

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

ALLSTATE INSURANCE COMPANY
ALLSTATE INDEMNITY COMPANY
(THE ALLSTATE CORPORATION)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

An examination of policies written in both Allstate Insurance Company and Allstate Indemnity Company was conducted in order to verify that business produced by specific agencies was in compliance with Florida rating laws. Therefore, this report will address both companies.

Allstate Insurance Company and Allstate Indemnity Company are foreign property and casualty insurers licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination, January 1996 to May 2001. The examination began May 20, 2001 and ended June 30, 2001. The last property and casualty market conduct examination of these insurers, by the Florida Department of Insurance, was completed on June 30, 2000.

During this examination, records reviewed included private passenger automobile policies for the period of January 1996 through May 2001, 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 Companies were directed to take corrective action as required, make all necessary filings with the Department and immediately cease any activity that continues to place the Companies in noncompliance with Florida Statutes/Rules.

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 Companies were 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

Allstate Insurance Company and Allstate Indemnity Company are wholly-owned subsidiaries of the The Allstate Corporation. Both companies are Illinois domestic insurers. The Allstate Corporation is publicly traded and not controlled by any other company, corporation, group of companies, partnership or individual.

The Companies market their insurance products through both company and independent agents.

The Companies' website can be accessed at www.allstate.com.

Claims for both Allstate Insurance Company and Allstate Indemnity Company are handled through various market claims offices throughout the State of Florida. Both companies primarily use company adjusters but may use independent adjusters during catastrophe claims situations.

The Florida regional office is located at 780 Carillon Parkway, St. Petersburg, Florida, and supports the Florida operations of both Allstate Insurance Company and Allstate Indeminty Company. The home office is located at 2775 Sanders Rd., Northbrook, IL 60062.

B. MANAGEMENT

1. Company Computer Systems

The computer systems allow employees to access e-mail, administrative systems and other on-line resources needed to perform job functions. It also allows both companies to communicate with their agents, on a nationwide basis, to facilitate business transactions.

2. Anti-Fraud Plan

The Companies train their claims adjusters and management personnel to identify and then refer cases of suspected fraud to the Special Investigation Unit. Claim files involving suspected and documented fraud are then referred by the Special Investigation Unit to the Florida Division of Insurance Fraud. The Anti-Fraud Plans have been filed with the Florida Division of Insurance Fraud as required by Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Companies have business interruption plans in place at each Allstate facility designed to ensure that core business operations continue regardless of the type of interruption.

4. Internal Audit Plan

The Companies have Information Protection Policies and Standards manuals which detail employee responsibilities for protecting corporate information from unauthorized access. The Allstate Corporation determines, on an annual basis, which of its business functions to audit. In

addition, business units such as Risk Management and Claims develop and implement their own local audit reviews.

C. OPERATIONS

Allstate Insurance Company writes various personal and commercial lines of insurance. Primary lines of business written are private passenger automobile insurance and homeowners insurance. Allstate Indemnity Company specializes in private passenger automobile insurance for inexperienced and/or high-risk drivers, as well as homeowners insurance. Both companies market insurance throughout the State of Florida.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Allstate Insurance Company and Allstate Indemnity Company independently file rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Allstate Insurance Company and Allstate Indemnity Company independently file forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) acts as the Companies' official statistical agent.

2. Premium and Policy Counts

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

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1996	\$839,577,691	1,190,627
1997	\$802,193,429	1,086,752
1998	\$794,436,669	1,088,159
1999	\$787,264,373	1,099,648
2000	\$806,536,053	1,135,167
2001	\$289,483,350	401,003

The premiums and policy count for 2001 reflect only the policies written through April 2001.

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

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1996	\$436,434,314	326,876
1997	\$473,006,536	347,065
1998	\$481,048,385	340,660
1999	\$455,920,020	345,258
2000	\$444,047,973	343,569
2001	\$155,454,141	123,387

The premiums and policy count for 2001 reflect only the policies written through April 2001.

3. Exam Findings

This examination was limited to a review of policy files originating from the Chip Everton and Paula Everton agencies. The Harrison agency was also included as Harrison became the owner of the Chip Everton agency during the scope of this examination.

Two hundred forty (240) policy files from these agencies were examined.

Thirty-eight (38) errors were found.

Errors affecting premium resulted in three (3) undercharges totaling \$39.00.

The errors are broken down as follows:

1. Thirty-four (34) errors were due to failure to comply with unfair trade practice requirements. This constitutes a violation of Section 626.9541(1)(0)(2), Florida Statutes. The policy file applications only contained rating information for the married insured. No rating information was provided for the spouse. The Company, upon receiving the applications, made no attempt to obtain the rating information on the unlisted spouse and, therefore, could not determine if the premium charged was accurate. All of these errors were found on the review of Allstate Indemnity Company policies. In November 2000, the Company's computer system was programmed to recognize and trigger a manual customer service review when an application with a married applicant with no spousal information is entered into the system. Before November 2000, two hundred (200) policy files were reviewed. Thirty-two (32) or seventeen percent (17%) of these policy files had errors.

Forty policy files effective after November 2000 were reviewed. Two or five percent (5%) of these had errors. Exhibit I.

2. One (1) error was due to failure to comply with unfair trade practice requirements. This constitutes a violation of Section 626.9541(1)(0)(2), Florida Statutes. The Company, knowing the applicant did not have custody of a child under the age of eighteen (18), applied a "single female with child" rate. The rule allowing a married rate classification to be applied when the applicant was single and had custody of a child under the age of eighteen was eliminated in Allstate Indemnity Company effective February 27, 2000 and in Allstate Insurance Company effective February 28, 2000. Two hundred (200) policy files effective before these dates were reviewed. Forty-five (45) or twenty-three per cent (23%) had errors. Forty (40) policy files effective after these dates were reviewed. No errors were found. Exhibit II.
- 3 Three (3) errors were due to failure to follow filed rates, rating schedules, rating rule or underwriting guideline. This constitutes a violation of Section 627.0651, Florida Statutes. The Companies applied safety device discounts to ineligible vehicles. Two (2) errors were found during the review of Allstate Indemnity Company policy files. One (1) error was found during the review of Allstate Insurance Company policy files. These errors resulted in undercharges totaling \$39.00.

The Companies have acknowledged a rating problem where agents have used the lower rated territories for rating purposes when an applicant's Hillsborough County zip code overlapped into a county territory assigned a lower base rate than the rate for the address where the applicant lived. However, no violations were found

during this examination. The Companies have corrected this problem by reconfiguring the territories for Hillsborough County effective December 28, 2000 for Allstate Insurance Company and June 25, 2001 for Allstate Indemnity Company. Exhibit III.

EXHIBITS

IX.	<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
	MARRIED/NO SPOUSE RATING	I
	ELIMINATION OF THE SINGLE WITH CHILD RATE	II
	VERIFICATION OF RATING TERRITORY	III