



THE STATE OF FLORIDA

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

HOMEWISE PREFERRED INSURANCE COMPANY

**AS OF
June 25, 2009**

NAIC COMPANY CODE: 12582

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EXECUTIVE SUMMARY

A sample of 50 underwriting files, 20 claim files, 23 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 evidence of prior insurance as required by Rule 3(c)(1) as required by the Company's filed and approved Rules of Practice Manual.	50	38
627.062 (2)(a)	Failure to obtain proof of installment of protection devices as required by Rule 16(f) of the Company's filed and approved Rules of Practice Manual.	50	8
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	10
627.70131(2) & Rule 690-166.024	Failure to provide documentation to indicate communication with the insured regarding the status of the claim.	20	1
627.318	Failure to provide appropriate file documentation supporting claims handling was not maintained.	20	2
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)	23	2

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of HomeWise Preferred 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 examiner 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 Preferred Insurance Company is a domestic Property and Casualty insurer licensed to conduct business in the State of Florida on May 31, 2006. The Company is a take-out company, assuming homeowners and dwelling policies from Citizen's Property Insurance Corporation as well as offering new business homeowners coverage in Florida.

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

Year	*Total Premium Written in Florida
2006	\$1,459,449
2007	\$100,027,541
2008	\$190,681,389

* 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 their 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 was approved by the Office with an effective date of June 2006. The Company wrote 273,232 policies through May 31, 2009. The following is a breakdown of policies issued by year:

Year	Number of Policies Issued
2006	554
2007	5,670
2008	168,725
*2009	68,238
Totals	273,232

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

Findings:

Fifty (50) underwriting files were randomly selected for review. A total of 56 violations in 50 files were found.

The violations are broken down as follows:

1. Fifty-six (56) 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. Thirty-eight (38) violations of Rule 3(c)1 requiring that applicants not providing proof of prior insurance shall be subject to a 10% surcharge
 - b. Eight (8) violations of Rule 16(f) requiring proof of installation for protective device credit
 - c. Ten (10) violations of Rule 902 requiring certification for wind mitigation credit

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 files contain required documentation.

Additionally, Rule 3 of the Company’s Rules of Practice Manual state 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 ensure that its Rules of Practice Manual and Underwriting Guidelines are followed as filed and approved and files contain required documentation.

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	6411	965	5446
B	292	60	232
C	1719	258	1461
D	363	67	296
E	128	45	83
F	65	23	42
Totals	8978	1418	7560

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
4082	765	940	538	1235

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
653	124	240	152	249

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) claims files were randomly selected for review. A total of three violations were found.

The violations are broken down as follows:

1. One (1) claim file shows payment was made to an insured in an amount different from the claim amount submitted. An explanation should have been made to the insured advising how the revised settlement figure was determined. Failure to make responsive acknowledgement to claims submissions is a violation of Section 627.70131(2), Florida Statutes and Rule 69O-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. Two (2) claim files failed to contain sufficient documentation to support the claims handling decisions made. One (1) claim file, which involved 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. In one claim file, settlement was made but the file failed to contain documentation to support the payments 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 to 5/31/09	58

The review focused on record keeping, timeliness and appropriate response to the appropriate party. A total of 23 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.

1. Two (2) errors were found 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.