "procedural adjustment factors" (schedule rating plan) were not documented. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.
3. Five (5) errors were due to use of an unfiled rate. Company was applying an unfiled expense reduction factor. This constitutes a violation of Section 627.062, Florida Statutes.
4. Four (4) errors were due to failure to follow the filed rating plan. Use of incorrect experience rate factors. Three (3) of these errors resulted in undercharges totaling \$1,447.00. This constitutes a violation of Section 627.062, Florida Statutes.
5. Three (3) errors were due to failure to provide timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes.

6. One (1) error was due to failure to comply with consent to rate requirements. Written consent from insured was not obtained. This constitutes a violation of Section 627.171, Florida Statutes.

7. One (1) error was due to failure to comply with unfair trade practice requirements. Factor was changed to get to a specific premium. This constitutes a violation of Section 626.9541, Florida Statutes.

B. SURETY

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Lumbermens Mutual Casualty Company is a member of the Surety Association of America (SAA) and as such SAA 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

Lumbermens Mutual Casualty Company is a member of the Surety Association of America (SAA) and as such the SAA 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

Surety Association of America acts as the Company's official statistical agent.

2. 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>
1999	\$1,041,291	827
2000	\$ 694,577	268

3. Exam Findings

Thirty-two (32) policy files were examined.

Thirty-two (32) errors were found.

Errors affecting premium resulted in nine (9) overcharges totaling \$1,687.64 and four (4) undercharges totaling \$1,478.00.

The errors are broken down as follows:

1. Fourteen (14) errors were due to failure to document credits and debits. The Company has a filed scheduled rating plan “Procedural Adjustments”, but no documentation was in the files to justify the credits and debits applied. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.
2. Ten (10) errors were due to failure to follow the filed rating plans, rating schedules or rating rules. Use of incorrect rates resulted in five (5) overcharges totaling \$ 1,418.04, which have been refunded by the Company and four (4) undercharges totaling \$1,478.00. This constitutes a violation of Section 627.062, Florida Statutes.

3. Three (3) errors were due to use of unfiled rating plans, rating schedules or rating rules. Company charged a shipping and handling fee and an extension fee. These errors resulted in overcharges totaling \$112.32, which have been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
4. Three (3) errors were due to failure to maintain records. Three files received were incomplete. This constitutes a violation of Section 627.318, Florida Statutes.
5. One (1) error was due to failure to comply with “consent to rate” requirements. Failure to have insured signature dated prior to the effective date of the bond. This constitutes a violation of Section 627.171, Florida Statutes.
6. One (1) error was due to failure to document/substantiate debit. This error resulted in an overcharge totaling \$152.28, which has been refunded by the Company. Company applied a debit with no documentation. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.

C. COMMERCIAL INLAND MARINE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Lumbermens Mutual Casualty Company 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

Lumbermens Mutual Casualty Company is a member of Insurance Services Office (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

Insurance Services Office acts as the Company's official statistical agent.

2. 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>
1999	\$1,803,352	1,030
2000	\$ 735,264	188

3. Exam Findings

Fifty (50) policy files were requested and fifty files were received. All files received were commercial inland marine policies. Commercial inland marine is exempt from rates and forms statutes for the scope of this examination.

No errors were found.

D. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Lumbermens Mutual Casualty Company 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>
1999	\$14,011,617	525
2000	\$ 7,758,966	220

b. Error Percentages

Twenty (20) policies and no audits were examined.

Six (6) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Six (6) errors were due to failure to provide timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes.

2. Unit Statistical Review

a. Audit Comparison

Six (6) premium statistical cards were requested and all six (6) were examined.

No errors were found.

b. Claim Comparison

No claim statistical cards were examined.

V. CANCELLATION / NONRENEWAL REVIEW

Fifty (50) files were requested and the Company was able to provide forty-seven (47).

Twenty-five (25) cancelled/nonrenewed policies were examined.

Twelve (12) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to provide proof of mailing. This constitutes a violation of Rule 4-167.010, Florida Administrative Code.
2. Three (3) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes.

VI. PENDING ISSUES

The following issues are pending.

1. There are three (3) outstanding Preliminary Advisory Sheets for Workers' Compensation. None of these advisories involve refunds.
2. There are twelve (12) outstanding Preliminary Advisory Sheets for Cancellations. None of these advisories involve refunds.

VII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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FIDELITY RERATE

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