



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF THE

AMERICAN RELIABLE INSURANCE COMPANY

AS OF

February 21, 2013

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EXECUTIVE SUMMARY

A target market conduct examination of the American Reliable Insurance Company (Company) was performed to confirm the company files accurate, timely, and complete statutorily required reports; is operating in accordance with its plan of operation and internal operating procedures; in accordance with industry standards, and in accordance with Florida Statutes and the Florida Administrative Code. The company's Quarterly Supplemental Reports (QUASR reports) were reviewed for compliance with Section 624.424, Florida Statutes. The Company's filed Anti-Fraud Plan was reviewed to determine compliance with Section 626.9891, Florida Statutes, and Rules 69D-2.003 and 69D-2.004, Florida Administrative Code.

TABLE OF VIOLATIONS

Statute/Rule	Description	Files Reviewed	Number of Violations
Section 624.424 (10), F.S.	Quarterly statutorily required reports were not filed within required timeline.	11	4
Section 624.424 (10), F.S.	Failure to report premiums accurately on quarterly statutorily required reports.	20	3
Section 627.318, F.S.	Failure to maintain reasonable records adapted to the company methods of operation, of its experience, in connection with the rates, rating plans, rating systems, underwriting rules, so that such records will be available at all reasonable times to the Office.	11	4
Rules 69D-2.003(1)(h) and 69D-2.004(1)(d), F.A.C.	Failure to follow the company's filed Anti-Fraud Plan of providing annual education and training of its claims adjusters and other personnel related to the detection and investigation of fraudulent insurance acts.	1	1

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of the American Reliable Insurance Company (Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by ParenteBeard, LLC. The scope period of this examination was January 1, 2010 through September 30, 2012. Examination fieldwork began January 14, 2013, and was completed February 21, 2013.

The purpose of this examination was to confirm the Company is filing accurate, timely, and complete statutorily required reports, operating in accordance with its plan of operations and internal operating procedures, and in accordance with industry standards, Florida Statutes, and the Florida Administrative Code. It should be noted that the Company was issued four letters of guidance during the scope period regarding the issue of late filing of statutorily required reports. The examination included reviewing:

- Company processes for filing Florida quarterly supplemental reports (QUASR).
- Detailed data from source systems and reconciling to corresponding QUASR reports to ensure submissions were complete and timely filed in compliance with Section 624.424 (10), Florida Statutes.
- Company plan of operations, policies, and procedures related to the entry of new policy information into the core policy administration system to ensure they followed acceptable business practices.
- The company's anti-fraud plan to determine compliance with Section 626.9891, Florida Statutes and Rules 69D-2.003 and 69D-2.004, Florida Administrative Code.

Records were examined at American Reliable Insurance Company's home office located at 8655 East Via De Ventura, Scottsdale, Arizona. Documentation utilized in this report was provided by the company and other external sources.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

American Reliable Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida on January 28, 1985. The Company is 100% owned by American Bankers Insurance Group, which is directly owned by Interfinancial, Inc., which is directly owned by Assurant, Inc. It is an affiliate of American Security Insurance Company. The Company writes insurance throughout the United States. Products offered include Fire, Allied Lines, Farm Owners Multi-peril, Homeowners Multi-peril, Commercial Multi-peril, Ocean Marine, Inland Marine, Earthquake, Other Liability, Products Liability, Private Passenger Auto

Liability, Commercial Auto Liability, Auto Physical Damage, Surety, Credit, and Warranty Coverage. The Company writes Personal Residential Mobile Homeowners and Tenants Property coverage in the State of Florida.

Total Direct Personal Residential Premiums written in Florida during the scope period were as follows:

As of Year End	Total Written Property Premium In Florida (Per QUASR reports filed with FLOIR)
2010	\$5,149,079
2011	\$4,961,645
2012 ¹	\$4,780,722

EXAMINATION FINDINGS

Quarterly Supplemental Reports (QUASR)

The Examiners reviewed 11 of the 11 required Quarterly Supplemental Reports (QUASR) filed within the examination scope period to ensure reports filed with the Office were complete, accurate, and timely, in accordance with Section 624.424, Florida Statutes. The examiners tested 20 policies issued during the scope period to ensure (i) in-force policies are accurately reported, (ii) exposures indicated on policies reconciled with filings that were included in reports and (iii) premiums written for sampled policies were accurately reported in QUASR filings. The examiners performed a validation of the QUASR procedures to confirm reporting processes reasonably ensure submissions are complete and accurate.

Finding

In four of the eleven QUASR reports filed during the examination period, the company failed to timely file reports within the required 45 days allotted following the last day of the corresponding quarter, as follows:

Report Period	Days Late
2 nd Quarter, 2010	7
3 rd Quarter, 2010	127
4 th Quarter, 2010	21
2 nd Quarter, 2012	42

The Office finds that the latter 3 of these acts are willful violations of Section 624.424 (10), Florida Statutes.

Recommendation

The Company should adopt procedures establishing statutorily required reports are submitted timely to the Office within allotted timeframes in accordance with Section 624.424 (10), Florida Statutes.

¹ Data as of September 30, 2012 Third Quarter Filing.

Subsequent Event:

Subsequent to the completion of the examination field work, but prior to issuing the draft examination report, the Company filed the 2nd quarter, 2013 QUASR report 1 day late.

Finding

In three of the twenty policies sampled, premiums indicated on the policy data within core application systems did not reconcile to data reported on corresponding QUASR reports, as follows:

Report Period	Policy Number	Premium Variance
2 nd Quarter, 2012	1GH00355301	\$701.92
2 nd Quarter, 2012	1GH01372101	\$710.02
1 st Quarter, 2011	1GH02651700	\$146.28

The Office finds these acts are in violation of Section 624.424 (10), Florida Statutes.

Recommendation

The Company should adopt procedures establishing statutorily required reports are submitted accurately to the Office in accordance with Section 624.424 (10), Florida Statutes.

Finding

During the validation of the QUASR reporting procedures, the examiners determined that the Company does not consistently obtain complete listings of in-force policy data from its agents and agencies as of the end quarter reporting period. As a result, the Company is not accurately reporting in-force policy counts, premiums and exposures as required by the Florida Insurance Code. The Office finds these acts are in violation of Section 624.424 (10), Florida Statutes and Section 627.318, Florida Statutes.

CORRECTIVE ACTION

The Company should adopt procedures enforcing that all agents and agencies provide complete reports of in-force, non-renewal and cancelled policies as of the close of each quarter to ensure statutorily required reports submitted to the Office are on time, accurate, and complete, in accordance with Section 624.424 (10), Florida Statutes.

Anti-Fraud Plan and Investigative Unit

The Examiners reviewed the Company's filed Anti-Fraud Plan for compliance with Florida Statutes and the Florida Administrative Code. The Examiners reviewed the company anti-fraud detection education and training policies and procedures to determine its compliance with the Anti-Fraud Plan filed with the Office.

Finding

The Company failed to provide claims personnel continued or on-going fraud training as required by the procedures in the Company's filed Anti-Fraud Plan. The Office finds these acts are in violation of Rules 69D-2.003(1)(h) and 69D-2.004(1)(d), Florida Administrative Code.

Recommendation

The Company should adopt procedures that provide annual education and training to claims and other personnel involved in anti-fraud efforts in accordance with its filed Anti-Fraud Plan and Rules 69D-2.003(1)(h) and 69D-2.004(1)(d), Florida Administrative Code.

EXAMINATION FINAL REPORT SUBMISSION

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