



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

SECURITY FIRST INSURANCE COMPANY

ISSUED

October 13, 2014

NAIC COMPANY CODE: 10117

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EXECUTIVE SUMMARY

A targeted market conduct examination of Security First Insurance Company was performed to determine compliance with Florida Statutes and the Florida Administrative Code.

The following represents general findings, however, specific details are found in each section of the report.

<u>TABLE OF TOTAL VIOLATIONS</u>			
Statute/Rule	Description	Files Reviewed	Number of Violations
627.70131 and 626.877	Insurer's duty to acknowledge communications regarding claims; investigations; and, Adjustments to comply with insurance contract and law	103	4
690-167.001	Failure to timely return unearned premiums	128	9
627.4133(1)(b)2.	Failure to provide timely notice of cancellation	184	1

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a targeted examination of Security First Insurance Company (Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Examination Resources, LLC. The scope period of the examination was January 1, 2011 through December 31, 2013. The onsite examination began May 5, 2014 and ended May 21, 2014. The examination continued offsite and was concluded on June 2, 2014.

The purpose of the examination was to review the Company's business practices in each of the following categories: complaint handling; cancellations, nonrenewals, underwriting and claim handling.

The examination included, but was not limited to verification of compliance with the following Florida Statutes and Code Sections:

- **Complaints** – Section 626.9541(1)(j), Florida Statutes, Section 626.877, Florida Statutes and Section 627.70131, Florida Statutes.
- **Cancellations and Nonrenewals** – Section 627.4133, Florida Statutes, Section 627.4091, Florida Statutes, and Rule 69O-167.001, Florida Administrative Code.
- **Underwriting** – Section 627.062, Florida Statutes.
- **Claims Handling** – (Claim acknowledgments, timely investigations, paid, denied and closed without payment claims) Section 626.9541, Florida Statutes, Section 626.877, Florida Statutes, Section 627.70131, Florida Statutes, Section 627.4137, Florida Statutes, Section 627.4265, Florida Statutes, Section 627.70121, Florida Statutes, Section 627.702, Florida Statutes, Section 627.7015, Florida Statutes and Rule 69O-166.024, Florida Administrative Code.

This Final Report is based upon information from the examiner's draft report, and additional information provided by the Company. The files examined were selected using the Acceptance Samples Table of the NAIC Market Regulation Handbook or by the Audit Command Language (ACL) software. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners (NAIC).

COMPANY OPERATIONS

Security First Insurance Company is a Florida domestic Property and Casualty insurer and became licensed to conduct business in the State of Florida on April 8, 2005. The Company provides homeowners and dwelling fire coverage in the State of Florida.

Total Direct Premiums Written in Florida:

Year	Total Written Premium in Florida (Per Schedule T of the Annual Statement)
2011	\$189,822,933
2012	\$226,695,510
2013	\$228,706,025

The Company is headquartered in Ormond Beach, Florida. Policies are issued through Security First Managers, LLC, the Company's Managing General Agent (MGA).

Claims are handled by the following independent adjusting firms:

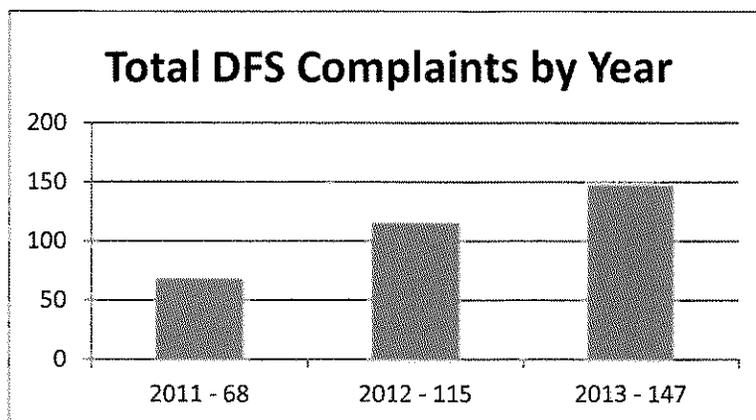
- Allied American Adjusting
- CatManDo, Inc.
- Premier Adjusting & Catastrophe Services
- Critical Claims Consulting
- Seibels Claims Solutions, Inc.

COMPLAINT HANDLING

The Company has established complaint handling procedures as required by Section 626.9541(1)(j), Florida Statutes. A sample of complaints was reviewed to determine that responses to complaints were timely, file documentation was adequately maintained and the Company's response fully addressed the issue raised.

The Office provided a list of 330 complaints received by DFS which was reconciled to the Company's complaint log. The Company provided a list of 21 complaints that were directly received.

The following chart represents a breakdown of DFS complaints by year:



A random sample of 82 DFS complaints was selected for review. All directly received complaints were selected for review for a total sample of 103 complaints. The random sample included 46 claims and 57 non-claim related complaints.

There were a total of 4 violations found.

Findings:

1. **In 3 instances the Company failed to timely investigate claims and improperly denied coverage. This is a violation of Section 627.70131, Florida Statutes.** The Company failed to timely investigate 3 supplemental claims.

In two instances, the Company paid the initial claim but did not act timely on the supplemental claims for damages. The Company has paid both of these claims.

In one instance, the adjuster denied the exterior damage but failed to deny the claim for interior damage for four months.

2. **In 1 instance, the Company failed to comply with the insurance contract. This is a violation of Section 626.877, Florida Statutes.** The Company denied a claim based upon an incorrect interpretation of a contract provision. All 4 were related to claim complaints.

In one instance, the Company paid the dwelling claim but improperly denied the contents claim. The Company has paid this claim.

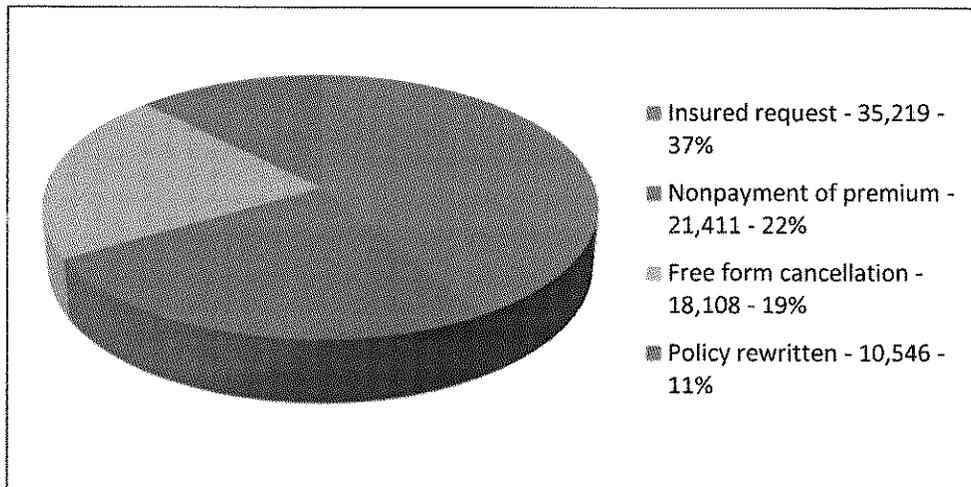
Company Response: The Company agreed with the findings.

Corrective Action: The Company should establish procedures to ensure all supplemental claims are investigated and claim denials are reviewed by a supervisor.

CANCELLATIONS AND NONRENEWALS

Cancellations and nonrenewals were reviewed to verify if proper notice was given and when applicable, determine if the refund of premiums paid was processed timely and accurately. In addition, the reasons for the cancellation were reviewed to ensure they were valid and that the Company was following its own guidelines.

The following charts the primary reasons for cancellations/nonrenewals which accounted for 89 percent of all terminations:



Note: Free form cancellation includes Substantial Change in Risk and Vacant Homes

There were a total of 95,743 cancelled/nonrenewed policies during the period under examination. A sample of 184 cancellations/nonrenewals was selected for review, 128 involved return of unearned premiums.

There were a total of 10 violations found. The violations are broken down as follows:

Findings:

- 1. In 9 instances the Company failed to timely return unearned premiums. This is a violation of Rule 69O-167.001, Florida Administrative Code and policy provisions.**

In all 9 instances the Company failed to return unearned premiums within 15 working days as required.

In 5 of the instances, the Company returned premium 10 or less days beyond the 15 working days required by statute. In 4 of the instances, premium was returned 14 – 23 days late.

Company Response: The Company agreed with the findings.

Corrective Action: The Company should establish procedures to ensure unearned premiums are returned timely.

2. In 1 instance the Company failed to provide timely notice of cancellation. This is a violation of Section 627.4133, Florida Statutes.

The Company provided 19 days notice in lieu of the required 20 days.

Company Response: The Company agreed with the findings.

Corrective Action: The Company should establish procedures to ensure timely notice of cancellation is provided.

UNDERWRITING

The underwriting practices that establish insurance to value were reviewed to verify compliance with Florida Statutes, Florida Administrative Code and the Company's underwriting guidelines.

The Company stated, "Security First's quoting system integrates a replacement cost estimating tool (MSB) and does not allow the agent to bind coverage lower than the estimated replacement value. If the agent tries to quote coverage less than replacement value, the system refers the quote to Underwriting for review. The underwriter has authority to approve within a 10% +/- margin depending on the circumstances."

There were 542,616 policies issued during the scope of the examination. A total of 173,249 was new business and 369,367 was renewal business:

Year	New Business	Renewals
2011	62,641	94,937
2012	66,695	125,809
2013	43,913	148,621
Totals	173,249	369,367

A sample of 25 new business policies was reviewed to determine if policies were issued at 100% of replacement cost and if deviations were made to determine if these were appropriate and properly documented in the files.

No violations were found.

CLAIMS HANDLING

A. General Claims Review

Claims were reviewed to verify compliance with Florida Statutes, Florida Administrative Code and the Company's claims settlement guidelines.

A total of 19,457 claims were reported during the scope of the examination. The following is a breakdown by type of claim.

Claim Type	Count	Percentage
Water	9,674	49.72%
Other	2,581	13.27%
Theft	2,219	11.40%
Wind	1,346	6.92%
Lightning	914	4.70%
Mold	672	3.45%
Fire	538	2.77%
Liability	517	2.66%
Hail	467	2.40%
Vandalism	283	1.45%
Sinkhole	153	0.79%
Cat Ground Collapse	93	0.48%
Totals	19,457	100%

A sample of 109 claims was selected for review.

No violations were found. It is suggested since "other" is the second largest category of claim type, more categories should be added.

B. Litigated Claims Review

Litigated claims increased from 187 in 2012 to 309 in 2013. The Company has been monitoring the situation and provided several reasons for the increase in the number of suits:

1. **Claim Volume** - Between 2010 and 2013, the average number of claims was 5,797. In 2012, Security First received 7,234 claims and in 2013, 6,892 claims were received.
2. **Removal of Appraisal clause from the policy** – The Company removed an Appraisal clause from its policies in December of 2008. This means that policyholders who are dissatisfied with the amount of a first party claim payment may either obtain competitive estimates and work with Security First's claims representatives to come to an agreed amount to effectuate repairs, request mediation through the DFS or file suit. In 2013, Security First received 309 first party lawsuits. Of those, 214 (69%) involved an amount of loss issue. Of the 214, 138 were filed on behalf of policyholders who were represented

by public adjusters. Another 61 were filed by entities that had received an assignment of benefits from a policyholder. As a percentage, 93% of first party lawsuits involving amount of loss issues were filed by public adjusters or assignees of benefits.

3. **Assignments of Benefits** - Assignment of benefits lawsuits are a relatively new phenomenon. Prior to 2012, there were only 8 lawsuits filed by assignees against Security First. In 2012, 17% of all first party lawsuits were filed by assignees. In 2013, 24% of all first party suits were filed by assignees.

4. **Venue** - Policyholders from Miami-Dade and Broward counties represent a disproportionate percentage of plaintiffs on first party lawsuits filed against Security First. In 2013, by county the numbers were:

Miami – Dade - 3% of policies in force; 34% of first party lawsuits; 93% of policyholders were represented by public adjusters or attorneys during the claim process and prior to suit.

Broward - 2.3% of policies in force; 15% of lawsuits; 73% of policyholders were represented by public adjusters or attorneys during the claim process and prior to suit.

No violations were found.

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.