

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA  
Miami, Florida

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

June 17, 2011

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Raleigh, North Carolina  
June 17, 2011

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Kevin McCarty  
Chief Financial Officer  
Office of Insurance Regulation  
J. Edwin Larson Building, Room 101A  
200 East Gaines Street  
Tallahassee, Florida 32399-0305

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a compliance examination has been made of the market conduct activities of

**AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA  
(NAIC #10111)**

NAIC Exam Tracking System Exam Number: NC170-M78  
Miami, Florida

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan, Raleigh, North Carolina. A report thereon is respectfully submitted.

## **FOREWORD**

This examination reflects the North Carolina insurance activities of American Bankers Insurance Company of Florida. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

## **SCOPE OF EXAMINATION**

This compliance examination commenced on May 9, 2011 and covered the period of January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through June 9, 2011. This action was taken due to previous examination findings referenced in the Market Conduct Report of December 15, 2008.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices and terminations.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

### Previous Examination Findings

A compliance examination covering the period January 1, 2007 through December 31, 2007 was performed on the Company and a report dated December 15, 2008 was issued. The compliance examination report identified concerns in the areas of underwriting and rating and

terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

### **EXECUTIVE SUMMARY**

This market conduct examination revealed a concern with Company procedures and practices in the following area:

*Underwriting and Rating* – comprehensive coverage premium below manual premium without a proper filing for private passenger automobile.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site [www.ncdoi.com](http://www.ncdoi.com) by clicking "NCDOI DIVISIONS" then "Legislative Services".

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations or bulletins are presented to improve the Company's practices and ensure consumer protection.

## UNDERWRITING PRACTICES

### Private Passenger Automobile

The Company's underwriting and rating practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable rules of the North Carolina Private Passenger Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) and 58-37-35(l) as 36.0 percent of the active policies reviewed contained rating errors.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the physical damage premium for 2.0 percent of the active policies reviewed was below the manual premium for which no downward deviation had been filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(h) as 20.0 percent of the active files reviewed did not contain proper file documentation.

The Company provided a listing of 723 active private passenger automobile policies issued during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was reminded of the provisions of NCGS 58-37-35(l) as 2 of the active policies reviewed contained rating errors (4.0 percent error ratio). Errors referenced an incorrect inexperienced operator factor and an incorrect Safe Driver Insurance Plan Rating Factor.
- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the comprehensive coverage premium on 4 of the active policies reviewed (8.0 percent error ratio) was below the manual premium for which no downward deviation had been filed with and approved by the Department.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as all active files reviewed contained proper file documentation.

The rating errors resulted in 1 premium overcharge and 1 premium undercharge. The premium overcharge in the amount of \$313.85 was returned to the policyholder at the request of the examiners prior to the conclusion of the examination.

## **TERMINATIONS**

### Mobile Homeowners Cancellations

The Company's cancellation procedures for mobile homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable rules of the North Carolina Mobile Homeowners Policy Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of Rule 8 of the North Carolina Mobile Homeowners Policy Manual as the cancellation notice for 10.0 percent of the cancelled mobile homeowners policies reviewed was not issued at least 30 days prior to the termination date when the policy was cancelled for underwriting reasons.

The Company provided a listing of 3,640 mobile homeowners policies that were cancelled during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of the North Carolina Mobile Homeowners Policy Manual as the cancellation notice for all cancelled mobile homeowners policies reviewed was issued at least 30 days prior to the termination date when the policy was cancelled for underwriting reasons.
- The Company was reminded of the provisions of NCGS 58-36-30(a), the cancellation provisions of the policy and Rule 8 of the North Carolina Mobile Homeowners Policy Manual as 3 policies (6.0 percent error ratio) were cancelled pro rate rather than short rate when the policies were cancelled at the insured request resulting in overstatement of refunds.

## **SUMMARY**

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of December 15, 2008. The current examination revealed the following:



1. Underwriting and Rating

- a. The Company was reminded of the provisions of NCGS 58-37-35(l) as 4.0 percent of the active private passenger policies reviewed contained rating errors.
- b. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the comprehensive coverage premium for 8.0 percent of the active private passenger policies reviewed was below the manual premium for which no downward deviation had been filed with and approved by the Department.

2. Terminations

- a. The Company was reminded of the provisions of NCGS 58-36-30(a), the mobile homeowners policy provisions and Rule 8 of the North Carolina Mobile Homeowners Policy Manual as the return premium was calculated incorrectly on 6.0 percent of the cancelled mobile homeowners policies reviewed.

**TABLE OF STATUTES AND RULES**

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-36-30	Deviations.
NCGS 58-37-35	The Facility; functions; administration.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.

**CONCLUSION**

A compliance examination has been conducted on the market conduct affairs of American Bankers Insurance Company of Florida for the period January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through June 9, 2011. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation

Handbook procedures including analyses of Company operations in the areas of underwriting and rating and terminations.

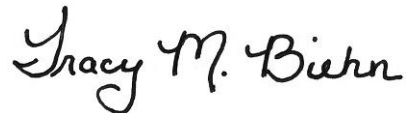
In addition to the undersigned, Gary Jones, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Bill George". The signature is written in a cursive, flowing style.

Bill George, AIS  
Examiner-In-Charge  
Market Regulation Division  
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive, flowing style.

Tracy Biehn, LPCS, MBA  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina