

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

MOBILE USA INSURANCE COMPANY.
(LIBERTY AMERICAN INSURANCE GROUP, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED: 7/6/01

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I. INTRODUCTION

Mobile USA Insurance Company, Inc., 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 1997 through December 1999. The examination began November 19, 2000 and ended January 27, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded September 6, 1996.

The 1996 examination included the review of homeowners, mobile homeowners and errors and omissions policies. Violations cited included failure to follow the filed rating plan by not charging a premium for a cancelled policy and failure to pay a covered claim.

The purpose of the current examination was to determine if procedures and practices were in compliance with applicable Florida Statutes and Rules.

During this examination, records reviewed included homeowners and mobile homeowners policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, 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 in this examination, \$49.00 was returned to a Florida consumer due to an overcharge of premium.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices was 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

Mobile USA Insurance Company, Inc. was incorporated on February 2, 1989 under the Laws of Florida and began business on March 1, 1989. In July 1999, Philadelphia Consolidated Holding Corporation acquired Mobile USA Insurance Company, Inc. The acquisition included approximately \$70 million of mobile home, homeowners, and federal flood insurance produced in three states. In January 2000 the Company changed its name to Mobile USA Insurance Company.

Mobile USA Insurance Company's Home Office is located at 7785 66th Street North, Pinellas Park, Florida. There are no regional or branch offices. The Company concentrates on writing mobile homeowners business in the states of Florida, Nevada and Arizona. Their Preferred Homeowners Program is written only in the State of Florida. Mobile USA Insurance Company contracts with and has appointed as their Managing General Agent (MGA), the Mobile Homeowners Insurance Agencies, to handles the Company's claims. They employ six in-house staff adjusters and two field adjusters. Independent adjusters are used when needed.

B. MANAGEMENT

Mobile Homeowners Insurance Agencies filed with the Florida Department of Insurance Division of Fraud, on May 1, 1999, their anti-fraud plan on behalf of Mobile USA Insurance Company. The Company's Computer System consists of nine NT Microsoft servers and one Novel Server. Mobile Homeowners Insurance Agencies has established written Standard Operating Procedures in case of catastrophe events. No procedures are in place for conducting internal audits.

C. OPERATIONS

Mobile USA Insurance Company, has contracted with Mobile Homeowners Insurance Agencies, Inc., (MHIA), also located at 7785 66th Street, Pinellas Park, Florida to market the Company's filed programs for Preferred Homeowners and Mobile Home Senior Parks, Older Senior Parks, Adult Parks and Family Parks. They write manufactured homes, new and older homes. They write both wind and ex-wind policy coverage. Ex-wind is written in those areas eligible for Florida Windstorm Underwriting Association, (FWUA), if insureds purchases a wind policy. MHIA utilizes independent agents, through the exchange of business statutes, to produce the Company's business in Florida. Business is written in all areas of the state.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Mobile USA Insurance Company independently files forms in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Mobile USA Insurance Company independently files rules/rates in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Service 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>
1997	\$4,439,745	15,013
1998	\$5,531,209	13,843
1999	\$5,849,304	14,942

3. Exam Findings

One hundred (100) policy files were examined.

Twenty-six (26) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$50 and one (1) undercharge totaling \$44.

The errors are broken down as follows:

1. Five (5) errors were due to failure to provide hurricane deductibles as of January 1, 1998. This constitutes a violation of Section 627.701, Florida Statutes. The Company provides an all perils deductible and a deductible for wind and hail. Statutes required as of January 1, 1997, that the wind and hail deductible becomes a "hurricane deductible" with a separate all perils deductible including windstorm. Florida Department of Insurance Bulletin 98-003 extended the time to January 1, 1998, giving insurers an additional eight months for implementation.

2. Five (5) errors were due to failure to include the hurricane deductible statement on the face of the policy *“This policy contains a separate deductible for hurricane losses, which may result in high out-of-pocket expenses to you.”* This constitutes a violation of Section 627.701, Florida Statutes.
3. Five (5) errors were due to failure to attach a hurricane deductible notice. This constitutes a violation of Section 627.701, Florida Statutes. The Company failed to provide the policyholder with notice of the availability of the deductible amounts in a form specified by the Department of Insurance, in conjunction with each renewal policy.
4. Four (4) errors were due to failure to provide timely notice of renewals. This constitutes a violation of Section 627.4133, Florida Statutes.
5. Two (2) errors were due to failure to display hurricane premiums separately on the policy. This constitutes a violation of Section 627.0629, Florida Statutes.
6. Three (3) errors were due to failure to follow filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. One protection class error resulted in an overcharge of \$49, one undercharge of \$44 and one with no change in premium.
7. One (1) error was due to use of an unfiled base rate. This constitutes a violation of Section 627.062, Florida Statutes.

The maximum discount percentage of 56% was exceeded; therefore, the system automatically increased the base rate making this an unfiled rate.

8. 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 incorrect base rate was used due to rounding. This resulted in a \$1 overcharge which was waived in accordance with the waiver rule.

B. MOBILE HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

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

b. Form Filings

Mobile USA Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

National Independent Statistical Service 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>
1997	\$13,628,980	56,969
1998	\$13,451,851	43,994
1999	\$14,570,820	46,218

3. Exam Findings

One hundred (100) policy files were examined.

Two hundred-five (205) errors were found.

None of these errors affected the premium.

The errors are broken down as follows:

1. Sixty-eight (68) errors were due to failure to provide separate hurricane deductibles as of January 1, 1998. This constitutes a violation of Section 627.701, Florida Statutes. The Company provides an all perils deductible and a deductible for wind and hail. Florida Statutes required, as of January 1, 1997, that the wind and hail deductible becomes a “hurricane deductible” with a separate “all perils deductible including windstorm”. Florida Department of Insurance Bulletin 98-003 extended the time to January 1, 1998, giving insurers an additional eight months for implementation.
2. Sixty-eight (68) errors were due to failure to include the hurricane deductible statement on the face of the policy ***“This policy contains a separate deductible for hurricane losses, which may result in high out-of-pocket expenses to you.”*** This constitutes a violation of Section 627.701, Florida Statutes.
3. Sixty-eight (68) errors were due to failure to attach a hurricane deductible notice. This constitutes a violation of Section 627.701, Florida Statutes. The Company failed to provide the policyholder with a notice of the availability of the deductible amounts in a form specified by the department in conjunction with each renewal of the policy.

4. One (1) error was due to failure to provide a timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

No errors were found.

VII. CLAIMS REVIEW

Twenty-six (26) claims were examined.

One (1) error was found.

This error did not affect payments.

An explanation of how the Company's claims and reserving practices are handled is described in Exhibit I. The company does not have a claims procedures manual.

The error is described as follows:

1. One (1) error was due to the Company not having a claims manual establishing standards for compliance with Florida Statutes and Rules. This constitutes a violation of Section 626.9541, Florida Statutes.

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. Procedures for handling these complaints have been established for handling Department of Insurance complaints 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. COMPANY RECEIVED COMPLAINTS

Ten (10) consumer complaints were reviewed.

Two (2) errors were found.

1. One (1) error was due to failure to establish written procedures for handling all complaints received. This constitutes a violation of Section 626.9541, Florida Statutes. The Company has written procedures for handling complaints received from Department of Insurance, but not from other sources. The Company has revised their Compliant Procedures to include all complaints received. Exhibit III.
2. One (1) error was due to failure to process and pay a claim timely. This constitutes a violation of the Rule 4-166.024, Florida Administrative Code. It took 75 days to investigate and pay a lightning and water damage claim.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
EXPLANATION OF HOW CLAIMS ARE HANDLED	I
DOI COMPLIANT HANDLING PROCEDURES	II
REVISED COMPLIANT PROCEDURES	III