

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

CYPRESS PROPERTY AND CASUALTY INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 3/27/02

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I. INTRODUCTION

Cypress Property and Casualty Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination, January 1999 to December 2000. The examination began May 15, 2001 and ended June 16, 2001. This is the first property and casualty market conduct examination of this insurer, by the Florida Department of Insurance.

The purpose of this target examination was to review the Company's business practices to determine compliance with Florida Statutes and Rules. In addition, to verify that the Company is in compliance with the Arbitration Award dated September 8, 2000, which required the Company to not include the Florida Hurricane Catastrophe Fund (FHCF) surcharge to any homeowners and dwelling fire policies billed after October 1, 2000. The Company was found to be in compliance with the Arbitration Award at the time of the examination.

During this examination, records reviewed included homeowners and dwelling fire policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1999 through December 2000, as reflected in the report.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, an estimated \$130.98 will be returned to Florida consumers due to overcharges of premium and underreturns of cancellations.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

Cypress Property and Casualty Insurance Company (hereinafter “Company”) was incorporated in the State of Florida on August 26, 1998. The Company received its Certificate of Authority from the Florida Department of Insurance on December 27, 1998. The Company began operations assuming approximately 18,000 homeowners and dwelling fire policies from the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) in January and March of 1999.

The Company’s website can be accessed at www.cypresspropertyinsurance.com.

The Company currently underwrites business in Florida through its licensed and appointed Managing General Agent, Cypress Insurance Services, Inc.

For policy administration, the Company contracts with Computer Science Corporation (CSC), formerly known as MYND and Policy Management System Corporation (PMSC) located in Sarasota, Florida.

Claims are handled by York/STB, an independent claims adjustment firm in Orlando, Florida.

The Company’s home office is located at 4309 Pablo Oaks Court, Suite One, Jacksonville, Florida 32224.

B. MANAGEMENT

1. Company Computer System

Policy issuance and maintenance are performed on Point software system supported by an AS/400 hardware platform provided by CSC.

2. Anti-Fraud Plan

The Company has contracted with York/STB to provide special investigative unit (SIU) services to investigate possible fraudulent claims. The Company has filed with the Florida Department of Insurance, a copy of the contract and related documents as required by Section 626.9891, Florida Statutes.

3. Disaster Recovery Plan

The Company has a written Disaster Recovery Plan. The Plan documents the strategies and procedures that the Company will use to respond to any long-term interruption to its essential business functions.

4. Internal Audit Plan

The Company does not have a formal internal audit plan. It relies on the policy administration provider, CSC, whose procedures consist of quarterly system queries to check for a variety of possible errors. In addition, small selections of new business applications are verified for accuracy on a monthly basis.

C. OPERATIONS

Cypress Insurance Services, the Company's MGA, markets policies through the independent agency system. They also acquire business via captive agents of other carriers, on both exchange of business and appointed basis. The Company writes property insurance products for residential properties for policies assumed from the FRPCJUA and the voluntary market. The Company currently writes homeowners and dwelling fire policies throughout the State of Florida including the coastal areas.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Cypress Property and Casualty Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Cypress Property and Casualty Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

ISO acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1999	\$16,454,745	15,680
2000	\$19,328,299	21,007

3. Exam Findings

One hundred (100) policy files were examined.

One (1) error was found.

The error affecting premium resulted in one (1) undercharge totaling \$248.00.

The error is described as follows:

1. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used of an incorrect territory. This error resulted in an undercharge totaling \$248.00.

B. DWELLING FIRE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Cypress Property and Casualty Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Cypress Property and Casualty Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

ISO acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1999	\$ 996,861	2,395
2000	\$1,292,582	3,226

3. Exam Findings

One hundred (100) policy files were examined.

Four (4) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$130.98 and one (1) undercharge totaling \$19.00.

The errors are broken down as follows:

1. Four (4) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used the incorrect Building Code Effectiveness Grading (BCEGS) credit/debit factors. These errors resulted in one (1) undercharge totaling \$19.00 and three (3) overcharges totaling \$130.98, which have not been refunded by the Company as they were being processed at the time of the examiner's departure. The Company was directed to refund overcharges and interest on all policy terms within the scope for the policies found in error. Exhibit I.

V. AGENTS/MGA REVIEW

Ten (10) applications/policies written during the scope of examination were examined.

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Twenty-two (22) errors were found.

None of the errors resulted in refunds.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to provide proof of mailing. This constitutes a violation of Rule 4-167.010, Florida Administrative Code.
2. Eight (8) errors were due to failure to provide the specific reason for denial, cancellation or nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes.
3. Six (6) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company calculated return premiums incorrectly. The premium effect for these errors was below the waiver rule amount, therefore, no refunds were made.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Seven (7) errors were found.

None of the errors affected payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit II.

The errors are broken down as follows:

1. Seven (7) errors were due to failure to comply with unfair claim settlement practice requirements. This constitutes a violation of Section 626.9541(1)(i)(3)(b), Florida Statutes. The Company used a form letter which gave the insureds the impression that depreciation applied to the building portion of the claim which was not recoverable if replaced or repaired. The Company had previously addressed this issue and revised the letter in December 2000, however, the Company was directed to inform all claimants that received this letter prior to December 2000, that they may be entitled to recover depreciation if they have replaced or repaired the building portion of their claim. Exhibit III. The Company refused to comply with this directive.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit IV.

A. INFORMAL COMPLAINTS

The Company did not receive any informal complaints during the scope of this examination.

IX. PENDING ISSUES

The following issues were pending at the conclusion of the examination field work:

1. Dwelling Fire

The Company was directed to rerate three (3) policies to correct the BCEGS factor applied to the policies including prior terms. These refunds totaled \$130.98.

2. Claims

The Company was directed to inform all claimants with claims prior to December 2000, that they may be entitled to recover depreciation if they have replaced or repaired the building portion of their claim. The Company was directed to provide a copy of the letter used to communicate to claimants along with a computer run of all affected claimants to the Department within 90 days of receipt of this examination report. The Company is to include proof of mailing for all letters.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
DWELLING FIRE (PENDING REFUNDS)	I
CLAIMS HANDLING PROCEDURES	II
CLAIMS (REQUEST TO INFORM CLAIMANTS)	III
COMPLAINTS PROCEDURES	IV