

Notice of Adoption and Filing of Examination Report

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

Midwest Security Insurance Company
Columbus OH 43215-3976

dated August 1997, and served upon the company on April 6, 1998, 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 27th day of May 1998.

Randy Blumer
Commissioner of Insurance

MIDWEST SECURITY INSURANCE COMPANY
ONALASKA, WISCONSIN

AUGUST 1997

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I. INTRODUCTION

Midwest Security Insurance Company is a property and casualty insurer licensed to transact business in the following states: Indiana, Nebraska, and Wisconsin.

Midwest Security Insurance Company was licensed in Wisconsin in 1974, under the name of Midwestern National Insurance Corporation. The company's name was changed in 1992. The company was purchased by State Auto Mutual Insurance Company, an Ohio company, on January 1, 1997. As of December 31, 1996, the company's business was only in Wisconsin and consisted of the following:

Wisconsin Only		
Line of Business	Direct Premiums Written	Direct Losses Paid
All	\$22,271,483	\$14,872,066

During 1996, the principal lines of insurance by Midwest Security Insurance Company were as follows:

Line	Direct Premiums Written	Direct Losses Incurred
Other private passenger auto liability	\$11,899,487	\$10,723,307
Private passenger auto physical damage	7,526,994	4,746,492
Homeowners multiple peril	2,665,685	2,300,644
Other liability	101,328	70,929
Fire	77,990	30,084

The Office of the Commissioner of Insurance received 18 complaints in 1995 and 27 complaints in 1996. A complaint is defined as "a written communication received by the Commissioner's Office which indicates a dissatisfaction with an insurance company or agent." The following categorizes these complaints by type of coverage and complaint reason. There may be more than one type of coverage or reason for each complaint.

1996 Complaints	Total		Underwriting		Claims		Other	
	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Coverage								
Auto	22	81%	4	15%	13	48%	10	37%
Homeowner's	4	15%	3	11%	0	0%	1	4%
All Others	1	4%	0	0%	1	4%	0	0%
TOTAL	27	100%	7	26%	14	52%	11	41%

1995 Complaints	Total		Underwriting		Claims		Other	
	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Coverage								
Auto	16	89%	4	22%	12	67%	5	28%
Homeowner's	2	11%	0	0%	2	11%	1	6%
All Others	0	0%	0	0%	0	0%	0	0%
TOTAL	18	100%	4	22.22%	14	77.78%	6	33.33%

In 1996, the Wisconsin average was .08 complaints/\$100,000 of written premium for all automobile insurance business in the state. The company appeared on the automobile above-average complaint-to-premium listing with a ratio of .11 complaints/\$100,000 of written premium.

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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, a review of the following company practices and procedures:

Business Line	Area
Automobile and Homeowner's	Underwriting and Rating Marketing and Sales Claim Handling
All Lines	Policyholders' Service

The examination's focus was on the period from January 1, 1996, through May 31, 1997, and included a review of any subsequent events deemed important by the examiner-in-charge when planning the examination.

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III. FINDINGS

CLAIMS

The examiners selected and reviewed 390 homeowner's and automobile claim files; 193 paid claims, 139 claims not paid, and 58 subrogation files. The company's claims manual was also reviewed and did not reveal any unusual provisions.

The examiners found eight subrogation files in which the company received installment payments from the negligent party. The company waits to reimburse its insured's deductible until it obtains the full amount of the deductible from the other party. If the deductible is large, there could be a long time span 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. Per s. 628.46, Wis. Stat., the subrogation recoveries should be returned to the insured within 30 days from the time a reasonable amount is recovered. It is recommended that the company submit a plan to bring its subrogation practices into compliance with s. 628.46, Wis. Stat.

The examiners found six files in which the company did not mail a written claim denial after a verbal denial was given. Per s. Ins 6.11 (3) (a) 7, Wis. Adm. Code, it is an unfair claim settlement practice to fail to affirm or deny coverage of claims within a reasonable time. In order to document compliance and avoid the unfair claim settlement practices described in s. Ins 6.11 (3) (a) 7, Wis. Adm. Code, it is recommended that the company implement procedures that ensure a written claim denial is sent promptly after the claim is verbally denied.

UNDERWRITING AND RATING

UNDERWRITING:

The company's underwriting manual was reviewed and did not reveal any unusual provisions.

The examiners selected and reviewed 292 homeowner's and automobile underwriting

files; 142 new business applications and 150 terminations. The company's underwriting manual was also reviewed and did not reveal any unusual provisions.

The market conduct examination of the company adopted in 1994 included recommendations requiring the following actions:

- Before using the possible nondriving-related violations to underwrite or rate a policy, investigate whether the violation was driving-related, in order to ensure compliance with s. Ins 6.54 (3) (a) 1, Wis. Adm. Code.
- Delete from its "Homeowner Underwriting Guide" the underwriting guideline which indicated the applicant must not have been cancelled, declined, or nonrenewed in the past three years in order to ensure compliance with s. Ins 6.68 (3) (c), Wis. Adm. Code.

The examiners verified that the company complied with the recommendations made in the previous report.

The termination files reviewed did not reveal any unusual practices or methods.

Review of the new business applications revealed six homeowners' files where the company changed the medical payments coverage limits indicated on the applications to other limits, without notice to the insureds. In five of those files, the limits were increased, at no additional charge. However, in one file, the limit was decreased from \$5,000 to \$3,000. None of the files contained documentation to show that the applicants were notified of the changes in their policies. Section 628.34 (3) (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 contacts when issuing policies with terms other than those requested in the original application in order to comply with s. 628.34 (3) (a), Wis. Stat.

The company ceased using credit reports for underwriting after receipt of this office's memorandum dated June 16, 1997, regarding the use of credit reports in underwriting and rating of personal lines policies. The company sought clarification of the memorandum before continuing to use credit reports. The company met with personnel from the Office of the Commissioner of Insurance on August 21, 1997. The company intends to implement procedures in accordance with the aforementioned memorandum. The examiners found one policy which had been terminated because of credit information. The company did not follow current guidelines. However, the termination was effective prior to the memorandum.

The company indicated it does not use information regarding domestic abuse for underwriting or rating a policy. The underwriting and rating guidelines did not contain any information regarding use of domestic abuse information and the examiners did not find any underwriting files to indicate its use.

RATING:

The examiners selected and reviewed 63 underwriting files; 41 automobile and 42 homeowners (some files contained both automobile and homeowners policies). The files were reviewed for compliance with the company's standards for placement within their

multiple rating plans or tiers. The examiners also reviewed the company's most recent automobile and homeowners rate filings submitted to OCI and the underwriting and rating guides.

The examiners found that 4 of the 41 automobile files and 3 of the 42 homeowners' files reviewed were placed in rating tiers in which they either did not meet or exceeded the rating guidelines for those tiers. Therefore, these policyholders were not paying the same premiums as similar risks. Section 628.34 (3) (a), Wis. Stat., states, in part, that no insurer may unfairly discriminate among policyholders by charging different premiums except on the basis of classifications related to the nature and the degree of the risk covered or the expenses involved. It is recommended that the company place its policyholders within the correct rating tiers in order to ensure compliance with s. 628.34 (3) (a), Wis. Stat.

The examiners found that the company's most recent rate filing submitted to OCI did not contain the rating guidelines used to determine placement within specific rating plans or rating tiers. These guidelines are considered supplementary rate information. Section 625.13 (1), Wis. Stat., states, in part, that every authorized insurer shall file all rates and supplementary rate information within 30 days after they become effective. It is recommended that the company include the rating guidelines used to determine placement within specific rating plans or rating tiers in its rate filings submitted to OCI in order to comply with s. 625.13 (1), Wis. Stat.

The examiners found that the company's most recent rate filings submitted to OCI did not contain the commission schedule paid to its agents. The commissions are part of the expense portion of the rates and should be included in the development of the permissible or target loss ratio. Section Ins 6.06 (5) (c), Wis. Adm. Code, states, in part, that all rate filings shall include an explanation of the permissible or target loss ratio. It is recommended that the company include the commission schedule paid to its agents in its rate filings submitted to OCI in order to comply with s. Ins 6.06 (5) (c), Wis. Adm. Code.

POLICYHOLDER SERVICE

The company does not maintain a central log or system to track complaints received from sources other than the Office of the Commissioner of Insurance (OCI). Information or documents generated as a result of non-OCI contacts are retained either as on-line comments in their data system or as actual paper in their paper files. The information can only be retrieved if the policyholder's name or policy number is known.

During the review of the company's claim files, the examiners found a letter, written by one of the company's agents, expressing displeasure with the adjuster assigned to that claim. A note in the file indicated the claim manager was to respond to the complaint. The file did not contain documentation to show that the agent was contacted regarding his complaint. It is suggested that the company implement procedures for handling and documenting responses to complaints received from sources other than OCI.

MARKETING AND SALES

The company markets through independent agents. Agents are recruited through the company's 230 authorized agencies and are directed and trained by regional directors of sales. The company has no formal training program for its agents. However, the company conducts training sessions. The sessions are either at the home office, through regional

agency meetings, or one-on-one by the regional directors.

In 1996, 2 formal complaints were filed against the company regarding disputes between the insureds and the agents as to whether or not awning coverage for the insureds' campers had been offered by the agents. Coverage for the awnings had to be requested and added by payment of an additional premium. Based on these complaints, the company now automatically provides awning coverage, at no additional premium charge.

The examiners selected and reviewed 20 agent files. They were reviewed for compliance with s. Ins 6.57, Wis. Adm. Code. The agents' files were compared to the list of agents produced by the Office of the Commissioner of Insurance, Agent Licensing Section, and no unusual situations were found

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IV. SUMMARY OF RECOMMENDATIONS

Claims

1. It is recommended that the company submit a plan to bring its subrogation practices into compliance with s. 628.46, Wis. Stat.
2. In order to document compliance and avoid the unfair claim settlement practices described in s. Ins 6.11 (3) (a) 7, Wis. Adm. Code, it is recommended that the company implement procedures that ensure a written claim denial is sent promptly after the claim is verbally denied.

Underwriting

3. It is recommended that the company contact its applicants and document its files to show those contacts when issuing policies with terms other than those requested in the original application in order to comply with s. 628.34 (3) (a), Wis. Stat.

Rating

4. It is recommended that the company place its policyholders within the correct rating tiers in order to ensure compliance with s. 628.34 (3) (a), Wis. Stat.
5. It is recommended that the company include the underwriting/rating guidelines used to determine placement within specific rating plans or rating tiers in its rate filings submitted to OCI in order to comply with s. 625.13 (1), Wis. Stat.
6. It is recommended that the company include the commission schedule paid to its agents in its rate filings submitted to OCI in order to comply with s. Ins 6.06 (5) (c), Wis. Adm. Code.

Policyholder Service

7. It is suggested that the company implement procedures for handling and documenting responses to complaints received from sources other than the Office of the Commissioner of Insurance.

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V. ACKNOWLEDGMENT

The cooperation and courtesy extended to the examiners is acknowledged. In addition to the undersigned, Gary C. Morris and Laura Iliff of the Office of the Commissioner of Insurance, participated in the examination and preparation of this report.

Respectfully submitted,

Rhonda Peterson
Examiner-in-Charge

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Updated: April 9, 1999