



FILED

SEP 16 2015

**OFFICE OF
INSURANCE REGULATION**

Docketed by: SAB

OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

IN THE MATTER OF:

Case No.: 174210-15-CO

AMERICAN MODERN INSURANCE
GROUP, INC.,

AMERICAN MODERN HOME
INSURANCE COMPANY,

AMERICAN MODERN SELECT
INSURANCE COMPANY,

AMERICAN FAMILY HOME
INSURANCE COMPANY,

AMERICAN SOUTHERN HOME
INSURANCE COMPANY,

and

AMERICAN WESTERN
HOME INSURANCE COMPANY.

CONSENT ORDER

THIS CAUSE came on for consideration as a result of an agreement between American Modern Insurance Group, Inc., on behalf of itself, and the companies listed herein, including but not limited to, American Modern Home Insurance Company, (Ohio domicile), American Modern Select Insurance Company, (Ohio domicile), American Family Home Insurance Company, (Florida domicile), American Southern Home Insurance Company, (Florida domicile), and American Western Home Insurance

Company, (Oklahoma domicile), (collectively referred to hereinafter as “American Modern”) and the Office of Insurance Regulation (referred to hereinafter “Office” or “the Office”). Following a complete review of the record, and upon consideration thereof, and being otherwise fully advised in the premises, the Office and American Modern (collectively referred to as “the parties”) hereby agree as follows:

THE BUSINESS ENTITIES SUBJECT TO THIS ORDER

1. American Modern is a property and casualty insurer, domiciled in Ohio, and authorized to transact insurance in Florida. For purposes of this Consent Order, all terms binding on American Modern are binding on its subsidiaries.

2. Among the products American Modern offers in Florida is lender placed hazard insurance on residential and commercial properties (“LPH”). LPH is insurance taken out by a bank, lender or mortgage servicer (collectively “Servicers”) when a borrower does not maintain the insurance required by the terms of the mortgage. This can occur if the homeowner allows the property insurance policy to lapse, coverage is unavailable, or if the Servicer determines that the borrower does not have sufficient insurance coverage.

3. Following a determination of business practices prevalent throughout the LPH industry, the Office reviewed American Modern’s operations.

4. The Office conducted a target market conduct examination of American Modern with a scope period of January 1, 2008, which was extended to May 1, 2014. The Office has reviewed materials and evidence made publicly available by other state insurance regulators and the NAIC, as well as information and evidence provided to the

Office directly by American Modern. The Office's Target Market Conduct Final Examination Report is incorporated herein by reference as Exhibit "A."

BUSINESS REFORMS AND RATES

5. American Modern denies any violation of the Florida Insurance Code or the Florida Administrative Code with regards to the aforementioned business practices. Notwithstanding, and without admitting any violation of law, American Modern agrees to the following business practice reforms for all LPI business in Florida¹

- a. American Modern shall not pay commissions to a Servicer, or a person or entity affiliated with a Servicer on LPI policies obtained by that Servicer;
- b. American Modern shall not issue LPI on mortgaged property serviced by a Servicer that is an affiliate of American Modern;
- c. American Modern shall not reinsure LPI policies with a captive insurer of any Servicer;
- d. American Modern shall not pay contingent commissions based on underwriting profitability or loss ratios to any Servicer or person or entity affiliated with a Servicer;
- e. American Modern shall not provide free or below-cost outsourced services to Servicers or their affiliates, provided, however, that outsourced services do not include expenses associated with tracking functions that American Modern incurs for its own benefit to identify and protect itself from (a) exposure to lost premium and losses on

¹ The Office acknowledges representations by American Modern that it does not engage in the business practices identified in Paragraph 5. American Modern agrees that it will not engage in the listed business practices at anytime in the future.

properties on which no other insurance coverage is in effect or (b) administrative costs associated with providing and subsequently canceling LPI on properties on which LPI is not required;

f. American Modern shall not make any incentive payments, including but not limited to the payment of expenses, to Servicers or their affiliates for the purpose of securing LPI business.

g. The prohibitions and requirements set forth in Subparagraph f. (above) shall not preclude American Modern from reimbursing “implementation expenses” incurred by a Servicer. For purposes of the preceding, “implementation expenses” means those expenses that are demonstrably and directly related to the implementation of American Modern’s LPI program, including but not limited to:

1. Identifying Servicer and American Modern processes and system requirements;
2. Allocating and assigning resources to be dedicated to the conversion/implementation to American Modern;
3. Developing project documentation;
4. Developing the project schedule and controls to manage against the schedule;
5. Designing, testing and implementation of information technology systems and interfaces needed to exchange information required for the effectiveness of American Modern’s LPI program;

6. Diverting mail, telephone, facsimile and web-based communications;
7. Testing accuracy and quality of project deliverables;
8. Training staff on American Modern's product and processes;
9. Establishing specific controls to monitor American Modern's service to ensure it meets documented requirements; and
10. Any similar activity related to the implementation of American Modern's LPI program at program inception.

"Implementation expenses" that are reimbursed must be supported by documentary or other physical or electronic evidence (such as, but not limited to invoices, work orders or the like) of their expenditure by the mortgage servicer. Such expenses must bear a direct relationship to the implementation of American Modern's LPI program at program inception.

6. It is the intent of the Office that these new business practice reforms apply to all LPI insurers issuing LPI coverage in the state of Florida. In light of the actions agreed to in this Consent Order, and to ensure that a level playing field exists for all LPI insurers in this state, should the Office become aware of any LPI insurers operating inconsistently with the above-referenced business practice reforms, it is the intent of the Office to timely take any action the Office deems appropriate to require other such insurers to comply with such business practices.

7. In addition to the business reforms reflected in Paragraph 5, in an effort to increase the transparency of its business activities, American Modern agrees, with regards

to LPI business in Florida, that within one hundred and twenty (120) days of the execution of this Consent Order, it will post a copy of this Consent Order on its website where it can be clearly and easily read by any consumer who wishes to review it.

8. American Modern, and any licensed affiliate or subsidiary of American Modern offering LPI coverage in Florida, shall re-file its LPI rates with the Office pursuant to Section 627.062(2)(a), Florida Statutes, no later than July 1st of every year until further written notification from the Office.

9. In all future LPI rate filings, American Modern will utilize the provisions of Section 624.4213, Florida Statutes, only for those documents which American Modern in good faith believes are entitled to trade secret protection.

10. This Consent Order is a compromise settlement and is not an admission of liability, wrongdoing or violation of law and no court, or the Office, has made any factual findings or legal conclusions. Notwithstanding, American Modern expressly waives a hearing on the issues specifically set forth herein.

11. The parties agree that this Consent Order shall be deemed executed when the Office has signed a copy of this Consent Order bearing the signature of the authorized representative of American Modern, notwithstanding the fact that the copy may be transmitted to the Office electronically or via facsimile.

12. American Modern agrees that the failure to adhere to one or more of the above terms and conditions of this Consent Order shall constitute a violation of a lawful order of the Office, and shall subject American Modern to administrative action by the Office.

13. If any subsequently effective Florida statute or regulation prescribes requirements inconsistent with the provisions set forth in this Consent Order, this Consent Order shall be modified to conform to such statute or regulation.

14. Except as noted above, each party to this action shall bear its own costs and attorney's fees.

WHEREFORE, the agreement between American Modern and the Office, the terms and conditions of which are set forth above, is APPROVED.

FURTHER, all terms and conditions above are hereby ORDERED.

DONE and ORDERED this 16th day of September, 2015.





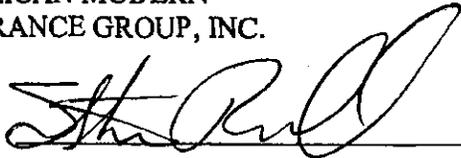
Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereof AMERICAN MODERN INSURANCE GROUP, INC., on behalf of itself, and the companies listed herein, including but not limited to American Modern Home Insurance Company, American Modern Select Insurance Company, American Family Home Insurance Company, American Southern Home Insurance Company, and American Western Home Insurance Company, consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind AMERICAN MODERN INSURANCE GROUP, INC., to the terms and conditions of this Consent Order.

AMERICAN MODERN
INSURANCE GROUP, INC.

Corporate Seal

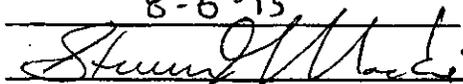
By:



Print Name: Stephen Russell

Title: SVP

Date: 8-6-15


Steven J. Mackie, VP

State of Ohio

County of Clermont

The foregoing instrument was acknowledged before me this 6th day of August, 2015, by Stephen Russell and Steven J. Mackie who is personally known to me or has produced the following identification N/A.


Signature of Notary Public

LORI CRABLE
Print Name

9/24/17
My commission expires:



LORI CRABLE
Notary Public, State of Ohio
Commission Expires Sept. 24, 2017

COPIES FURNISHED TO:

TRAVIS MILLER, Esquire
Radey Law Firm
301 S. Bronough Street, Suite 200
Tallahassee, Florida 32301

JIM PAFFORD, Director
Bureau of Market Investigations
Office of Insurance Regulation
Tallahassee, Florida 32399-4210



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

**American Modern Home Insurance Company (Ohio domicile)
(NAIC #23469),**

**American Modern Select Insurance Company (Ohio domicile)
(NAIC#38652);**

**American Family Home Insurance Company (Florida domicile)
(NAIC#23450**

**American Southern Home Insurance Company (Florida domicile)
(NAIC#41998)**

**American Western Home Insurance Company (Oklahoma domicile)
(NAIC #35912)**

July 6, 2015

EXHIBIT

A

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
PURPOSE AND SCOPE OF EXAMINATION	3
COMPANY OPERATIONS	4
BACKGROUND	5
REVIEW AND FINDINGS.....	5
CONCLUSION	11
EXAMINATION FINAL REPORT.....	12

EXECUTIVE SUMMARY

The Company wrote force-placed insurance policies without having sufficient or appropriate information systems, agent oversight, or rating review. The Company represents that its efforts to correct error-ridden data and records have been ongoing for over 24 months, with incurred costs to date in excess of \$18 million.

The following represent general and systemic findings regarding the Company's force-placed insurance products and are based on self-reported violations and examiner review. Specific details and findings are found in each section of the report.

Statute/Rule	Description
Section 627.062(2), F.S.	Failure to use filed rates. Company charged rates that differed from its filed and approved rates.
Rule 69O-170.004, F.A.C.	Discounts, credits, surcharges; failure to limit Individual Risk Premium Modification (IRPM) ratings to filed limits, resulting in overcharges and undercharges.
Rule 69O-170.004(5)(a), F.A.C.	Failure to maintain documentation supporting scheduled rate modifications.
Rule 69O-170.004(5)(b), F.A.C.	Exceeding the 25% maximum credit or debit permitted in a scheduled rating plan.
Section 627.318, F.S.	Failure to maintain records
Section 624.424, F.S.	Failure to file accurate financial reports
Section 626.451(3), F.S.	Company responsible for acts of its agents
Section 624.5092, F.S.	Administration of taxes; payments

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation, (hereinafter "Office"), Market Investigations, conducted a target market conduct examination of American Modern Insurance Group, which includes American Modern Home Insurance Company, American Modern Select Insurance Company, American Family Home Insurance Company, American Southern Home Insurance Company, and American Western Home Insurance Company, (hereinafter referred to jointly as "Company") pursuant to Section 624.3161, Florida Statutes. The examination was performed by Jennan Enterprises, LLC. The scope period of this examination was January 1, 2008, and was extended to May 1, 2014. The examination began March 17, 2014, and ended June 30, 2014.

The purpose of this examination was to investigate issues relating to American Modern Group's notification to the Office in March 2013, that there were rating variances and overcharges with their lender-placed insurance programs, particularly blanket mortgage security (BMS), collateral protection insurance (CPI) and lender single interest (LSI). The examination was conducted to evaluate and confirm reported corrective actions taken by the Company.

The examination included the following procedures:

- Onsite visits and discussions with Company personnel, Frost Brown Todd personnel, and Deloitte & Touche (D&T) personnel regarding the discovery, remediation and restitution of overcharges.
- Review of data provided by the Company.
- Review of documentation provided by the Company, Frost Brown Todd and D&T.

In reviewing materials for this final report, the examiner relied on records provided by the Company. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

The company writes property and casualty insurance coverage in the State of Florida through a pooling arrangement involving the following affiliates:

Company	State of Domicile	Date Licensed in FL	2011 Florida Direct Premiums Written	2012 Florida Direct Premiums Written	2013 Florida Direct Premiums Written
American Modern Home Insurance Company	OH	11/26/1975	\$5,559,099	\$3,937,715	\$6,345,925
American Modern Select Insurance Company	OH	02/16/2006	\$0	\$0	\$8,314
American Family Home Insurance Company	FL	04/02/1965	\$707,627	\$205,780	\$246,030
American Southern Home Insurance Company	FL	12/30/1982	\$34,106,434	\$29,588,423	\$23,227,333
American Western Home Insurance Company	OK	07/25/1991	\$3,409,128	\$496,421	\$2,348,759

BACKGROUND

The Company's Financial Institutions Division (FID) handles the force-placed lines of business. Between 2006 and 2008, there was an unexpected growth of the force-placed insurance business. Forced placed business included master policies (policies held by lending institutions) and certificates (issued to loan holders under the specification of a master policy). At that time, the Company was using an information system that was designed for personal lines residential products - one line of business, one rating state, one premium associated with the base coverage, and one expiration date, hereinafter "legacy" system. This legacy system was not designed for, or capable of, handling the functions needed to record and monitor master policies and related certificates. Despite the influx of new business, management chose not to enhance this existing system, continuing to input master policies into a framework designed for single policies. However, the Company realized the need for more technically sophisticated software and initiated a search and selection process in 2008. The search continued into 2009, focusing on finding a system capable of handling master policies, certificates, and rate verifications. The XYCOR product, XyberNet, was selected and a project started in 2010. The project name was Financial Institution Systems Integrated Solution (FISIS). The new system was configured by loading state approved rates into the system for rate validation whenever a new master policy was entered. Certificates were to be validated against the related master policy. Initial loading of master policies began in 2012. In March 2012, it was observed that policies being manually entered into the system were being rejected for rate differences. Attempts to load certificate information revealed additional issues. The effort to complete the implementation of XyberNet was put on hold due to the discovery of extensive inconsistencies and non-compliance of rates associated with master policies. The implementation of XyberNet was delayed approximately 18 months.

Management learned fully of the repercussions of entering master policies and related certificates into an information system as a single policy. The records and data associated with these lines of business were error-ridden and unreliable. The Company self-reported the situation to various state insurance departments, including Florida on date March 2, 2013. Ultimately, a Regulatory Settlement Agreement was issued by the state of Ohio and entered into by the Company on April 28, 2015, relative to the issues that were self-reported by the Company.

REVIEW AND FINDINGS

Examiner on-site visits included:

- Discussions and interviews with Company personnel, Frost Brown Todd (FBT) and D&T personnel regarding the discovery, systems review, remediation and restitution of overcharges
- Review of data provided by the Company
- Review of documentation provided by the Company, FBT and D&T

Based on these interviews and data and document reviews, examiners report the following findings:

1. Agents were allowed to issue their own master policies without oversight by the Company to ensure that rates and forms were in compliance with filed rates and forms. This resulted in coding and rating errors, both undercharges and overcharges. **Violations of Section 627.062(2), Florida Statutes, failure to use filed rates.**
2. Agents were permitted to implement IRPM (Individual Risk Premium Modifiers), credits and debits, to filed rates, without oversight by the Company. Research revealed that filed rates were modified up to 60%, which was not in compliance with the Company's filed modifications of +/- 25%. The Company is responsible for the acts of its agents pursuant to Section 626.451(3), Florida Statutes. **Violations of Section 627.062, Florida Statutes, failure to use filed rates; Rule 690-170.004(5)(b), Florida Administrative Code, exceeding the 25% maximum credit or debit permitted in a scheduled rating plan.**
3. The Company failed to maintain justification and support for the application of IRPM's. **Violations of Rule 690-170.004(5)(a), Florida Administrative Code, failure to maintain documentation supporting rating plan modifications.**
4. The Company made efforts to scan the master policies. However, indexing in the primary imaging system, FileNet, was difficult due to duplication of policies submitted in paper by the agents as coverages changed.
5. Master policies may have multiple products, contain multiple rates and forms for various states, and may not have a stated expiration date. The forced-placed, lender based line of business and the associated premium was recorded at the certificate level without any link to a master policy. Rates were to be determined by coverage type at the master policy level, but the legacy system was incapable of storing the master policy number. While the Company did maintain some of the master policy information in hard copy, it was not recorded electronically.
6. There was little organization, direction, or uniformity in the format of the files submitted to the Company by its agents. This resulted in the following errors and issues over the life of the Company's force-placed insurance program and the scope period:
 - a. The IT Department had to develop 58 separate interface programs to import data from 58 submitting agents and accommodate the different formats
 - b. Agents did not always submit complete or accurate information
 - c. Changes in information being calculated or determined were not kept current in the interface programs
 - d. Fields in the legacy system were utilized to store data that were not consistent with the file layout
 - e. The submission files did not include a master policy number
 - f. Minimal verification of data was performed by the Company on import into the legacy system
 - g. The Company reported that it was unable to match 2,000 Florida certificate holders to any master policy;

Violations of Section 627.318, Florida Statutes, Records - failure to maintain reasonable records so that such records will be available at all reasonable times to

enable the office to determine whether the insurer is in compliance with the provisions of Section 627, Part I, Florida Statutes, that are applicable to it.

Company Response: Subsequent to the on-site examination the Company reports that it has successfully matched all certificate holders to a Florida master policy and eligible borrowers will be able to submit claims in the resolution process.

7. Rating and coding errors resulted in the filing of incorrect financial statements and premium tax payments. **Violations of Section 624.424, Florida Statutes, failure to file accurate financial reports; and, Section 624.5092, Florida Statutes, failure to accurately administer taxes, payments.**

Company Response: Subsequent to the on-site examination the Company proactively filed Amended Premium Tax Returns for 2009-2012, reporting that it did not take credit for \$650,828 in overpayments but did pay an additional \$494,265.

Corrective action efforts by the Company to date:

The Company appointed a Senior Executive to oversee a corrective action project and engaged the legal firm of Frost Brown Todd as outside counsel to oversee the analysis, reporting, and remediation of the issues. FBT then engaged D&T to perform evaluation of the situation. The D&T staff included underwriting experts, actuaries and insurance regulatory experts. D&T procedures included:

1. Manual entry of all master policies in effect from January 1, 2009, through April 1, 2013. (The Company reported 502 master policies for Florida and 8,339 nationally.)
 - a. Not all data from each master policy was entered.
 - b. Only information needed for evaluating the premium mischarges was entered into a SAS database, a sophisticated database that requires significant IT knowledge to utilize.
 - c. The information regarding the master policies was imported from the SAS database to an Access Database called CMDB – Certificate Master Database, which was used to match the master policies to certificates. This database is still being used to verify rates for new certificates transmitted by the agents.
2. Matching of certificates to master policies was performed. Some work was performed by Company personnel, but D&T was responsible for the matching and analysis of premium accuracy. Following is an overview of those efforts:
 - a. Started in December 2012 the main effort continued until July 2013. A smaller team was maintained for the remainder of 2013.
 - b. Certificate data effective look-back period, January 1, 2009, through April 1, 2013, was imported into the SAS database using the Company's data warehouse data. Data prior to 2010, however, is not reconciled between the 2 systems.

Company Response: Subsequent to the on-site examination the Company

provided premium by product detail as filed in Statutory Financial Statements for the Company's look-back period, January 1, 2009, through April 1, 2013. This data was reconciled to the data in the SAS database.

- c. Certificate data did not contain the master policy number; therefore, matching was based on agent and lender numbers.
- d. The first effort was targeted for active policies; however, there was no indication in the data whether the policy was active or inactive. Therefore, policies were considered active if they had premium booked in 2012 and had no cancellation date.
- e. Company codes were not used as they were not reliable in the certificate data.
- f. There was no master list of agents. Some of the master policy declaration pages had inaccurate agent numbers as a result of agent numbers being reused or modified; agencies were purchased and merged with other agencies, further confusing identifying numbers. All agent numbers were typed into the Certificate Master Database as plain text fields, thus eliminating the ability to easily sort information within the database. These deficiencies in the control of the quality and consistency of data make it difficult to match agents to master policies.
- g. The effective dates associated with changes in agency numbers were not tracked or maintained by the Company, therefore, the dates could not be entered into the D&T database.
- h. Lender numbers were manually entered with no validation that the agent/lender number combination was valid.
- i. A separate read-only database was developed and used for quality assurance.
- j. When no matching master policy was found for a certificate, attempts to contact the agents were made.
- k. On November 26, 2012, agents were no longer allowed to issue master policies. The Company began to verify that premium rates were in keeping with filed rates using the CMDB information.
- l. Master policies and certificates issued after November 26, 2012, were not considered in the review process, although the review process was supposed to cover through April 1, 2013. Therefore, there is a gap of four months in the certificates that were reviewed.

Company Response: Subsequent to the on-site examination and based upon review and feedback from the Office, the Company proactively processed those transactions with effective dates of November 27, 2012, through March 31, 2013, on new master policies written on or after November 27, 2012, through CMD for verification. Four identified overcharges (a 0.10% dollar error rate totaling \$1,289) were credited by Company agents.

- m. If no match was found, further research may have been done in the legacy system. There is a program messaging function between the legacy system and the data warehouse. Some searches of the legacy system involved entering the certificate to attempt to locate a lender. If no match was found and no lender was found attempts were made to match the certificate based on the rate.

- n. The legacy system and the data warehouse, which contains the data that was used by D&T, were found to have discrepancies.
- o. The Company represents that the final match rate for certificates to master policies was approximately 99% for Florida.
- p. The Company has indicated that there appeared to be more data issues than overcharges, but projected overcharges in Florida are nearly \$6 million.

Complications encountered by the Company in executing the corrective action plan:

1. The agents have billing systems rather than policy administration systems. Agents may have an annual premium but often bill monthly, so the transactions are not an accurate picture at any point in time.
2. There is a long delay between the policy effective date and the initial billing, due to the requirements for notifications of forced-placed coverage.
3. Overcharges up to a certain amount were attributed to IRPM. Prior to the remediation, there was no requirement for the agent to document the IRPM applied.
4. Implied rate was calculated for each record that had an overcharge. High overcharges and outlying implied rates were researched first.
5. Agents used the state that was the location of the borrower's property as the risk location. While there were errors in reporting the risk location, this information was generally correct.

Correction of data and duplicate entry of the same data:

1. Issues resolved during the matching process were not recorded to allow the Company to make corrections in the legacy system. No data at the Company was corrected as a result of the D&T process.
Company Response: Issues resolved by D&T are now a part of the Company's records.
2. A small amount of data from the master policies was entered into the D&T database by D&T staff for the remediation process.
3. Following the process, the Company determined that all master policies would be reviewed and re-written. The paper master policies were again reviewed and the new policies created in MS Word documents rather than entered electronically into the new Xybernet system. The reason given was that the system did not yet have all of the forms associations set up.
4. The plan for implementing Xybernet is to again enter the master policy data into the system manually.

Current state of affairs:

1. The Xybernet system is not yet completely implemented; the projected completion is fourth quarter 2015. The process was on hold for several months due to resources being utilized in the remediation process.

2. Until implementation of the new system is complete, the rates are being verified using the mainframe version of CMDDB (Certificate Master Data Base) originally developed by D&T. This database does not contain complete master policy information but has fields needed for rate verification.
3. The Company has reported an estimated 155 mortgage fire master policies (25,702 certificate holders) with premium overcharges totaling \$5,769,278, and 8 collateral protection master policies (909 certificate holders) with overcharges totaling \$147,872. Verification is being done according to anniversary date – the policies do not have an expiration date.
4. The Company plans to correct rating errors by re-writing and re-issuing policies, starting first with Mortgage Fire Insurance policies and then, Collateral Protection Insurance policies. An underwriting team at the Company is re-issuing each policy using MS Word documents, a redundant and inefficient method that will still require re-entry to the new system when operational. The process began in December of 2013, and was scheduled to be completed by April 2015 for Mortgage Fire policies and by October 15, 2015, for Collateral Protection policies.
5. Certificates remain under the respective original master policy (overcharges were addressed with endorsements). Until renewal, the certificates are associated with the original master policy number. Though new certificates are reported monthly, there is a delay in premium development relating to required regulatory interactions and notifications. While stop-gap controls are in place to detect this, opportunities for inaccurate application of payments remain.

Company Response: The Company reports that it now has fully designed, drafted, and implemented permanent policies, procedures, and controls to detect and correct occasional inadvertent certificate errors.

6. Both old and new policies are in CMDDB along with the endorsements.
7. Underwriting rewrites are performed under the direction of a senior underwriter. The assistant underwriters have a limited delegation of authority and have all work quality controlled by a peer underwriter. A team of processors complete the policies.
8. Agents are converting to 1 of 4 basic submission formats. The Company is testing import into both the legacy system and Xybernet.

Company Response: The Company subsequently reported that agents are converting to 1 of 2 basic submission formats and are testing to import into both the legacy system and Xybernet. The transition to the Standard File Layout is almost complete with 1 agent remaining in the final stages of testing.

9. Efforts to execute refunds are hindered by the following issues:
 - a. Addresses are old and many of the properties have been foreclosed.
 - b. Certificate-level data is being reviewed again by D&T for verification of addresses.
 - c. The source of the premium payment is unknown.
 - d. According to the Company, the average refund is estimated at \$60 per certificate.
 - e. According to the Company, if 98% of the data is completed for a line of business, they will send those records to Garden City (contract firm) to pass addresses through NCOA (National Change of Address database) to check if this is the current address.

Company Response: The Company subsequently reports that it has now mailed claim forms to borrowers covering 18,465 of the 18,675 Florida transactions subject to mailing. To date the Company has received 5,280 Florida claims totaling \$2,152,000 and began mailing checks in February 2015.

- f. According to the Company, it is sending the remaining 2% to its agents to identify the address and may also reach out to lenders for address information. Agents are an integral part of record verification.
- g. According to the Company, it has contracted with an unaffiliated firm to process claims. Claim forms will be sent out to all borrowers who will have 90 days to respond. The claim form or request letter may include required information to document the claim. There will be an umpire (not yet selected) to adjudicate complex or contested claims. The remaining funds will escheat to the state of the covered property address.
- h. The Company has subsequently reported submitting amended premium tax returns to the Florida Department of Revenue.

CONCLUSION

In addition to using in-house personnel and other resources in the last two years, the Company has spent over \$18 million dollars on external vendors to gather and correct data, to improve recordkeeping and to determine potential refunds. Despite these efforts, the Company:

1. will not have a fully developed IT system implemented for this line of business until the 4th quarter of 2015, thus:
 - a. Issues remain relating certificates to master policies
Company Response: The Company subsequently reports that it is implementing a standard file layout to reduce or eliminate the risk of not matching certificates to master policies during the interim period until a new IT system is fully operational.
 - b. Risk of inaccurate rating still exists
Company Response: The Company subsequently reports that it has implemented sufficient front-end controls, underwriting changes, and system process advancements to reduce the risk of inaccurate rating to a minimal, correctable level.
 - c. While claims are processed out of a separate system and appear to be appropriately paid, they may be adversely impacted by inaccurate data elements such as effective dates of coverage and deductibles from other IT systems.
Company Response: The Company pays claims out of a separate system, has not detected any issues, and claims appear to be appropriately paid.
2. Does not have a system to track either the master policy or the certificate number.
Company Response: Subsequent to the on-site exam the Company reports that it does have a mainframe database which houses both certificate transaction and master policy numbers.
3. Is unable to match 2,000 Florida certificate holders to a master policy.
Company Response: Subsequent to the on-site exam the Company reports that it has now matched the previously unmatched Florida transactions.
4. Is unable to reconcile premium charges for each of these policies and cannot justify premium charges. Therefore, lack of information on premiums charged results in lack of justification and support for the rates used.
Company Response: The Company reports that it can now justify the rates used.

5. Lack of data accuracy and inability to match certificates, master policies, and agent numbers likely resulted in inaccurate commission statements and payments.

EXAMINATION FINAL REPORT

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.