

**AN INDUSTRY SURVEY**  
**PRIVATE PASSENGER AUTOMOBILE TERRITORY**  
**CLASSIFICATION**

**BY**  
**THE MARKET REGULATION AND LICENSING DIVISION**  
**OF THE**  
**OHIO DEPARTMENT OF INSURANCE**





Bob Taft, Governor  
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067  
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin  
Director  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, Ohio 43215-1067

Dear Director Womer Benjamin:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a limited scope market conduct examination was conducted on the Ohio business of 122 admitted companies that reported \$1 million or more in private passenger automobile premiums in their 2004 annual financial statements.

Completed survey questionnaires were submitted by the companies to the Ohio Department of Insurance at:

2100 Stella Court, Columbus, Ohio 43215-1067.

A report of the review of the survey responses is enclosed.

Respectfully submitted,

  
David R. Beck  
Chief, Market Regulation

  
Date



Accredited by the National Association of Insurance Commissioners (NAIC)  
Consumer Hotline: 1-800-686-1526    Fraud Hotline: 1-800-686-1527    OSHIP Hotline: 1-800-686-1578

## TABLE OF CONTENTS

FOREWORD.....	1
SCOPE OF DEPARTMENT'S REVIEW .....	1
METHODOLOGY.....	1
FINDINGS .....	2
RECOMMENDATIONS.....	3

## **FOREWORD**

The review of the survey responses was conducted by the Market Regulation Division of the Ohio Department of Insurance (“Department”) under authority provided in Ohio Revised Code (“R.C.”) 3901.011. The companies were asked to report on their procedures and practices to assure compliance with the fourth from the last paragraph of R.C. 3901.21, which states:

*With respect to private passenger automobile insurance, no insurer shall charge different premium rates to persons residing within the limits of any municipal corporation based solely on the location of the residence of the insured within those limits.*

## **SCOPE OF DEPARTMENT’S REVIEW**

The survey was restricted to a review of automobile territory rate practices. The companies that were surveyed supplied classification manuals, rating procedures, and internal audit practices in use as of the date that the questionnaires were sent.

The survey was designed to elicit information from the companies to determine whether basic definitions, systems, and controls were in place to comply with R.C. 3901.21. That is, the survey responses provided the examiners with information on whether the company had in place appropriate territory definitions; systems, such as software, for assuring accurate territory assignment; and controls (audits) to assure compliance.

The Department did not intend to conduct detailed audits of each company’s territory rating at the policy level. Such detail would not be feasible due to the time and expense required. While the survey was useful in determining whether systems and controls existed, it was beyond the scope of the survey to verify the accuracy and effectiveness of each of the systems and controls at each of the companies surveyed.

## **METHODOLOGY**

The survey was conducted through a review of each company’s response to the territory rate classification questionnaire. These documents were supplemented, as needed, with requests for additional information and reviews of private passenger automobile rates and rules filed with the Superintendent.

Survey responses were obtained from 122 admitted companies that reported \$1 million or more in Ohio private passenger automobile premiums in the 2004 annual financial statement; had not discontinued writing in Ohio (in “run off”); were not writing only specialty automobile products that do not use garaging location in premium development; and were not currently involved in an Ohio market conduct examination that contained a review of territory rating.

Where a company’s territory classifications appeared to define more than one territory within a municipality (“split municipality”), the examiners asked the company for an explanation. The company responded to the examiners and either concurred with the findings; had additional

information for the examiners to consider; and/or proposed remedial action(s) to correct the apparent deficiency.

In certain instances, companies utilized a rating rule to avoid splitting a municipality. That is, even though territory definitions appeared to split a municipality, the rule required that the higher rated territory be applied to the entire municipality. The examiners considered this to be compliant with R.C. 3901.21.

Whenever a company's rating plan was found to be noncompliant, the examiners coordinated with the company and the Property and Casualty Division of the Department to facilitate revised filings to bring the company's territorial definitions into compliance.

## **FINDINGS**

The examiners evaluated the companies' procedures, systems, and controls in order to evaluate whether there could be an assurance of compliance with R.C. 3901.21:

- **Procedures:** Prior to writing business, did the company establish territorial definitions that would be compliant?
- **Systems:** As business was being written, did the companies utilize any systems or software to identify the garaging location for the insured?
- **Controls:** After business was written, did the companies conduct any routine audits or other reviews to assure that procedures and systems were effective?

### **Territory Definitions**

The first step in assuring compliance with R.C. 3901.21 was to establish that territorial definitions were compliant. Therefore, each company's definitions were reviewed to determine whether separate territories were defined within any municipality.

When reviewing the 122 companies' territory definitions, the examiners found the following:

- That Forty-five companies' territory definitions appeared to result in split municipalities; and,
- That Seventy-seven companies' territory definitions did not appear to result in split municipalities. Of these, 39 companies used "rating rules" to achieve compliance.

Companies with territory non-compliant definitions were advised to contact the Property and Casualty Services Division of the Department for instructions on how to make corrections to territory definitions. In every instance, the companies completed the corrections or are currently in the process of doing so. As a result, the survey achieved a significant improvement in compliance at the most basic level. Having territorial definitions that do not split municipalities is an obvious critical first step toward compliance with R.C. 3901.21.

### **Identification of Garaging Location**

Responses to the surveys indicated that the majority of companies relied entirely on the accuracy of application information:

- Only 40 companies used outside vendors' products to verify vehicle garaging location. The nature of these products varied as follows:
  - Software that identified location using digitized maps and/or Geocoding were used by 13 companies.
  - Software utilizing ZIP codes were used by 10 companies.
  - Various automated mapping methods were used by the remaining 17 companies.
- The remaining 82 companies did not use any outside vendors or mapping software. Most of these companies noted in their responses that they relied on the accuracy of information on the policy application for vehicle garaging location.

As stated previously, it was beyond the survey's scope to determine whether any of the vendor products were effective in identifying municipalities accurately. Even assuming that such products were effective, two-thirds of the companies surveyed did not even utilize such products.

### **Internal Audit of Territory Rating Processes and Procedures**

When reviewing the companies' methods to monitor rating processes and procedures, the examiners found the following:

- Eighty-two companies had some procedure to review either its rating system and/or individual policies at some prescribed interval; and
- Forty companies had no audit procedures in place.

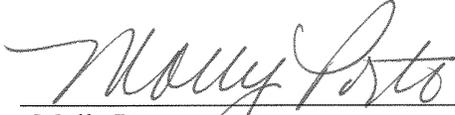
However, without closer examination of the audit procedures reported by the 82 companies, there can be no assurance that those audits would effectively measure the accuracy of garaging location. Instead, these audits may address other rating issues such as whether the policy is rated correctly for the assigned territory and class, not whether the territory and class are accurate. This survey attempted only to determine the existence of audits and did not attempt to examine the effectiveness of those audits at the individual policy level. Even assuming that reported audits were effective, the survey still indicates that one-third of the companies conduct no audits at all.

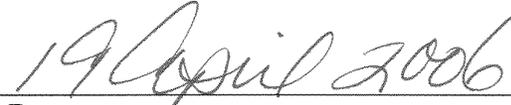
## **RECOMMENDATIONS**

The survey and the Department's efforts have brought about a significant improvement in territorial definitions by coordinating the findings from the survey with the filing of corrections to definitions. The companies should now exercise due diligence in monitoring compliance by developing effective systems for accurate assignment of territory based on the actual municipality of the insured and incorporating the continuing changes to municipality boundaries. This should then be followed by periodic audits to verify the accuracy and effectiveness of the territorial definitions and systems.

Companies have the responsibility of assuring compliance with R.C. 3901.21. Compliance requires appropriate territory definitions, systems for verification of municipalities and their changing boundaries, and audits to confirm the definitions and systems.

The examiners thank the companies for their cooperation in providing the information for this survey.

  
\_\_\_\_\_  
Molly Porto  
Examiner-in-Charge

  
\_\_\_\_\_  
Date