



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson  
Governor

Connie L. O'Connell  
Commissioner

121 East Wilson Street • P.O. Box 7876  
Madison, Wisconsin 53707-7876  
Phone: (608) 266-3585 • Fax: (608) 266-9931  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
[http://badger.state.wi.us/agencies/oci/oci\\_home.htm](http://badger.state.wi.us/agencies/oci/oci_home.htm)

Notice of Adoption and Filing of Examination Report

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

Globe American Casualty Company  
Milford, Ohio 45150

dated February, 1999, and served upon the company on July 28, 1999, 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 2nd day of September, 1999.

Connie L. O'Connell  
Commissioner of Insurance

GlobeAdpFrm.doc

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

OF

GLOBE AMERICAN CASUALTY COMPANY

MILFORD, OHIO

FEBRUARY 1999

## TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. PURPOSE AND SCOPE	3
III. SUMMARY AND FINDINGS	4
IV. CONCLUSION	13
V. SUMMARY OF RECOMMENDATIONS	14
VI. ACKNOWLEDGMEN	15



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson  
Governor

February 5, 1999

Connie L. O'Connell  
Commissioner

121 East Wilson Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ocioci@mail.state.wi.us](mailto:ocioci@mail.state.wi.us)  
[http://badger.state.wi.us/agencies/oci/oci\\_home.htm](http://badger.state.wi.us/agencies/oci/oci_home.htm)

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

Commissioner:

In accordance with your instructions, a limited market conduct examination has been made of:

GLOBE AMERICAN CASUALTY COMPANY

Milford, Ohio

and the following report is respectfully submitted.

I. INTRODUCTION

Globe American Casualty Company is a property and casualty insurer licensed to transact business in the following states: Arizona, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nebraska, Nevada, New Mexico, Ohio, Oregon, Tennessee, Virginia, Washington, and Wisconsin. The company is a stock company domiciled in Ohio, where it was incorporated in 1981. The company commenced doing business in Wisconsin in 1984. The company only writes automobile insurance in Wisconsin. During 1997, the company wrote the following premiums and paid the following losses:

	Direct Premiums Written	Direct Losses Paid
Nationwide	\$71,227,956	\$49,268,480
Wisconsin Business Only	15,964,660	9,315,567

The Office of the Commissioner of Insurance received 36 complaints in 1997 and 29 complaints in 1996. A complaint is defined as a written communication to the Commissioner's Office which indicates a 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 1997</u>	
Underwriting	11
Claims	21
Marketing and Sales	6
Policyholder Service	16

<u>Complaint Reasons 1996</u>	
Underwriting	4
Claims	20
Marketing and Sales	6
Policyholder Service	13

---

The company appeared on the above-average complaint list for automobile insurance in 1997. This list is comprised of all companies with 10 or more complaints in 1997 that have a complaint ratio above the average. The company's 1997 complaint ratio for automobile insurance, using 1996 written premiums in relation to 1997 complaints, was .27 per \$100,000 of written premiums. The Wisconsin average for all insurers writing automobile insurance was .07 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 was conducted, in part, because the company appeared on the above-average complaint list for automobile.

The examination was limited to the review of the following company practices and procedures.

<b>Business Line</b>	<b>Area</b>
Personal passenger automobile	Underwriting Claims Marketing and Sales Policyholder Service Forms

### III. SUMMARY AND FINDINGS

The examination was conducted in two parts. The first part was conducted as a desk audit. The second part was conducted on-site in the company's offices located in Carmel, Indiana. The following recommendations encompass both parts of the examination.

#### FORMS REVIEW

The examiners reviewed the company's eleven, automobile insurance policy forms for compliance with Wisconsin insurance laws, rules, and court decisions. The following discusses areas where the forms did not comply.

##### A. Application form A086509:

1. Paragraph 3 under the Applicant's Signature states that the application becomes a part of the insurance policy. The company indicates the application is not attached to the policy. Section 631.20 (1) (a), Wis. Stat., states, in part, that the Commissioner may disapprove a form upon a finding that it is misleading. It is misleading to state that the application becomes a part of the insurance policy when, in fact, it does not.
2. Paragraph 5 under the Applicant's Signature section states that the applicant agrees that no coverage will be bound unless a premium deposit accompanies this application and that if the applicant's premium remittance is not honored by the bank, no coverage will be bound. An agent has binding authority and coverage is bound whether or not money accompanies the application. Also, once coverage is bound, s. 631.36 (2), Wis. Stat., requires that a notice be sent at least 10 days prior to the cancellation date when canceling for nonpayment of premium.

##### B. Policy form A069804:

3. Exclusion no. 3. in the Liability section excludes coverage for bodily injury or property damage intentionally caused by an insured, that results from the intentional or criminal acts of an insured person. The exclusion contradicts the Commissioner's position regarding intentional acts exclusions which exclude liability coverage in automobile insurance policies. The policy should not exclude liability coverage for injury or damage that results from intentional acts unless the injury or damage is substantially certain to follow from what the insured does.
4. Exclusion no. 7 in the Liability section excludes coverage for bodily injury or property damage resulting from auto business operations. Section 632.32 (5) (b), Wis. Stat., provides, in part, that every policy of insurance providing liability coverage for loss resulting from an accident caused by any motor vehicle may limit coverage afforded to a motor vehicle handler to the limits required by the Wisconsin Financial Responsibility law and to instances when there is no other valid and collectible insurance (whether primary, excess, or contingent).
5. Exclusion no. 11 in the Liability section excludes coverage for bodily injury of relatives of the insured. Section 632.32 (6) (b) 1, Wis. Stat., provides that no policy of insurance providing liability coverage for loss resulting from an accident caused by any motor vehicle may exclude from coverage afforded or benefits provided persons related by blood or marriage to the insured.

6. Coverage C – Medical Payments Coverage does not specifically provide for payment of chiropractic services. Section 632.32 (4) (b), Wis. Stat., provides that every policy of insurance providing liability coverage for loss resulting from an accident caused by any motor vehicle must offer medical payments coverage, including indemnity for chiropractic payments.

C. Policy form A078402:

7. No. 2 of the form amended the policy's definition of "you" and "your" to mean only the named insured and no. 3 of the form excluded coverage for anyone other than the named insured. The form provides coverage for nonowned vehicles. The Wisconsin Supreme Court decision, Bindrim v. Colonial Insurance Company, 190 Wis. 2d 525, found that coverage for family members of the named nonowner insured cannot be excluded from the coverages provided by the policy.

It is recommended that the company revise its policy forms to comply with current Wisconsin insurance laws, rules, and court decisions as listed in this report.

## **UNDERWRITING**

### Manual and Guidelines

The examiners reviewed the company's underwriting manuals and guidelines. The following discusses areas where the manuals and guidelines did not comply with current Wisconsin insurance laws and rules.

The Instructions provision under the General Rules section of the Private Passenger Auto Program underwriting manual states that if the premium remittance by the insured or on his behalf is not honored by the payer (bank), it will be deemed breach of contract and coverage will not be effective whether or not a policy has been issued. Also, the Flat Cancellation provision under the Underwriting: Cancellations section of the Private Passenger Auto Program underwriting manual states that a flat cancellation will occur if the insured's new business downpayment is not honored by their bank, except where specified by statute. Once coverage is bound, s. 631.36 (2), Wis. Stat., requires that a notice be sent at least 10 days prior to the cancellation date when canceling for nonpayment of premium. It is recommended that the company revise its underwriting manual to provide for sending a cancellation notice when canceling a new policy for nonpayment of premium due to an insufficient funds check in order to comply with s. 631.36 (2), Wis. Stat.

The Non-Owner provision under the Underwriting: Rules and Procedures section of the Private Passenger Auto Program underwriting manual states that there is no non-owner coverage for the spouse when operating any vehicle. The General Entry & Memo Guidelines, Coverage



Clarification, Non-Owner policies section of the Solomon Pre-Underwriting Guidelines contains a "Married named insured" chart that indicates in Wisconsin that a spouse does not have coverage under the Named Driver Endorsement (Non-Owned Cars), form 078402. The Wisconsin Supreme Court decision, Bindrim v. Colonial Insurance Company, 190 Wis. 2d 525, provides that no automobile policy may exclude coverage for the spouse or relatives of the named insured. It is recommended that the company revise its underwriting manual to provide non-owner coverage for the spouse and relatives of the named insured in order to comply with the Wisconsin Supreme Court decision, Bindrim v. Colonial Insurance Company, 190 Wis. 2d 525.

#### Interviews of Underwriting Personnel

The examiners interviewed the following underwriting personnel regarding the processing of applications: a preprocessor, a processor, an underwriter, and the processing supervisor. Preprocessing of applications is done within 24 hours of receipt of the applications. The motor vehicle records are ordered for the highest rated driver for each vehicle. The information from the application is then typed into the system. The postmark date is entered and a warning appears on the screen if the effective date of the policy and the postmark are more than 4 days apart. This constitutes a binding authority violation. A monthly report is generated showing binding violations by agency. These are brought to the attention of the agency committing the violations and may be used to restrict or terminate the agent's or agency's authority. The applications are then placed in a pending file, waiting for the motor vehicle records check. Insurance Information Exchange (IIX) is the company that obtains the records and transmits the information to the company approximately every 3 or 4 hours. Wisconsin records take from 48 to 72 hours to obtain. The company does not use credit information to underwrite or rate its policies. When the record comes in, the record is attached to the application and sent to a processor. The processor does a quality check of the preprocessor's work. The processor then checks the application for the applicant's signature if medical payments coverage is rejected, verifies that the violations and accidents shown on the application coincide with the motor vehicle record, verifies other information, i.e., vehicle type, vehicle identification number, driver information, etc., and then checks that the final premium determined by the system coincides with the quoted premium on the application. If the amounts are

different, the system is rechecked for errors. If no errors are found, the system keeps the corrected premium, which is the amount billed to the insured. The lead underwriter randomly pulls 20% of each processor's completed applications daily and does a quality check. There is a 98% quality standard. The underwriters do not have the usual duties of individually underwriting policies. Most underwriting is done by the system. The applications are then filed and kept on-site 1 year after expiration of the policy. They are then sent off-site and kept for an additional 5-8 years. No exceptions were noted based on the aforementioned interviews.

The processing supervisor indicated that in the case of a misquote based on the agent's error, if the insured requests cancellation because of a higher premium, the premium refund is calculated pro rata based on the corrected premium. It is the Commissioner's position that the refund must be calculated pro rata based on the quoted premium. It is recommended that the company revise its procedures to calculate premium refunds, requested by insureds whose premiums were misquoted resulting in an increased premium, pro rata based on the quoted premium in order to comply with the Commissioner's position and remain in compliance with s. 628.34, Wis. Stat.

#### File Review

The examiners reviewed 100 underwriting files; 50 terminations, and 50 new business files. No exceptions were noted for the termination files.

Review of the new business applications revealed two files where the company issued the policies with different coverages than were indicated on the applications. One file was issued with rental reimbursement coverage and without towing and labor coverage when the application indicated towing and labor coverage and not rental reimbursement coverage. One file was issued without collision coverage when the application indicated a collision premium. The company indicated the first file was an error and would be corrected. The company indicated the only notification to the insured was the issuance of the declarations page without collision coverage. Section 628.34 (1) (a), Wis. Stat., states, in part, that no insurer may make or cause to be made any communication relating to an insurance contract which contains misleading information. It is misleading to issue a policy, other than as applied for, without notification to the applicant. It is

recommended that the company contact its applicants and document its files to show those contracts when issuing policies with terms other than those requested in the original application in order to comply with s. 628.34 (1) (a), Wis. Stat.

The examiners found three files where the company issued the policies from 38 to 80 days after receipt of the applications. Section 631.05, Wis. Stat., states, in part, that the insurer shall issue a policy as soon as reasonably possible after issuance of a binder. It is recommended that the company revise its procedures to ensure that policies are issued within a reasonable time of the receipt of applications in order to comply with s. 631.05, Wis. Stat.

Question 17 of the examiner's Agent 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 does not currently have a procedure in place that would allow it to verify that new business applications received are from an agent who is duly listed for it. Section 628.11, Wis. Stat., states, in part, that an insurer shall report to the commission at such intervals as the Commissioner establishes by rule all appointments, including renewals of appointments, of insurance agents to do business in this state. Section Ins 6.57 (5), Wis. Adm. Code, states that no insurer shall accept business directly from any intermediary unless that intermediary is a licensed agent listed with that company. In reviewing the new business files, the examiners found two files where the agents submitting the applications were not listed with the company. One file was found that did not contain the agent's signature and the company did not obtain the agent's name or signature. 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. 628.11, Wis. Stat., and s. Ins 6.57 (5), Wis. Adm. Code, and submit a summary of the program to the Commissioner within 30 days of the adoption of this report

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.

## Claims

The examiners reviewed the company's claims manuals. No exceptions were noted.

### Interview of Claims Personnel

The examiners interviewed the following claims personnel regarding the processing of claims: a claims service representative (CSR), a property/physical damage adjuster, a total loss unit adjuster, and a bodily injury adjuster. Claims are received either through faxes, mail, or downloaded from the company's call center located in Boston, Massachusetts. The call center is open 24 hours a day, seven days a week. The call center obtains initial claims information which is downloaded every 15 minutes into the mainframe located in Cincinnati, Ohio, then downloaded to the Carmel, Indiana, location. The claim is initially reviewed by a claims service representative (CSR) to verify policy numbers, coverage, loss date versus policy term, vehicle involved, etc. A reserve is opened for each coverage based on the information on the initial loss report. The CSR assigns the files to the adjusters.

Adjusters are divided between property/physical damage, bodily injury, total loss, subrogation, and litigation. The adjusters are responsible for further research into the files and must document in the file notes all action taken on the file. Contact is to be made with the insureds and/or claimants within 2 days. Property/physical damage claims over \$1,500 or claims involving deer hits or vandalism are assigned to independent appraisers. Claims between \$450 and \$1,500 are sent to Flat Rater, a company that checks parts prices and labor rates. If any discrepancies are noted, Flat Rater contacts the repair facility directly to work out a settlement.

The total loss unit was implemented as of February 1, 1999. All property/physical damage claims are reviewed by one person and, if determined to be a total loss, are referred directly to the total loss unit for handling. The personnel handle these losses quickly to avoid excessive storage charges and rental car charges. Sales tax is offered on the settlement amount if the owner does not retain the salvage.

Bodily injury adjusters handle specific states. Contact is attempted and appraisers assigned within 1-2 days from assignment of the claim. Each adjuster is responsible for his/her diary entries for each file. A report is generated every Monday that contains each adjuster's diary dates

that as of the preceding Friday were 3 days or older and do not show action was taken. The list is given to each adjuster to act upon their own files. No exceptions were noted based on the interviews.

#### File Review

The examiners reviewed 215 claim files: 189 paid and not paid claim files and 26 subrogation files.

The examiners found 5 files where the company's first or second contacts with the insureds/claimants were not promptly made. Section Ins 6.11 (3) (a) 2, Wis. Adm. Code, provides that it is an unfair claims settlement practice to fail to initiate and conclude a claims investigation with all reasonable dispatch. In order to avoid the unfair claims settlement practice contained in s. Ins 6.11 (3) (a) 2, Wis. Adm. Code, it is recommended that the company implement a procedure to ensure timely follow-up on claims.

The examiners found 16 subrogation files where the company either had not returned the insured's deductible after receiving sufficient funds from the uninsured motorist, delayed in returning the insured's deductible, or did not pay the proper amount on a subrogation reimbursement to another insurer. When the company receives installment payments from the negligent party, it waits to reimburse its insured's deductible until it obtains the full amount of the claim from the other party. If the installment payments extend over a long period of time, there could be a considerable span of time, if ever, before the insured is made whole. The Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263, provides for the insured to be made whole before the insurer retains any recovery. It is recommended that the company submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole and to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

One file was found where the company recorded the claim in its system as a comprehensive loss when the claim was actually a collision loss and was paid accordingly. The miscoding was beneficial to the insured in that the loss was not chargeable and was reported to the

Comprehensive Loss Underwriting Exchange (CLUE) as a not-at-fault accident. However, the miscoding skews the loss ratios for rating purposes for both the collision and comprehensive coverages. One file was found where the company had settled a bodily injury claim involving a minor child. The file was not documented to show that the file should not be destroyed until 2 years after the minor child has reached age 18. Section 893.16, Wis. Stat., provides that the minor may bring action for a personal injury claim against the company within 2 years after attaining the age of 18.

#### **POLICYHOLDER SERVICE AND COMPLAINTS**

When a complaint is received from the Commissioner, the complaint is logged into a complaint book for the appropriate state. A copy of the complaint is given to the department head for which the complaint is related. The department head completes a response and sends it to the coordinator, who types the response. The response is then sent back to the department head for his/her signature and then forwarded to the coordinator to copy and mail. Copies of the complaint and response are maintained in the underwriting or claim file and in the complaint book in chronological order.

Complaints received from sources other than the Commissioner are referred to the individual supervisors. If the complaint cannot be rectified by that person, the situation is handled by the supervisor's superior.

#### **MARKETING AND SALES**

The company markets through independent insurance agents throughout the state. The company had 39 agencies located in Milwaukee County as of the time of the examination. The sales force consists of one territory sales manager whose duties include agency selection, sales, promotion, training, and market research.

#### **AGENTS**

As of August 24, 1998, the company had 2,200 listed agents and 486 agency contracts. As mentioned in the Underwriting section of this report, the company does not have a procedure for ensuring that applications are received and accepted only from listed agents, see recommendation number 7. The company currently recruits agencies and depends on the agencies to inform it of any

agents who wish to write for the company. The company indicated in its response to the interrogatories that complaints and allegations of misconduct are kept in the agent's file. When an agent is terminated, the reason for the termination is not captured in the system but is kept in hard copy form in the agent's file.

#### IV. CONCLUSION

A total of nine recommendations were made relating to modifications of policy forms, underwriting manuals and files, and claims procedures.

The company must revise its forms and underwriting manuals and guidelines to ensure compliance with current Wisconsin insurance laws and rules and Wisconsin Supreme Court decisions. The company must develop and implement a program to verify that the agents submitting applications are duly listed with the company. The company must also submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole.

The recommendations are intended to bring the company into compliance with statutory standards of policyholder and claimant treatment.



## V. SUMMARY OF RECOMMENDATIONS

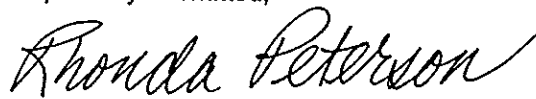
### FORMS

1. Page 5 - It is recommended that the company revise its policy forms to comply with current Wisconsin insurance laws, rules, and court decisions as listed in this report.
2. Page 5 - It is recommended that the company revise its underwriting manual to provide for sending a cancellation notice when canceling a new policy for nonpayment of premium due to an insufficient funds check in order to comply with s. 631.36 (2), Wis. Stat.
3. Page 6 - It is recommended that the company revise its underwriting manual to provide nonowner coverage for the spouse and relatives of the named insured in order to comply with the Wisconsin Supreme Court decision, Bindrim v. Colonial Insurance Company, 190 Wis. 2d 525.
4. Page 7 - It is recommended that the company revise its procedures to calculate premium refunds, requested by insureds whose premiums were misquoted resulting in an increased premium, pro rata based on the quoted premium in order to comply with the Commissioner's position and remain in compliance with s. 628.34, Wis. Stat.
5. Page 7 - It is recommended that the company contact its applicants and document its files to show those contracts when issuing policies with terms other than those requested in the original application in order to comply with s. 628.34 (1) (a), Wis. Stat.
6. Page 8 - It is recommended that the company revise its procedures to ensure that policies are issued within a reasonable time of the receipt of applications in order to comply with s. 631.05, Wis. Stat.
7. Page 8 - 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. 628.11, Wis. Stat., and s. Ins 6.57 (5), Wis. Adm. Code, and submit a summary of the program to the Commissioner within 30 days of the adoption of this report.
8. Page 10 - In order to avoid the unfair claims settlement practice contained in s. Ins 6.11 (3) (a) 2, Wis. Adm. Code, it is recommended that the company implement a procedure to ensure timely follow-up on claims.
9. Page 10 - It is recommended that the company submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole and to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

## VI. ACKNOWLEDGMENT

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

Respectfully submitted,

A handwritten signature in black ink that reads "Rhonda Peterson". The signature is written in a cursive style with a large initial "R" and a long, sweeping tail.

Rhonda Peterson, CPCU, HIA  
Examiner-in-Charge

Report GlobeAmerCas.doc