



THE STATE OF FLORIDA

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

HOMEWISE INSURANCE COMPANY

AS OF

June 25, 2009

NAIC COMPANY CODE: 12438

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EXECUTIVE SUMMARY

A sample of 50 underwriting files, 20 claim files, and 25 complaint files were reviewed. The following represent general findings. Specific details are found in each section of the report.

<u>TABLE OF VIOLATIONS</u>			
Statute/Rule	Description	Files Reviewed	Number of Violations
627.062 (2)(a)	Failure to obtain proof of installation of protective devices as required by Rule 16(f) of the Company's filed and approved Rules of Practice Manual.	50	40
627.062 (2)(a)	Failure to obtain proof of compliance documentation supporting wind mitigation credits as required by Rule 902 of the Company's filed and approved Rules of Practice Manual.	50	17
627.062 (2)(a)	Failure to obtain a property inspection report or replacement cost estimator to confirm insurance to value and insurability as required by Rule 3(c)(3) of the Company's filed and approved Rules of Practice Manual.	50	1
627.4133 (1)(a)	Failure to give proper 45-day notice of renewal premium.	50	2
627.70131 & Rule 690-166.024	There was no documentation to indicate communication with the insured regarding the status of the claim.	20	1
627.7015(2)	Failure to notify the insured of their right to participate in a mediation program.	20	3
626.877	The proper deductible was not applied to the claim payment.	20	1
627.318	Appropriate file documentation supporting claims handling was not maintained.	20	1
20.121(2)(h)2	Failure to furnish the Division of Consumer Services with a response that addresses the issues and allegations raised in the complaint complete with documentation (if applicable)	25	1

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of HomeWise Insurance Company (Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Market Investigations staff. The scope period of this examination was May 31, 2006 through May 31, 2009. The examination began June 16, 2009 and ended June 22, 2009.

The purpose of the examination was to determine the Company's compliance with Florida Statutes and the Florida Administrative Code and should not be considered a comprehensive examination. A limited sample size was utilized and thus it is not statistically appropriate to consider the exam findings as representative of the entire populations considered. The examination was limited to the following:

- Review of the Company's adherence to its filed rates, rules and underwriting guidelines
- Review of the Company's claims handling practices
- Review of the Company's complaint handling practices

In reviewing materials for this final report, the examiners relied on records provided by the Company. With the exception of the limited sample size, procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

HomeWise Insurance Company is a domestic Property and Casualty insurer licensed to conduct business in the State of Florida on December 5, 2005. Its initial filed plan of operation indicated that the Company would assume wind-only policies from Citizens' Property Insurance Corporation. After admission, the Company completed two such assumptions. The Company provides Homeowners, Dwelling Fire, and Wind Only coverage in the State of Florida.

Total Direct Premiums Written in Florida for Homeowners and Wind was as follows:

Year	* Total Premium Written in Florida
2006	\$37,290,142
2007	\$21,436,960
2008	\$11,894,062

* Per Schedule T of Annual Statement

The Company is headquartered in Tampa, Florida. Business is produced through a network of independent agents and captive agents who are able to accept other appointments. An affiliated Managing General Agent (MGA), HomeWise Management Company, contracts with and pays commissions to the agents of record.

A customized policy and claims administration system is provided by Blue Cod Technologies, Inc., a privately held company that provides consulting services, software, managed technology services and business processing services.

The Company has 17 fulltime staff adjusters in the corporate office and has contracts with six Independent Adjusting firms to assist with daily claims. It has contracts with Allcat Claims Services, Claims Service Professionals, IAS Claims Services, and Lozano & Associates to offer in excess of 400 CAT adjusters that have been trained and certified with the Company according to its training specifications.

UNDERWRITING AND RATING REVIEW

The review was to verify the Company’s adherence to its filed rates, rules and underwriting guidelines. The Company’s filed program for Wind-only was approved by the Office with an effective date of January, 2006. The Homeowners program was approved by the Office with an effective date of December, 2008. The Company wrote 59,801 policies through May 31, 2009. The following is a breakdown of policies issued by year:

Year	Number of Policies Issued
2006	19,694
2007	20,206
2008	12,214
*2009	6,887
Totals	59,001

*As of May 31, 2009 (Source: Data File)

Findings:

Fifty (50) underwriting files were randomly selected for review. A total of 60 violations in 50 files were found.

The violations are broken down as follows:

1. Fifty-eight (58) violations were due to the Company’s failure to obtain documentation of allowable discounts and/or surcharges as required by the Company’s filed and approved Rules of Practice Manual:
 - a. Forty (40) violations of Rule 16(f) requiring proof of installation for protective device credit
 - b. Seventeen (17) violations of Rule 902 requiring certification for wind mitigation credit
 - c. One (1) violation of Rule 3(c)3 requiring a property inspection or replacement cost estimator to confirm insurance to value and insurability

Failure to follow its filed rating plan, rating schedule or rating rule is a violation of Section 627.062 (2)(a), Florida Statutes.

Corrective Action: The Company should ensure that its Rules of Practice Manual and Underwriting Guidelines are followed as filed and approved and that files contain the required documentation.

2. Two (2) violations were due to failure to give proper 45-day notice of renewal premium. Failure to offer timely renewal is a violation of Section 627.4133 (1)(a), Florida Statutes.

Corrective Action: The Company should ensure a 45-day written notice of renewal be issued to the insured.

Additionally, Rule 3 of the Company's Rules of Practice Manual states that a fully completed, signed, and dated application must be submitted to the Company. The application must be accompanied by a replacement cost estimator or inspection showing insurable value and proof of flood coverage or a waiver of flood coverage. These documents did not appear in many files reviewed.

Corrective Action: The Company should establish procedures to ensure that its Rules of Practice Manual and Underwriting Guidelines are followed as filed and approved.

CLAIMS HANDLING REVIEW

The following table shows the number of claims and status by coverage type for claims opened during 2008-2009.

Coverage Type	Number of Claims	Claims still Open	Closed
A	68	23	45
B	10	3	7
C	16	2	14
D	1	0	1
E	0	0	0
F	0	0	0
Totals	95	28	67

The following table is a breakdown of the number of days to close for the claims indicated as "closed" in the chart above.

DAYS TO CLOSE				
0 - 45	46 - 60	61 - 90	91 - 120	Over 120
40	4	8	2	13

The chart below is a breakdown of the number of days the claims indicated as "still open" have been open.

DAYS OPEN				
0 - 45	46 - 60	61 - 90	91 - 120	Over 120
24	0	3	0	1

Claim files were reviewed for timeliness in acknowledgement of claims, documentation of actions taken, verification of correct payments, documentation of denials, and documentation supporting the Company's position.

Findings:

Twenty (20) claim files were randomly selected for review. A total of six violations in 20 files were found.

The violations are broken down as follows:

1. One (1) violation was due to the claim file containing insufficient documentation to indicate there was communication with the insured regarding the status of the claim. The claim was closed without payment as the claim was below the policy deductible. However, the claim file reviewed did not contain documented denial notification to the insured. Failure to make responsive acknowledgement to claims submissions is a violation of Section 627.70131, Florida Statutes and Rule 690-166.024, Florida Administrative Code.

Corrective Action: The Company should ensure that the insured is notified as to the status of the claim and that such notification is appropriately documented.

2. Three (3) violations were due to the Company's failure to either notify the insured or to document the notification to the insured of the right to mediate the dispute regarding the settlement offer made by the Company. Failure to notify an insured of their right to participate in a mediation program is a violation of Section 627.7015(2), Florida Statutes.

Corrective Action: The Company should notify the insured of the right to mediate disputed claims.

It should be noted that subsequent to the handling of the claims reviewed and prior to the examination, the Company developed standard payment and denial letters that include a notice of the right to mediation, to be sent in all claims.

3. One (1) claim file had the deductible applied improperly. The \$4000 hurricane deductible was applied to wind damage incurred as the result of Ernesto. However,

Ernesto was not classified as a hurricane in Florida. The "other wind" deductible of \$500 should have been applied. The failure to adjust a claim in accordance with the terms and conditions of the contract is a violation of Section 626.877, Florida Statutes.

Corrective Action: All claim files that are a result of Ernesto should be reviewed to ensure the correct deductible was applied. The Company will report to the Office the results of the review and any adjustments made to payments as a result of the review.

4. One (1) claim file, involving a Public Adjuster, failed to contain the appropriate representation documentation from the Public Adjuster. Settlement was made on the claim but the claim file reviewed did not contain suitable documentation to justify the settlement made. Failure to maintain reasonable supporting documents is a violation of Section 627.318, Florida Statutes.

Corrective Action: The Company should maintain appropriate file documentation sufficient to support each decision made during the claims handling process.

COMPLAINT HANDLING REVIEW

Complaints are directed to the Chief Operating Officer who forwards claims related complaints to the Chief Claims Officer and non-claims related complaints to the Chief Underwriting Officer. All responses are copied to the Chief Operating Officer.

The following table shows the number of complaints received by the Company during the scope of the examination:

Time Period	Number of Complaints
5/31/06-5/31/09	163

The review focused on record keeping, timeliness and appropriate response to the appropriate party. A total of 25 complaint files, including underwriting and claims, were reviewed.

Findings:

The Company maintained a complete record of all complaints it received during the scope of the examination.

Twenty-five (25) complaint files were reviewed. One violation was found. The violation is as follows:

1. One (1) violation was due to failure to furnish the Division of Consumer Services with a response that addresses the issues and allegations raised in the complaint as set forth in Section 20.121(2)(h)2., Florida Statutes.

Corrective Action: The Company should ensure that responses to the Division of Consumer Services are timely, complete, accurate, and documented.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issued 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.