

**2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**MODERN SERVICE INSURANCE COMPANY**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**



**DATE FILED: 10/09/02**

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## **INTRODUCTION**

Modern Service Insurance Company (Company) is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was January 1999 through September 2001. The examination began October 21, 2001 and ended December 22, 2001. This is the first property and casualty market conduct examination of this insurer by the Florida Department of Insurance.

This examination was conducted due to the number of complaints received by the Division of Consumer Services and to verify compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included private passenger automobile policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints 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 requested 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.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

The Certificate of Authority/Renewal Invoices was reviewed for all years within the scope of the examination.

### **EXAM FINDINGS**

The review included verification of the lines of business the Company was authorized to write during the scope of the examination versus those lines actually being written. It also included verification that notification requirements were met for any lines of business that were discontinued.

No errors were found.

## **COMPANY OPERATIONS/MANAGEMENT**

### **HISTORY/MANAGEMENT**

Modern Service Insurance Company was incorporated on February 6, 1968, under the laws of Minnesota and began writing insurance business in Minnesota on April 15, 1968. The Company obtained a Florida Certificate of Authority on December 27, 1998 and began marketing a private passenger automobile program in Florida on May 15, 1999. On April 16, 2001 the Company placed a moratorium on all new business applications in Florida. On August 13, 2001 the Company began nonrenewing their remaining policies in Florida.

The Company is currently implementing a withdrawal plan from the State of Florida. They have no future plans to market private passenger automobile business in Florida. The Company has surrendered its Certificate of Authority to the Florida Department of Insurance.

The Company's home office is located in Arden Hills, Minnesota and markets this Florida private passenger automobile business through their Managing General Agency, Vision Insurance Group, located in Brentwood, Tennessee.

The following is a list of the Company's corporate officers:

James Forester Van Houten	President
Stephen Lowell Rohde	Treasurer
Joseph John Pingatore	Secretary

The Company website address is: [www.msi-insurance.com](http://www.msi-insurance.com)

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company's computer system is an AS/400 applications processing system with Special Insurance Services software for processing and accessing policy, claim and billing information.

#### **Anti-Fraud Plan**

The Company has filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes.

The Plan does meet the requirements by establishing a Special Investigation Unit.

#### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business.

### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business.

### **Privacy Plan**

The Company developed a Plan to meet the requirements of Emergency Rule 4ER-01.

### **Statistical Affiliations**

National Insurance Statistical Service (NISS) acts as the Company's official statistical agent.

### **Credit Reports**

The Company does not use Credit Reports as an underwriting tool.

## **OPERATIONS/MARKETING**

### **Marketing**

The Company was writing private passenger automobile insurance coverages in the State of Florida. The Company is in the process of withdrawing from the State of Florida. They have surrendered their Certificate of Authority.

### **Agents/Agencies/MGA/Exchange of Business/Direct Reponse/Internet Adjusters and Claims Handling**

The business written in Florida by the Company is marketed, distributed and processed by Vision Insurance Group, a Managing General Agency (MGA.) The MGA developed the network of agents used throughout the State of Florida and have hired MGA employee adjusters, who reside in Florida.

### **Lines of Business**

During the scope of this examination, the Company wrote only private passenger automobile insurance.

## REVIEW OF POLICIES

### PRIVATE PASSENGER AUTOMOBILE

#### Description of Product/Lines of Business

The current examination involved a complete review of private passenger automobile coverages, including bodily injury liability (BI), property damage liability (PD), personal injury protection (PIP), uninsured motorists (UM), comprehensive, collision, towing and rental reimbursement. The Company offered full coverage throughout the State of Florida.

The Company offered only one level for the placement of insurance and determined the policy premium by use of factors for gender, age, marital status and territory where the vehicle was garaged. Discounts and surcharges were determined for accident/violation history, prior insurance coverage, number of insured vehicles and limits of coverages desired.

#### 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	\$ 1,520,674	2,362
2000	\$ 9,445,910	13,425
**2001	\$ 4,445,910	3,933

\*The Company did not begin writing in Florida until May 15, 1999 making 1999 policy count and premium for only a partial year.

\*\*The Company discontinued new business on April 16, 2001 and began sending out nonrenewal notices on existing business on August 13, 2001. Also, 2001 figures are as of August 31, 2001.

#### Examination Findings

Fifty (50) policy files were examined.

No errors were found.

## CANCELLATIONS/NONRENEWALS REVIEW

### **DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES**

The cancellation/nonrenewal procedures followed by the Company for private passenger automobile policies does not comply with laws regarding timely advance notice of cancellation at the Company's request. The notices of cancellation/nonrenewal are mailed to the policyholder, agent and lienholder, as required by law, and cancellation return premiums were calculated correctly.

### **CANCELLATION REVIEW**

Forty (40) cancelled policies were examined.

Five (5) errors were found.

The errors are broken down as follows:

1. Five (5) errors were due to failure to provide timely notice of cancellation. This constitutes a violation of section 627.728, Florida Statutes. These errors were due to Company giving 33 days advance mailing when the law requires 45 days. This was a programming error and has now been fixed for future Company requested cancellations.

### **NONRENEWAL REVIEW**

Ten (10) nonrenewed policies were examined.

No errors were found.

## COMPLAINTS/INVESTIGATION REVIEW

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

Consumer complaints received during the scope of examination were reviewed and findings are as follows:

### DOI RECEIVED COMPLAINTS/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S00010011272	Vazquez	Insured Questioning Premiums	No	Company explained rating and billing
S01020012150	Platania	Policy canc-No return received	No	Refund and complaint corr crossed in the mail, return was timely
S01020000753	Wilson	Questions add'l prem for changing vehicles	No	Insured still owed on orig policy/ no extra charge made
S01020005004	Banack	Policy canc for non-pay but insured paid	No	Insured had not paid premium to keep policy in force
S01020002576	Morgan	Policy canc-No return received	No	Refund and complaint corr crossed in the mail, return was timely
S00010066872	Montalvo	Canc policy when pymt had been sent	No	Pymt not received prior to canc date— therefore no cov
S99000007294	Mediate	Canc return prem in dispute	No	MGA fee and one day's prem was charged 90%P/R due to insured's request
S00010054833	Donald	Insured completed app & paid prem but never rec'd policy	No	Agent never mailed app to Co & with help of DOI obtained this info and issued a policy
S00010048162	Conley	Insured Questioning Premiums	No	Calcs were correct and outlined as such in return corr to the insured
S99000067184	Mastrojohn	Insured Questioning Premiums	No	Calcs were correct and outlined as such in return corr to the insured
S99000064648	Jones	Insured Questioning Premiums	No	Calcs were correct and outlined as such in return corr to the insured
S00010037673	Parris	Claim Handling Delay	Yes	4-166.024 Failure to respond to claim in timely manner.
S00010050170	Cuddihee	Partial Claim Handling Delay	No	Delay was caused by claim being investigated & ROR letter had been sent prior to DOI complaint in compliance with Florida laws
S00010017371	Norton	Dispute over amount of claimant's damages	Yes	Both sides presented their side to DOI . DOI requested Co. to pay higher amount
S00010007229	Chapman	Claim Handling Delay	No	Loss under investigation – claim later paid
S00010029517	Williams	Claim Handling Delay	No	Delays caused by non-coop of insured – claim has been paid
S00010033150	Regn	Claim Handling Delay	No	Delays caused by non-coop of insured – claim has been paid
S00010030722	Robinson	Claim Handling Delay	No	Fire Loss, Loss under investigation, ROR letter had been sent in compliance with Florida laws – claim has now been settled
S00010033689	Ganley	Claim denied	No	Car driven and damaged by an excluded driver so Collision was denied
S00010041668	Anninos	Claim Handling Delay	No	Loss under investigation – claim later paid
S00010047253	Plissey	Claim Handling Delay	No	Lack of cooperation from insured and ROR letter sent in accordance with Florida laws

S00010047498	Weiss	Claim Handling Delay	No	Co unaware of claim until claimant rpted it – paid using clmt info & police rpt in a timely manner. Insured never located.
S00010052861	Kittrell	Depreciation Dispute	No	Co advised 45% depreciation on an 11 yr old muffler
S00010064131	Wilson	Overall mishandling of claim	No	Insured mad because Co imposed \$2000 PIP ded on a prior claim and refused to cooperate. Loss has now been paid
S01020005139	Sanchez	Claim Handling Delay	No	Loss under investigation – claim later paid
S00010063639	Muss	Claim denied	No	Trying to collect for damages on car owned by insured but not listed on the policy
S01020002194	Wilson	Claim denied	No	Clmt’s attorney advised that clmt would collect from her own carrier – file closed
S01020007218	Harvey	Improper denial of claim	No	Date of Loss occurred after the policy term
S01020011745	Lang	Improper denial of claim	No	Date of Loss occurred after the policy term

### **Examination Findings**

Twenty-nine (29) policy files were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to communicate timely. This constitutes a violation of Rule 4-166.024, Florida Administrative Code. This error was due to the Company taking 107 days before making a first contact with the insured once the claim was reported.

## **CLAIMS REVIEW**

### **DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS**

#### **Examination Findings**

Fifty (50) claims were examined. This examination included the review of claims made under private passenger automobile insurance policies and included the following types of coverage: bodily injury and property damage liability, personal injury protection benefits, uninsured motorists, comprehensive, collision and rental reimbursement. The Company's internal claims handling procedures and reserving practices are described in Exhibit II.

Four (4) errors were found.

The errors are broken down as follows:

1. Two (2) errors were due to failure to communicate timely. This constitutes a violation of Rule 4-166.024, Florida Administrative Code. These errors were due to the adjuster not communicating with the insured in a timely manner once the accident had been reported.
2. One (1) error was due to failure to advise the insured of PIP rights/benefits. This constitutes a violation of Section 627.7401, Florida Statutes. This error was due to the Company failing to mail a form explaining to the insured what rights and benefits were under the insured's PIP coverage.
3. One (1) error was due to failure to disclose policy information in a timely manner. This constitutes a violation of Section 627.4137, Florida Administrative Code. This error was due to the Company failing to respond to an attorney's request to provide information within thirty (30) days of a written request.

### **DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS**

The Company did not refer any claims for PPA/Medical Review in Florida during the scope of this examination. They do have claim handling procedures in place for PPA/Medical Reviews.

## **AGENTS/MGA REVIEW/ADVERTISING/MARKETING**

### **DESCRIPTION OF MGA ARRANGEMENTS**

The Company has an MGA arrangement with the Vision Insurance Group to market, process business, collect premiums, set rates, make filings and pay claims. A review of the MGA relationship confirms that the MGA is properly licensed and appointed to act as an MGA for the Company, and the MGA agreement is in compliance with the Florida Statutes.

### **Examination Findings**

Ten (10) applications/policies written during the scope of examination were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to display the agent's name or license number on the application. This constitutes a violation of Section 627.4085, Florida Statutes. With no name or license number shown on the application it was impossible to determine if the application was executed by a properly licensed and appointed agent.

**EXHIBITS**

**SUBJECT**

**EXHIBIT NUMBER**

**COMPLAINT HANDLING PROCEDURES**  
**CLAIMS HANDLING PROCEDURES**

**I**  
**II**