



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

Deerbrook Insurance Company
3075 Sanders Road, Suite H1A
Northbrook, IL 60062-7127

dated April 23-May 3, 2001, and served upon the company on April 23, 2002, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 24th day of October, 2002.

Connie L. O'Connell
Commissioner of Insurance

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STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE
MARKET CONDUCT EXAMINATION

OF

DEERBROOK INSURANCE COMPANY

NORTHBROOK, ILLINOIS

April 23 – MAY 3, 2001

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May 3, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, WI 53702

Commissioner:

In accordance with your instructions, a targeted market conduct examination has been made on April 23, 2001 to May 3, 2001, of:

DEERBROOK INSURANCE COMPANY

Northbrook, Illinois

and the following report is respectfully submitted.

I. INTRODUCTION

Deerbrook Insurance Company is a property and casualty insurer licensed to transact business in the District of Columbia and all states except Connecticut, Maine, Massachusetts, New Jersey, and North Carolina. The company was incorporated under the laws of Delaware on August 20, 1979, as Belvidere America Reinsurance Company and commenced business in January 1980. The name was changed to Allstate National Insurance Company on November 9, 1983, concurrent with its purchase by Allstate Insurance Company. The current name was adopted on April 27, 1985. On December 30, 1995, the company re-domesticated from Delaware to Illinois. The company commenced doing business in Wisconsin on December 30, 1996. The company writes only non-standard, personal passenger automobile insurance.

During 2000, the company wrote the following premiums and paid the following losses:

Direct Premiums Written**Direct Losses Paid**

Nationwide	\$143,670,962
Wisconsin Business Only	3,376,026

\$184,142,727
3,069,214

The Office of the Commissioner of Insurance received 13 complaints in 2000 and 4 complaints in 1999. A complaint is defined as a written communication to the Commissioner's Office that indicates dissatisfaction with an insurance company or agent. The following chart categorizes these complaints by complaint reason. There may be more than one reason for each complaint.

<u>Complaint Reasons 2000</u>	
Underwriting	9
Claims	3
Marketing and Sales	2
Policyholder Service	0
Other	0
<u>Total</u>	<u>14</u>

<u>Complaint Reasons 1999</u>	
Underwriting	3
Claims	1
Marketing and Sales	1
Policyholder Service	2
Other	0
<u>Total</u>	<u>7</u>

The company appeared third on the above-average complaint list for automobile insurance in 2000. This list is comprised of all companies with 10 or more complaints in 2000 that have a complaint ratio above the average. The company's 2000 complaint ratio for automobile insurance, using 1999 written premiums in relation to 2000 complaints, was .26 per \$100,000 of written premiums. The Wisconsin average for all insurers writing automobile insurance was .06 per \$100,000 of written premiums.

II. PURPOSE AND SCOPE

The examination was conducted to determine if the company's practices and procedures comply with Wisconsin insurance statutes and rules.

The examination included, but was not limited to, the review of the following company practices and procedures.

Business Line	Area
Personal passenger automobile	Underwriting Producer Licensing Policy Forms

III. SUMMARY AND FINDINGS

FORMS REVIEW

The examiners reviewed 11 personal insurance policy forms for compliance with Wisconsin insurance laws, rules, and court decisions. The following discusses areas where the forms did not comply.

A review of the company's personal automobile insurance policy forms revealed that one provision in form DI68.WI does not comply with Wisconsin Supreme Court decision, Ludwig v. Dulian and Germantown Mutual Insurance Company, 217 Wis. 2d 782, that indicates an insurer may not exclude intentional acts unless the injury or damage is substantially certain to follow from what the insured does. Part 1, Exclusions – What Is Not Covered, number 7 excludes liability coverage for “bodily injury or property damage caused intentionally by, or at the direction of, an insured person.” It is recommended that the company revise its personal automobile insurance policy form DI68.WI to comply with Wisconsin Supreme Court decision, Ludwig v. Dulian and Germantown Mutual Insurance Company, 217 Wis. 2d 782.

UNDERWRITING

Manual and Guidelines

The examiners reviewed the company's underwriting manuals and guidelines and responses to the commissioner's interrogatories regarding processes. The following discusses areas where the manuals and guidelines or interrogatory responses did not comply with current Wisconsin insurance laws and rules.

In response to Underwriting Interrogatory no. 3, the company provided the steps followed in processing new business. One step indicated that misquotes were verified by investigating the reason, i.e., incorrect class code, incorrect territory, etc. The examiners asked the company how it would calculate return premium if a misquote occurred, not involving misinformation from the applicant, and the applicant requested the policy be cancelled due to the misquote. The company responded that it would calculate the return premium pro-rata based on the correct premium, rather than the quoted premium. This contradicts the commissioner's position regarding misquotes. In the case of a misquote by an agent where the premium

increases, an applicant has 2 choices. One, the applicant may accept the policy at the higher premium. Two, the applicant may request that the policy be cancelled. In the latter case, the company must calculate the premium refund pro-rata based on the quoted premium, unless the misquote was caused by misinformation from the applicant. In this way, the applicant is being charged according to the quoted rate and the company does not profit by its agent's error. It is recommended that the company revise its procedure for calculating return premium by using the quoted premium rather than the corrected premium when an applicant requests cancellation of a policy due to its agent's misquote.

File Review

The examiners reviewed 48 terminated files.

The examiners found 11 files where the company non-renewed personal lines policies by stating the reasons of driving record and financial stability or no hit. While the company used both driving record and credit information in underwriting these non-renewals, the wording of the reason for non-renewal as provided to the customer was not reasonably precise. The phrases driving record and financial stability are general categories. The company would need to list actual driving events or actual financial conditions so the customer knows the details of what criteria was used to explain the non-renewal. Section 631.36 (6), Wis. Stat., states, in part, that a notice of non-renewal shall state with reasonable precision the facts on which the insurer's decision is based. No notice is effective unless it so states the facts. It is recommended that the company state with reasonable precision the facts on which it made its decision to non-renew the policy in order to comply with s. 631.36 (6), Wis. Stat.

Additional review of the underwriting manuals and guidelines and underwriting files was done to determine whether the company is using information regarding domestic violence to underwrite or rate its policies. No evidence was found to indicate its use.

Question 16 of the examiner's Underwriting Interrogatories asks the company how it uses credit information in underwriting and/or rating of personal lines insurance. The company had used credit information for new business underwriting. However, the company suspended

writing new business policies in Wisconsin on July 12, 2000. The company continues to use credit information for underwriting renewal business.

The company uses a vendor, Transunion, that develops a credit rating that falls into one of four categories; unacceptable, clean, acceptable, and no hit. Unacceptable means the presence of one or more of the following items within the past 5 years: unsatisfied or unresolved judgments, liens, or repossessions; foreclosures or bankruptcies; or two or more of any of the following in excess of or equal to \$100: charge-off, collection, or an account past due more than 120 days. This category also includes situations in which the company is unable to verify the credit status of one or more operators on the policy. Clean means no public record items and no derogatory trade account items other than the presence of one incident less than 60 days late. Acceptable means not clean or unacceptable. No hit means no credit history was available.

The company has certain employees who have been trained to access the credit information and who can view the specific information that caused the risk to be placed within one of the 4 categories. The company's renewal underwriting guidelines indicate that the insureds that have unacceptable financial stability may provide proof of extraordinary medical or extraordinary circumstances to be considered for renewal. The company's operational guidelines state that in Wisconsin the company uses both driving record and financial stability for renewal underwriting.

PRODUCER LICENSING

The company markets through independent agencies. All agents are under contract to the company. Brokered business is not accepted. Background checks are ordered through ChoicePoint, a third-party vendor, on all new principals and producers. Once an acceptable background check is received, the Licensing Unit processes all required appointments.

Number 21 of the examiner's Producer Licensing Interrogatories asked the company to describe how it verifies that all business that it accepts is written by agents who are duly listed for the company, as provided in s. 628.11, Wis. Stat., and s. Ins 6.57 (5), Wis. Adm. Code. The company responded that it assigns a number to each agency. All business written through the agency uses that one number. If an agency requests individual agent numbers for each producer

within the agency, the company will assign each producer a distinct number. The company's service center verifies that each application is properly signed by an agent, but does not cross check the agent's name against its licensing database. As mentioned previously, the company suspended writing new business policies in Wisconsin on July 12, 2000. Should the company resume writing new business in Wisconsin, it is recommended that the company develop and implement a program to verify that the agents submitting applications are duly listed with the company in order to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code.

The company was asked to provide a list of all agents licensed to sell business in Wisconsin at any time during the examination period. The list was to include:

- All agents currently appointed with the company;
- All agents appointed during the examination period, including newly appointed agents that were also terminated during the examination period, and;
- All agents appointed prior the examination period and terminated during or after the examination period.

The data provided by the company was then compared to the agents' data from the agent licensing system of the commissioner, using the agent's license number as the reference field. The comparison showed 252 agents that appeared on the commissioner's records as active sometime during the examination period that did not appear on the company's list and 92 agents that appeared on the company's list but did not appear on the commissioner's list. The company was asked to provide an explanation of the discrepancies. The following describes those discrepancies and their responses.

The company's response regarding the 252 missing agents was that they began using the agency contact portion of their data-base, TRITON, in the latter part of 1998. Agents that were appointed before the use of TRITON were not on the system, unless information was updated for the agent, i.e., address or phone number change, etc. Originally, all employees that had access to TRITON also had access to the agency contact portion of TRITON and made changes to the agent/agency information that company officials state should not have been made. That was changed so that only the Agency Activation Unit has access to that information. Originally, if an agent left an agency, his/her information was completely removed from TRITON and the copy of the license removed from the agent/agency file. This procedure has been

changed. During 1999, the company appointed approximately 30,000 new agents countrywide and, due to volume, appointments were not added to TRITON. In February 2001, the company began using a new system, Producer Plus from Bisys. Throughout 2001, the company plans to update all agent/agency information on the new system.

The company's responses regarding the 92 additional agents were varied. The company indicated that 45 agents had been terminated prior to the examination period and should not have appeared on the company's list and the examiners confirmed that that was true for 37 agents. However, the commissioner's records show that 8 agents were never listed with the company. The company indicated 35 agents were in the process of being appointed and the examiners confirmed that this was true for 31 agents. However, 1 agent's license was surrendered on August 1, 1997, as part of a stipulation and order with the commissioner's office, 1 agent voluntarily surrendered her license on June 24, 1999, 1 agent's license was cancelled due to death on October 29, 1999, and 1 agent had not been appointed as of the writing of this report. Twelve agents' license numbers were incorrectly entered in the company's system and the examiners confirmed that the agents are listed with the company.

Based on the comparisons mentioned above between the commissioner's agent's licensing system and the company's agent's system, the company's agent's system contains numerous errors regarding whether or not agents are listed or terminated. It is recommended that the company continue to update its agency licensing database to accurately reflect agents currently listed with the company and provide the Commissioner with a report verifying compliance within 90 days of adoption of this report in order for the system to be used to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code.

The company currently has a web site that is informational in nature. Agents, customers, and the general public can read and ask questions, via e-mail, about the company's products. No insurance is sold via the Internet. The company is in the process of providing a secure link for its listed agents so that they may process customer transactions. Currently, the company does not allow its agents/agencies to advertise affiliation with the company on the Internet.

IV. CONCLUSION

A total of 5 recommendations were made relating to modifications of policy forms, underwriting procedures, and agent listing procedures.

The company shall revise its forms and underwriting procedures to ensure compliance with current Wisconsin insurance laws and rules and Wisconsin Supreme Court decisions. The company shall develop and implement a program to verify that the agents submitting applications are duly listed with the company and continue to update its agency licensing database to accurately reflect agents currently listed.

V. SUMMARY OF RECOMMENDATIONS

FORMS REVIEW

1. Page 5 It is recommended that the company revise its personal automobile insurance policy form DI68.WI to comply with Wisconsin Supreme Court decision, Ludwig v. Dulian and Germantown Mutual Insurance Company, 217 Wis. 2d 782.

UNDERWRITING

2. Page 6 It is recommended that the company revise its procedure for calculating return premium by using the quoted premium rather than the corrected premium when an applicant requests cancellation of a policy due to its agent's misquote.
3. Page 6 It is recommended that the company state with reasonable precision the facts on which it made its decision to non-renew the policy in order to comply with s. 631.36 (6), Wis. Stat.

PRODUCER LICENSING

4. Page 8 Should the company resume writing new business in Wisconsin, it is recommended that the company develop and implement a program to verify that the agents submitting applications are duly listed with the company in order to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code.
5. Page 9 It is recommended that the company continue to update its agency licensing database to accurately reflect agents currently listed with the company and provide the Commissioner with a report verifying compliance within 90 days of adoption of this report in order for the system to be used to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code.

VI. ACKNOWLEDGMENT

The cooperation and courtesy extended the examiners is acknowledged. In addition to the undersigned, Laura Andreasson, Rebecca Rebholz, and Jane Kovacik, of the Office of the Commissioner of Insurance, participated in the examination and preparation of this report.

Respectfully submitted,

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Examiner-in-Charge