

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

DAIRYLAND INSURANCE COMPANY
(SENTRY INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILE DATE: 6/26/02

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I. INTRODUCTION

Dairyland 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, January 1999 to May 2001. The examination began July 1, 2001 and ended August 18, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was completed on June 5, 1996.

The prior examination included the review of motorcycle and private passenger automobile insurance. Violations cited included failure to obtain the countersignature of properly licensed and appointed producing agents, use of unlicensed/unappointed adjusters and failure to affix the fraud statement to claim forms.

The purpose of this target examination was to verify compliance with Florida Statutes and Rules due to the high number of consumer complaints filed with the Florida Department of Insurance.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1999 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 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, \$888.96 was returned to Florida consumers due to overcharges of premium.

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 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 line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

Dairyland Insurance Company is a wholly-owned subsidiary of the Sentry Insurance Group. Dairyland Insurance Company was formed on August 1, 1965, as the successor to Dairyland Mutual Insurance Company and is affiliated with Dairyland County Mutual Insurance Company of Texas and Patriot General Insurance Company.

The Company markets its insurance products to the general public through independent insurance agents which are appointed by the Company. A small percentage of business is developed by company-employed agents of Sentry Insurance, a Mutual Company, who have been appointed by Dairyland Insurance Company.

The Company's website can be accessed at www.dairylandinsurance.com.

The Company uses inside staff adjusters in its home office to handle claims, as well as staff or independent appraisers and field adjusters as necessary.

The Company's home office is located at 1800 North Point Drive, Stevens Point, Wisconsin. There are no regional or branch offices in Florida.

B. MANAGEMENT

1. Company Computer System

The computer utilizes a main frame computer system, which allows employees to access e-mail, administrative systems, policy and claim data and other on-line resources needed to perform job functions. It also allows the Company to communicate with its agents to facilitate business transactions.

2. Anti-Fraud Plan

The Company has established the Special Investigation Unit which is directed by the Corporate Claims Department. Claim representatives are trained to identify and refer cases of suspected fraud to the Special Investigation Unit. The Special Investigation Unit files the appropriate referral forms with the National Insurance Crime Bureau and the Florida Division of Insurance Fraud. The Company has filed a detailed description of its Special Investigation Unit with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Company has formulated a disaster recovery plan, which details the strategies, procedures and resources to be used to respond to any type of business interruption.

The plan highlights and coordinates the issues and steps to be taken if a disaster of any type impacts the Company.

4. Internal Audit Plan

The Company has an Internal Audit Department to evaluate the various operations, procedures and systems within the Company. The results of audit examinations are reported to management and used by management in its decision-making activities.

5. Privacy Plan-4ER01

The Company has complied with the requirements of Emergency Rule 4ER01 by including a notice with all policies advising insureds of their privacy rights.

C. OPERATIONS

The Company specializes in and markets non-standard automobile insurance coverages in the State of Florida. Marketing is done primarily through independent insurance agents. A small percentage of business is developed by company-employed agents of Sentry Insurance, a Mutual Company, who have been appointed by Dairyland Insurance Company.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Dairyland Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Dairyland Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

The National Association of Independent Insurers (NAII) 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	\$43,587,031	53,278
2000	\$38,898,609	51,340
2001	\$20,663,412	44,009

The premium and policy count for 2001 reflect only the policies written through May 2001.

3. Exam Findings

One hundred (100) policy files were examined.

Seventy-two (72) errors were found.

Errors affecting premium resulted in sixty-two (62) overcharges totaling \$977.46 and ten (10) undercharges totaling \$96.60.

The errors are broken down as follows:

1. Seventy-two (72) errors were due to failure to follow the filed rate, rating schedule, rating rule or underwriting guideline. This constitutes a violation of Section 627.0651, Florida Statutes. The errors are broken down as follows: One (1) error was due to incorrectly applying a surcharge for a minor speeding violation that was exempt from surcharge. One (1) error was due to incorrectly applying surcharges for DUI court actions, not occurrences. Six (6) errors were due to the use of an incorrect property damage expense fee. Fifty-four (54) errors were due to the use of an incorrect property damage expense. One (1) error was due to the Company providing the insured personal injury protection with a \$2000.00 deductible when the insured had requested no deductible. Nine (9) errors were due to the use of an incorrect property damage expense fee. These errors resulted in eight (8) overcharges totaling \$888.96, which have been returned to the policyholders, fifty-four overcharges totaling \$88.50 which were below the premium waiver rule and therefore not returned and ten (10) undercharges of \$96.60.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

No errors were found.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Six (6) errors were found.

None of the errors affected payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

1. Six (6) errors were due to failure to communicate timely. This constitutes a violation of Rule 4-166.024, Florida Administrative Code.

VIII. COMPLAINTS 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. Complaint handling procedures are described in Exhibit II.

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

A. COMPANY RECEIVED COMPLAINTS

Eight (8) complaints were reviewed.

No errors were found.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS HANDLING PROCEDURE	I
COMPLAINTS HANDLING PROCEDURE	II