

FINANCIAL SERVICES COMMISSION

**FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

LION INSURANCE COMPANY

AS OF

February 4, 2005

NAIC COMPANY CODE: 11075



TABLE OF CONTENTS

PURPOSE AND SCOPE OF EXAMINATION 1
POLICY AND CERTIFICATE REVIEW 1
COMPLAINTS REVIEW..... 3
CANCELLATION/NONRENEWAL REVIEW 4
REPORT SUMMARIZATION 5
EXAMINATION REPORT SUBMISSION..... 5

PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation, (Office) Market Investigations, pursuant to Section 624.3161, Florida Statutes, and a target market conduct examination of Lion Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was April 30, 2003 through February 4, 2005. The examination began January 17, 2005 and ended February 4, 2005.

The purpose of this examination was to review the Company's practices in handling workers' compensation business from Professional Employer Organizations (PEO), review of premiums and classifications, review of complaints and cancellations related to PEO business, and to verify compliance with Florida Statutes and the Florida Administrative Code. The Company records were examined at its home office located at 2739 U.S. Highway 19 North, Holiday, Florida.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

Error tolerance levels applied are as follows: monetary returns under \$5.00 were waived; zero tolerance levels were applied to all improprieties by the Company which were in violation of Florida Statutes and Rules.

POLICY AND CERTIFICATE REVIEW

Lion Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida. The Company provides workers' compensation insurance to Southeast Personnel Leasing, a PEO. A PEO, also referred to as an employee leasing company or staff leasing company, provides human resources and administrative services to businesses that elect to outsource functions, such as human resources support, benefits administration, payroll, and federal and state employment tax filings. Additionally, a PEO provides workers' compensation coverage for all leased employees. There is common ownership between the Company and the PEO.

The Company uses rates filed by the National Council on Compensation Insurance, Inc. (NCCI) and filed with the Office a large deductible rating plan that was used for the business written during the scope of this examination.

Total written premiums during the scope of the examination are broken down as follows:

Year	Total Written Premium
2003	\$10,723,246
2004*	\$13,685,626

- As of 9/30/04

The Company issues policies and certificates of insurance.

Proof of coverage is forwarded by the PEO to the Division of Workers' Compensation. The Company does not have any process in place to verify accuracy or timeliness of submissions. See "Findings" under the Cancellation/Nonrenewal Review Section.

The Company is licensed in Florida, District of Columbia, Georgia, Maryland, Oklahoma and Texas, however, it currently only writes business in Florida. There was no evidence of coverage provided in other states in the policies reviewed.

The Company determined premiums by estimating the expected payroll for the policy period. An estimated deductible premium is determined using the filed algorithm. A final deductible premium is determined at the audit. The experience modification factors were properly applied in the files reviewed. There was an error developing the standard premium where the Company used an incorrect increased limit factor. See "Findings" under this section.

Premium payment schedules and deductible recoupment are set on a monthly basis and policies reviewed showed that payments by each PEO were made timely. Payroll and classification codes are submitted to the Company on a quarterly basis.

Corrective Action: To ensure that the Company has the most current data from the PEO, it should require monthly submissions. The Company stated that it would require Southeast Personnel Leasing to make monthly submissions going forward.

A financial guarantee is required for large deductible policies. A large deductible collateral fund has been established and the fund had a balance of over \$81 million as of September 30, 2004.

Claims are handled by Broadspire Services, Inc. (Broadspire), formerly known as RSKCo Claims Services, Inc., located in Tampa, Florida. Loss results are monitored by an actuary on a quarterly basis. The Company's Controller also monitors losses on a monthly basis. Claim frequency reviews are performed by the Company on a monthly basis. The Company performs audits of the claims services provided by Broadspire annually.

The Company conducts classification reviews when the initial application is received. While performing safety inspections, class codes are also verified. A list of clients to be inspected is generated based on risk and NCCI hazard codes. During 2003, a total of 484 safety inspections were performed and in 2004, the Company conducted 917 inspections. The total inspections for year 2004 accounted for 13% of all insured client employers.

Corrective Action: The Company should increase the number of safety inspections it performs each year. The Company stated that it would increase the number of safety inspections.

Findings

The Company wrote and renewed a policy issued to Southeast Personnel Leasing during the scope of the examination. These policies provided coverage to 12,560 client employers.

Both policies were reviewed. One hundred (100) client employers with 168 class codes were also reviewed.

Four (4) errors were found involving both policies.

The errors are broken down as follows:

1. One (1) error was due to failure to obtain a notarized signature of the insured on the application. This constitutes a violation of Rule 690-189.003(2)(b), Florida Administrative Code.

Corrective Action: The Company should obtain a signed and notarized application. The Company stated that it would obtain a signed and notarized application.

2. Two (2) errors were due to failure to follow the filed rate. This constitutes a violation of Section 627.191, Florida Statutes. The Company applied an incorrect increased limit factor while developing the standard premium that is applicable in the large deductible rating plan. Although the standard premium was lower, the net deductible premium remained the same; therefore, there was no change in premium.

Corrective Action: The Company should correct this error at the next renewal. The Company stated that it inadvertently applied a 2.8% factor in lieu of the filed 1.4% and will make the necessary corrections at the next renewal.

3. One (1) error was due to failure to complete the audit properly. This constitutes a violation of Section 627.192(9), Florida Statutes. The Company relied solely on the PEO's payroll submissions to complete the audit. In addition, the insured and auditor did not print and sign their names on the audit document and attach proof of identification to the audit document.

Corrective Action: The Company should ensure that all sources of payment by the PEO to employees have been reviewed and the accuracy of classifications of employees have been verified. Payroll and classification verification audit rules must include, but not be limited to, state and federal reports, payroll and other accounting records, certificates of insurance and duties of employees. In addition, the Company should comply with acknowledgement requirements. The Company stated that it will implement audit procedures to help ensure that sources of payments by the PEO to employees have been reviewed and the accuracy of classifications of employees have been verified, giving particular attention to payroll and classification audit rules. In addition, the Company stated that it will establish procedures whereby the final audit is acknowledged by the insured and representatives from the Company and both will sign the audit.

Based upon the findings noted here, the Company should conduct an audit of the PEO to review payroll and classifications as well as safety inspections, produce a written report of the findings and provide a copy of the report to the Office within sixty (60) days of the receipt of the examination report.

COMPLAINTS REVIEW

The examination encompassed a review of all complaints received by the Company that were related to PEO business. The Company received one (1) complaint during the scope of the examination.

Findings

A complete record of all complaints received by the Company has been maintained as required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

One (1) complaint was reviewed.

No errors were found.

CANCELLATION/NONRENEWAL REVIEW

There were no policies cancelled during the scope of the examination, however, there were 3,369 client employers terminated. Certificates of Insurance were reviewed to determine if proper notice of termination was provided and to determine if certificateholders were notified of terminations within thirty (30) days, as stated on the Certificates of Insurance. In addition, termination notices sent to the Division of Workers' Compensation were also reviewed.

Sample Findings

Fifty (50) client employer terminations were reviewed. Twenty-four (24) errors were found, involving twenty-two (22) client employers.

The errors are broken down as follows:

1. Twenty-two (22) errors were due to failure to notify certificate holders of coverage termination within thirty (30) days. This constitutes a violation of Section 440.42(3), Florida Statutes. Termination notices were sent after thirty (30) days. There were also instances where the Company was unable to provide the actual date the notice was sent.
2. Two (2) errors were due to failure to notify the Division of Workers' Compensation of client employer terminations. This constitutes a violation of Section 440.42(3), Florida Statutes. The Company relies on the PEO to send notices. The Company does not have procedures in place to monitor compliance with timely notices.

Corrective Action: The Company should establish procedures to perform periodic audits of terminations to assure compliance with both issues described above. The Company stated that it would establish procedures to ensure that all certificate holders are notified within thirty (30) days. In addition, the Company stated that it would add a permanent date field to its database and establish procedures to ensure that the actual mailing date of the certificate cancellation notice is permanently captured in its system. The Company also stated that it will perform periodic audits to verify that certificate holders and the Division of Workers' Compensation were notified within thirty (30) days of termination.

REPORT SUMMARIZATION

A sample review of one hundred fifty-three (153) policy, complaint, and cancellation files was conducted for this Company. Twenty-eight (28) errors were found. The following represents general findings, however, specific details are found in each section of the report.

Sample Files Reviewed -- 153

- Two (2) workers' compensation policies
- One hundred (100) certificates of insurance
- Fifty (50) cancellations
- One (1) complaint file

Findings

- Policy and Certificates – three (3) errors – page 3 of the report.
 - Failure to obtain a notarized signature of the insured on the application.
 - Failure to follow filed rate (use of incorrect increased limit factor).
 - Failure to complete audit properly.
- Cancellations – twenty-four (24) errors – page 4 of the report.
 - Failure to notify certificateholder of coverage termination within thirty (30) days.
 - Failure to notify the Division of Workers' Compensation of client employer terminations within thirty (30) days.

Corrective Action:

The Company should provide a letter, signed by an officer of the Company, certifying that all corrective actions have been completed. The letter should be forwarded to the Office no later than thirty (30) days following receipt of the examination report.

EXAMINATION REPORT SUBMISSION

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.