

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

FEDERATED NATIONAL INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

File Date 10/04/01

TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	3
III.	COMPANY OPERATIONS/MANAGEMENT	4
IV.	REVIEW OF POLICIES	
	A. PRIVATE PASSENGER AUTOMOBILE	6
	B. MOBILE HOMEOWNERS	8
V.	AGENTS/MGA REVIEW	10
VI.	CANCELLATIONS/NONRENEWALS REVIEW	11
VII.	CLAIMS REVIEW	12
VIII.	COMPLAINTS REVIEW	13
IX.	EXHIBITS	16

I. INTRODUCTION

Federated National 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 through November 2000. The examination began December 4, 2000 and ended February 17, 2001. The last property and casualty examination of this insurer, by the Florida Department of Insurance, was concluded November 3, 1998.

The 1998 examination report included the review of private passenger automobile and commercial automobile policies and underwriting files. Violations cited included failure to include telephone number and purpose on the policies, use of unfiled rates, rating schedules, rating rules or underwriting guidelines, failure to attach mandatory forms, failure to correctly specify content of the policies relating to forms/edition dates, failure to correct violations in prior exam report, failure to include physical damage language, failure to conduct pre-inspections of vehicles, failure to provide risk management guidelines, failure to display agent name/license ID# or Insurer name on applications, failure to provide the specific reason for claim denials, cancellations or nonrenewals, use of unappointed agents and adjusters, use of unlicensed and unappointed adjusters, failure to affix fraud statement to claim forms or applications, failure to properly forward auto titles to the Division of Highway Safety and Motor Vehicles and failure to maintain a complaint log.

The purpose of the current examination was to verify compliance with Florida Statutes and Rules, especially as related to premium processing and claims handling practices.

During this examination, records reviewed included certificates of authority covering the scope of the examination, private passenger automobile and mobile homeowners policies including applications and underwriting files, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1999 through November 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 this examination, \$1,088.55 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

II. PRE-EXAM REVIEW OF COMPANY'S 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

Federated National Insurance Company was incorporated in the State of Florida on April 1, 1992. Their affiliated companies are Assurance Managing General Agency, the Company's Managing General Agent, Federated Premium Finance, Inc., which offers premium finance services, and Superior Adjusting, Inc., which provides claim services.

B. MANAGEMENT

1. Company Computer System

The primary system is a 720E IBM AS 400. A Local Area Network (LAN) of personal computers (PC's) are attached to the primary system.

2. Anti-Fraud Plan

Federated National Insurance Company has a Special Investigation Unit comprised of retired police officers who work with the Claims Department in reviewing claims for fraud prevention.

3. Disaster Recovery Plan

Unicorp Software Company provides the software utilized by Federated National Insurance Company and has an agreement to back-up the computer files of the Company in the event of a disaster. In addition, on a daily basis, the Company maintains a back-up of all records at a separate location. Also, the Claims Department uses the Image Right system that allows for paperless claims files.

4. Internal Audit

Federated National Insurance Company does not have a formal internal audit plan.

C. OPERATIONS

Federated National Insurance Company writes private passenger automobile, commercial automobile, mobile homeowners and homeowners insurance coverages in the State of Florida.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Federated National Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Federated National Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Association of Independent Insurers (NAII) 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	\$16,405,416	28,382
2000	\$20,022,386	33,075

Year 2000 indicates written premium and policy count through September 2000. Due to deteriorating loss ratios, particularly on Personal Insurance Protection coverage, the Company has requested and received approval of two rate increases in hopes of slowing growth and improving loss ratios.

3. Exam Findings

One hundred (100) policy files were examined.

No errors were found.

B. MOBILE HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Federated National Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Federated National Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Association of Independent Insurers (NAII) 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	\$2,495,171	6,060
2000	\$1,687,438	5,459

Year 2000 indicates written premium and policy count through September 2000.

3. Exam Findings

One hundred (100) policy files were examined.

One (1) error was found.

The error resulted in one (1) overcharge totaling \$136.00.

The error is described as follows:

1. One (1) error was due to failure to follow the filed rates by using an incorrect territory. This constitutes a violation of Section 627.062, Florida Statutes. This error resulted in an overcharge totaling \$136.00, which has been refunded by the Company.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Two (2) errors were found.

The errors are broken down as follows:

1. Two (2) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

One hundred (100) cancelled/nonrenewed policies were examined.

Three (3) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Three (3) errors were due to failure to return unearned premiums timely. This constitutes a violation of Rule 4-167.001, Florida Administrative Code. This error occurred in the 1997/1998 Property and Casualty Market Conduct Examination, Page 11, Item 1. See Exhibit III. In this exam, fifty (50) policies were examined resulting in five (5) errors.

VII. CLAIMS REVIEW

One hundred (100) claims were examined.

Thirteen (13) errors were found.

One (1) error resulted in an underpayment totaling \$17.50.

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

The errors is described as follows:

1. Nine (9) errors were due to use of unlicensed adjusters. This constitutes a violation of Section 626.863, Florida Statutes. This error occurred in the 1998 Property and Casualty Market Conduct Examination, Page 12, Item 2. See Exhibit IV. Fifty (50) policies were examined resulting in one (1) error.
2. One (1) error was due to failure to timely pay PIP benefits. This constitutes a violation of Section 627.736, Florida Statutes.
3. One (1) error was due to failure to surrender the title on a total loss of a mobile home to the Department of Motor Vehicle and Highway Safety. This constitutes a violation of Section 319.30, Florida Statutes.
4. One (1) error was due to failure to make payment on a claim within 20 days of settlement. This constitutes a violation of Section 627.4265, Florida Statutes.
5. One (1) error was due to failure to act on a loss within 14 days. This constitutes a violation of 4-166.024, Florida Administrative Code.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has not been maintained as is required by Section 626.9541(1)(j), Florida Statutes. As a result of the examination, procedures for handling these complaints have now been established by the Company. Complaint handling procedures are described in Exhibit II. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

A. DOI REFERRALS

Number	Alleged Violation	Violation	Comments
S 0001-0007701	Insured received no refund on his cancellation	None	Company recalculated and returned \$6 unearned premium to insured
S 0001-0041-401	Slow Claim Payment	None	\$435.05 claim paid as instructed from the examiner
S-9900-002850	Claim Denial	None	Proper Denial
S-0010011898	Slow Claim Payment	None	Problem with body shop
S-9899-0075152	Loss Payee not on draft	None	Not Required
S-9900-0000930	IME location improper	None	Company verified change in procedures as instructed
Number	Alleged Violation	Violation	Comments

S-0001-00000955	Improper Claim Payment	None	\$500 claim paid as instructed by the examiner
125100289-Barnes	Verify return premium made to insured due to Premium Finance Company's bankruptcy	None	Money returned 7/24/99
125100289-James	Verify return premium made to insured due to Premium Finance Company's bankruptcy	None	Money returned 7/24/99
125100289-Jiawan	Verify return premium made to insured due to Premium Finance Company's bankruptcy	None	Money returned 7/24/99
125100289-Thompson	Verify return premium made to insured due to Premium Finance Company's bankruptcy	None	Money returned 7/24/99

B. COMPANY RECEIVED COMPLAINTS

Federated National Insurance Company was not maintaining a log of consumer complaints received directly from consumers. They have been directed to put procedures in place and begin keeping an informal complaint log.

One (1) error was due to failure to maintain a record of consumer complaints received directly from consumers. This constitutes a violation of Section 626.9541, Florida Statutes.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS HANDLING PROCEDURES	I
COMPLAINT HANDLING PROCEDURES	II
PREVIOUS EXAMINATION PAGE 11, ITEM 1	III
PREVIOUS EXAMINATION PAGE, PAGE 12, ITEM 2	IV