

Market Conduct Final Examination Report

SECURITY PREMIUM FINANCE, INC.

Florida Company Code: 89553

Date: October 24, 2022



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Executive Summary

A market conduct examination of Security Premium Finance, Inc. (“Security” or “Company”) was performed to ascertain the Company’s compliance with the applicable provisions of the Florida Insurance Code as required by Section 627.834, Florida Statutes (“F.S.”).

Company Operations

Security is a domestic Premium Finance Company licensed to offer premium finance agreements in Florida on December 6, 1996. Security generally finances 12-month homeowners, general liability, physical damage, cargo, transportation, commercial auto, garage, package, umbrella, condominium and other policies. When required, Security issues refunds through an insurance agent who is responsible for issuing the refund to the consumer.

On August 2, 2022, Security sold certain premium finance contracts to National Partners PFCO, LLC (“National Partners”), which has been licensed in Florida since September 25, 2017. Security plans to run off the remaining premium finance contracts in force and has stopped writing new business in Florida.

Total Premiums Receivable in Florida during the examination scope period was as follows:

Year	Total Premiums Receivable in Florida (Per Schedule A of the Annual Report)
2021	\$29,971,634
2020	\$27,651,974
2019	\$26,313,891

Section 627.828(1), F.S. requires premium finance companies to maintain a net worth of \$35,000 or a net worth of \$10,000 if a surety bond or other acceptable collateral is approved by the Florida Office of Insurance Regulation (“OIR”). The Company met the requirements of Section 627.828(1), F.S. by reporting the following statutory net worth:

Year	Statutory Net Worth as of December 31 st (Per the Balance Sheet of the Annual Report)
2021	\$3,995,514
2020	\$2,500,182
2019	\$1,806,626

Sections 627.836(2), F.S. requires premium finance companies to file an annual report with OIR and remit the annual report filing fee to the Florida Department of Financial Services (“DFS”) by March 1st of each year.

Finding 1: In one of six instances, the Company did not timely file the annual report with OIR prior to March 1st, as required by Section 627.836(2), F.S.

For the three-year examination scope period the reporting dates are as follows:

Year	Date Annual Report Filed with OIR	Date Annual Report Filing Fees Remitted to DFS
2021	02/28/2022	02/28/2022
2020	04/30/2021	02/25/2021
2019	02/28/2020	02/28/2020

Purpose and Scope of the Examination

OIR has primary responsibility for the regulation, compliance and enforcement of statutes related to the business of insurance premium financing and the monitoring of industry markets. Due to this responsibility, OIR conducted a market conduct examination of Security pursuant to Section 627.834, F.S. The examination scope period was from January 1, 2019 to December 31, 2021. The examination was performed by members of OIR's Property and Casualty Market Regulation business unit.

The purpose of a market conduct examination is to review the premium finance company's operating practices to determine if they comply with the applicable provisions of the Florida Insurance Code, rules related to the business of insurance premium financing, the provisions contained within a premium finance contract issued by the Company, or orders issued by OIR. A common element of all market conduct examinations is to evaluate a premium finance company's business practices to promote the protection of insurance-buying consumers and to hold entities regulated by OIR accountable when issues or violations are found.

The examination began April 1, 2022 and ended October 24, 2022. The last examination of Security was completed as of December 31, 2018. That examination identified several instances in which premium finance agreements contained blank spaces, in violation of Section 627.839(4), F.S. The report contains a Subsequent Event stating that as of December 10, 2019, the Company implemented procedures to mitigate blank spaces on premium finance agreements.

Complaint Statistics

As of July 1, 2022, DFS' Division of Consumer Services reported receiving two complaints from consumers during the examination scope period.

A review of the Company's consumer complaints by category, as assigned by DFS, reflects that both complaints, or 100% of all complaints, were made by consumers who reportedly experienced difficulties with premium refunds.

At the time of the July 2022 reporting by DFS:

- One complaint was closed after DFS explained the Company’s position to the consumer; and
- One complaint was closed after DFS provided information to the consumer.

No notices were issued to OIR by DFS alleging violations of the Florida Insurance Code by Security.

Complaints Reported to DFS by Consumers	
Year	Number of Complaints
2021	0
2020	0
2019	2

Examination Procedures

The conduct of this examination and the procedures, statistical sampling and examination processes used were consistent with and in accordance with those standards and procedures contained in the *Market Regulation Handbook* promulgated by the National Association of Insurance Commissioners (“NAIC”).

In preparation for the examination, the Company was requested to provide the total number, or universe, of premium finance agreements entered into during the examination’s scope period. The Company was also requested to identify premium finance agreements that were cancelled or received a refund from an insurer prior to the end of the premium finance agreement’s contract term. The Company reported entering into a total of 35,173 premium finance agreements during the examination scope period. Of the 35,173 premium finance agreements, 6,161 premium finance agreements were either cancelled or received a refund from the insurer or premium finance company prior to the end of the agreement’s term.

To facilitate a thorough review of the Company’s premium finance agreements and corresponding documentation, the total universe of premium finance agreements was divided into two categories: Premium Finance Agreements and Cancellations and Refunds. Each of the two categories were evaluated for compliance with the Florida Insurance Code.

The Company reported the universe of premium finance agreements for each category as follows:

- 29,012 Premium Finance Agreements; and
- 6,161 Cancellations and Refunds.

For purposes of this examination, the two categories were defined as follows:

- Premium Finance Agreements: The initial premium finance agreement entered into during the examination scope period that completed the full term of the agreement (the premium finance agreement was not cancelled midterm or the consumer was not eligible for a refund); and
- Cancellation and Refunds: The initial premium finance agreements entered into during the

examination scope period that were either cancelled prior to the end of the agreement's term or were eligible for a refund from an insurer or the premium finance company.

The NAIC's *Market Regulation Handbook* provides guidance regarding sampling methods utilized during market conduct examinations. A minimum confidence level of 95% is used to make inferences when a universe population is greater than 200 and permits those results to be extrapolated to the population of all premium finance agreements. The examiners reviewed a total of 232 randomly selected premium finance agreements. The number of randomly selected premium finance agreements in each sample is consistent with the recommended sample size for non-claims in the NAIC's *Market Regulation Handbook's* Acceptance Samples Table. Examination results with a 95% confidence level permit those results to be extrapolated to the population of non-claims in each of the two premium finance agreement categories. Based on the total universe of Security's premium finance agreements subject to this examination, the total sample size required to achieve a 95% confidence level in both categories was determined to be 232.

The 232 randomly selected premium finance agreements consisted of:

- 116 premium finance agreements; and
- 116 cancellations and refunds.

In reviewing materials for this report, the examiners relied on records and information provided by the Company.

Findings

Premium Finance Agreements

This portion of the examination focused on the Company's use of approved forms and rates and evaluated specific statutory components required by the Company in the execution of premium finance agreements, including but not limited to finance charges, service fees, late and non-sufficient fund fees and products financed. To determine the Company's adherence to these statutory requirements, the examiners reviewed and analyzed each sampled premium finance agreement to determine if the agreement was executed in compliance with the Florida Insurance Code.

Finding 1: The examiners determined that eight of the fifteen forms in use by Security require updating due to age and statutory changes, as required by Section 627.838(1), F.S.

Company Response: The Company agreed with the finding.

Subsequent Event: Due to its agreement with National Partners, as of August 2, 2022, the Company has ceased writing new business and will no longer use the outdated forms.

Cancellations and Refunds

This portion of the examination focused on the Company's premium finance agreements entered into during the examination scope period that were either cancelled prior to the end of the agreement's term or were eligible for a refund from an insurer to determine compliance with the Florida Insurance Code. The review evaluated specific statutory components pertaining to cancellations and refunds.

No exceptions were noted.

Recommendations

The following recommendations were compiled from the Findings contained within this report, and observations noted during the examination. The Company is to provide a written report to OIR of actions taken on each Recommendation within 60 days of the Company's receipt of the Final Examination Report.

Until the Company completes the run-off of the premium finance contracts in force and surrenders its license to OIR, the Company should:

- Ensure annual reports are filed with OIR and the annual report filing fee is remitted to DFS by March 1st of each year; and
- File update forms with OIR for approval prior to writing new business if the Company elects to remain in business.

Conclusion

This market conduct examination of Security Premium Finance, Inc. was designed to review and evaluate whether the Company's handling of premium finance agreements was in compliance with the provisions of the Florida Insurance Code. During the examination, OIR identified findings and made recommendations for remediation to be implemented by the Company.

This examination report and the observations contained therein are the result of a factual, data-driven analysis of the Company's premium finance agreements and practices related to the cancellation and refund of premiums to consumers. This report contains a number of recommendations for improvement that should be implemented by the Company. It does not document what regulatory or administrative action may be taken by the Office. Any such action taken as a result of this market conduct examination will be the subject of a separate Order issued by the Office.

Examination Report Final Submission

The Office hereby issues this final report based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.



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