

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SECURITY NATIONAL INSURANCE COMPANY  
(BRW ACQUISITION, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Security National Insurance Company (Company) 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. The scope of this examination was January 1999 through May 31, 2001. The examination began June 18, 2001 and ended August 31, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded in December 1997.

The prior examination report included the review of private passenger automobile and commercial automobile policies. Violations cited included failure to display telephone and purpose on policies/certificates, use of unfiled rates, rating schedules, rating rules or underwriting guidelines, involving incorrect symbols, failure to include physical damage language on policies, failure to file annual rate certifications, failure to provide risk management guidelines and plans, failure to correct violations in a prior examination report, failure to attach mandatory forms/endorsements, use of unfiled form/endorsement SNIC124A (9/96), use of unfiled form/endorsement SNIC 124A (9/95), use of unfiled form/endorsement SNIC 124A (1/90), failure to correctly specify contents of policy relating to forms/editions dates, failure to display agent name/license or insurer name on application, use of unlicensed and unappointed agents, use of unlicensed/appointed MGA, failure to cancel one day after premium finance date, failure to properly compute sales tax/or advise insured of sales tax rights, failure to affix fraud statement to claim forms or applications and failure to properly forward auto vehicle title to the Department of Highway Safety and Motor Vehicles.

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

During this examination, records reviewed included private passenger automobile and commercial automobile policies, consumer complaints, cancellations/nonrenewals, claims, and agents/MGA licenses for the period of January 1999 through August 2001, 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.

## II. PRE-EXAM REVIEW OF COMPANY WRITINGS

### A. CERTIFICATE OF AUTHORITY AUTHORIZED LINES

#### 1. General Comments

The Certificate of Authority and Renewal Invoices were 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

Security National Insurance Company was incorporated under the laws of the State of Florida on March 1, 1989 and commenced business on April 6, 1989. Business is produced through Bristol West Insurance Services, Inc. of Florida, an affiliated licensed and appointed managing general agent. Claims administration is handled through Apex Adjustment Bureau, Inc., which is also an affiliate.

#### B. MANAGEMENT

The Company conducts its policy processing on an internally developed COBOL-based application run on a Unisys Clearpath mainframe computer system. The claims system is also an internally developed COBOL-based application running on the same Unisys Clearpath mainframe computer system. In addition, the Company has an NT-based network architecture that supports other critical applications.

The Company has filed the Special Investigation Unit program with the State of Florida, Division of Fraud. The SIU Department investigates suspicious claims. In addition, they have provided claims adjusters with anti-fraud awareness and recognition programs throughout the organization.

The Company has a written disaster plan entitled Florida Business Recovery Plan. The plan is broken down into different types of events that could affect its ability to continue business should one of these events occur.

The Company has an Internal Audit Plan, whereby an auditor tests financial and operational areas on a detailed level to insure that internal controls are in place to prevent fraud.

The Company has a privacy plan in place which complies with Emergency Rule 4ER01.

B. OPERATION

The Company writes private passenger automobile business on a statewide basis with the majority located in the Dade and Broward counties. The Company also markets commercial automobile to the artisan trades of carpenters and lawn services types of businesses.

#### IV. REVIEW OF POLICIES

##### A. PRIVATE PASSENGER AUTOMOBILE

###### 1. Application of Rules, Rates and Forms

###### a. Rate/Rule Filings

Security National Insurance Company independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

###### b. Form Filings

Security National Insurance Company is a subscriber of Insurance Services Office (ISO) and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

###### c. Statistical Affiliation

National Association of Independent Insurers (NAII) 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>
1999	\$28,229,323	24,549
2000	\$27,854,777	29,220
*2001	\$16,495,486	14,350

\*These figures represent the first and second quarters of the year.

3. Exam Findings

One hundred (100) policy files were examined.

Two (2) errors were found.

One (1) error resulted in an undercharge of \$218.00.

The errors are broken down as follows:

1. One (1) error was due to failure to follow the filed rate, rating schedule, rating rule or underwriting guideline. This constitutes a violation of Section 627.0651, Florida Statutes. The Company sold a policy to an unqualified individual.
2. One (1) error was due to failure to follow the filed rate, rating schedule, rating rule or underwriting guideline. This constitutes a violation of Section 627.0651, Florida Statutes. The Company sold a policy to accommodate an agent who had misquoted the policy. An incorrect premium was charged. This resulted in an undercharge totaling \$218.00.

B. COMMERCIAL AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

The Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Security National Insurance Company is a subscriber of ISO and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

National Association of Independent Insurers (NAII) 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>
1999	\$189,930	250
2000	\$236,670	250
*2001	\$118,335	125

\*These figures represent the first six months.

3. Exam Findings

One hundred (100) policy files were examined.

One hundred (100) errors were found.

The errors are broken down as follows:

1. One hundred (100) errors were due to failure to file a rate/rule manual since 1995. This constitutes a violation of Section 627.0645, Florida Statutes. No certifications have been filed since that time. This error occurred in the 1997 Examination, Page 8. Exhibit I.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to report an ab initio cancellation. This constitutes a violation of Rule 4-167.002, Florida Administrative Code.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

No errors were found.

The Company's internal claims handling procedures and reserving practices are described in Exhibit II.

VIII. COMPLAINTS 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. Complaint handling procedures are described in Exhibit III.

Fifty consumer complaints received during the scope of examination were reviewed, and findings are as follows:

A. DOI REFERRALS

CONSUMER	EXPLANATION	STATUTE RULE	CO. RESPONSE ACCEPTABLE Y/N	<i>VIOLATION</i>
George Johnson	This file is still open. The clt. Has gone to his own carrier	626.877	Y	N
Joseph Hamilton	Company failed to explain reason for denial in writing	4-166.026	N	Y
Kelly Wombles	Company paid loss 15 days after getting DOI complaint	None	Y	N
Shawn Minnis	This accident involved POL limits for all liab coverage. Company was trying to get agreement with everyone before paying out	None	Y	N
James Hunter	This loss (fire) occurred 2 days after pol. Went into force. Ins moved to KY and then back to FI and was as much responsible for the delay as anyone	626.9541	Y	N
Julio Montenegro	Loss was late reported 30 days Once reported it was paid within 3 weeks	n/a	Y	N
Ronda Harris	Loss reported 4/20/01 and it does not appear that much was done till 5/4/01 when the DOI complaint came in, Loss was not paid till 5/29/01	626.9541	N	Y
Hanna Benjamin	Loss occurred 11/19/00 Ins had been slow on car payments and Ins Payments. Theft Loss and total by fire, Investigation delayed payment till 3/19/01 or 3 days after complaint	626.9541	N	Y
Derry Bailey	Ins thought he had Collision Cov. He did not	None	Y	N
Little Henry	Pol Can 3/21/01 for No Pay. Ins reported loss 3/24/01 denied due to Can.	None	Y	N

CONSUMER	EXPLANATION	STATUTE RULE	CO. RESPONSE ACCEPTABLE Y/N	VIOLATION
Michael Mazzula	Company paid full bill after receiving DOI complaint	4-166.025	Y	Y
Mionika Chiles	Shop involved was of Ins. Choice	None	Y	N
Guy Philipsem	First party situation and pol had been in force for a full year without lien holder checking his status. See no fault on Co.	None	Y	N
Lisa Duran	Company advised of policy restrictions and the ins did not agree. She had Atty who excepted offer when made and I see no problem with Adj of loss	None	Y	N
Evelyn Gonzalez	Complaint concerns length of time to fix car and payment of loss of use. After receiving DOI letter made proper adj	None	Y	N
Delores Wells	Co. sent a Reservation of rights setter but failed to follow with a denial. Clt now has legal rep. And Co is waiting on demand letter	None	Y	N
Scott Heerlitzka	Company claimed comparative neg. but paid out pol limits any way due to extensive damages	None	Y	N
Rolando De La Rosa	Company had the police report in Nov. with the names of 2 witnesses but did not contact them until the DOI got involved (4 month delay)	626.9541 (I)f	N	Y
Felix Callico	After receiving the DOI complaint the adjuster met with the Insured and repair people and made payment sufficiently to properly repair auto	None	Y	N
Eckard Reeves	It appears that there was a miss understanding as to the ACV of Ins Auto. On approx the same date they complained to DOI the ins wrote a second letter to adj thanking her for all the service ect.	None	Y	N
Nancy Simpkins	Accident case with questionable liab. GMAC filed Arbitration and won but Security is not a member and offered 50% where it now stands	None	Y	N
Wade Davis	Company had the police report in Jan.01. With the names of 2 witnesses but did not contact them.6months latter nothing has been done	626.9541	N	Y
Mazarene Hendricks	Accident involved conflicting stories and 3 witnesses. Check was issued within 30 days of accident but sent to wrong address and had to be stop pay and reissue	626.9541	Y	N
Nathaniel Swain	Part of the problem appears to be the wrecker yard. File shows that ins paid properly determined ACV 8/9/000	None	Y	N
Alissa Moore	An improperly issued title held up payment of this loss	None	Y	N

CONSUMER	EXPLANATION	STATUTE RULE	CO. RESPONSE ACCEPTABLE Y/N	VIOLATION
Daniel Aaron	Ins. Filled out App. In his name but MVR showed it corporate owned. Co asked Ins to change but it was not done and pol was Can.	None	Y	N
Carey Daniels	Company refused to can. Until pol had been in force 60 day or one of the other conditions met none of them done	None	Y	N
Janice Laflam	It turned out that it was the previous company is the one that owed the money	None	Y	N
Eliana Lop	This occurred in 1996 and the ins. Claimed agent got paid and forged premium fin. This contract was investigated by MSO in 96 and the ins is now trying to clear credit.	None	Y	N
Aleida Albarran	Ins requested can 11/24/99 received by co 12/4/99. Co. Can 12/4/99 and requested proof of replacement cov to back date. This was never sent in	None	Y	N
Lakesha Walters	Ins paid Agent for Ins but agent did not pay Co. Case turned over to State Atty and Co reinstated pol. Paid in full	None	Y	N
Phyllis Nicholson	Co. has Can. Notice and proof of mailing plus offer to reinstate. Ins did not pay then had accident. Complains she did not get notice.	None	Y	N
Sarah Simkins	Co. has Can. Notice and proof of mailing plus offer to reinstate. Ins did not pay then had accident. Complains she did not get notice.	None	Y	N
Rosemary Gonzalez	This was a special investigation of an Agent by the DOI. Agent did rep co but Company was not involved	None	Y	N
Lee R. Williams Sr.	During the underwriting process it was discovered that Insured have several more violations than noted. The 3 choice letter was sent and the add premium was not paid	None	Y	N
Better Business Bureau for the account of Niceta Bernabe	Insured complained that pol was cancelled short rate. She moved to Calif and requested can at that time in writing	None	Y	N
Non DOI complaint John Scott	Loss was readjusted on the day that the insured complained	627.7288	Y	N
Adolfo Alvarez	This is a pol. Expired at end of term with no bal due. I think the Ins must have thought he had a return or something	None	Y	N
Daniel Aaron	When company got underwriting material they found Pol. In Ins Name and Veh in Company name. They gave him 45 days to change ownership of veh and when he did not cancelled	None	Y	N
Minerva Quintana	A search of company files showed no such party as being insured nor having applied for Ins.	None	Y	N

CONSUMER	EXPLANATION	STATUTE RULE	CO. RESPONSE ACCEPTABLE Y/N	VIOLATION
Jorge Tabora	File reflects that Ins got Can. Notice at both addresses prior to accident. He also had a Premium billing notice showing payments, dates due all sent out when pol was issued	None	Y	N
Carey Daniels	The Ins tried to Can in first 60 days and sent in a note from GEICO that they had written the ins a poll but did not describe auto. Company wrote Ins advising they needed further info and when they did not hear anything cancelled at 60 days	None	Y	N
Charle Garcia	The pol was cancelled 2 months before it was due to expire. The company sent two offers to reinstate and write a new pol for the next year but did not hear from the insured	None	Y	N
Dasiy Cuevas	Company Flat cancelled and made full return to fin. Company Who returned Ins down Payment	None	Y	N
James Henson	Ins payment was returned by bank and a cancellation notice was sent out. The ins sent in a second check but not before he had a wrecks Coverage was denied	None	Y	N
Eric Struchko	After the Company received the App they ran an MVR and found 3 major violations. Premium revised and Ins rebilled with 3 choice letter. Made no payment and policy was cancelled	None	Y	N
Richard Fanning Jr	This was an error on the company's fault. Policy was reinstated without Lapse and a letter of apologies written to the insured.	None	Y	N
DOI Agent & Agency Investigations	Company had Terminated Agent already	None	Y	N
Ronald Stephens	When the company received proof that the agent had been paid they reinstated his policy and gave him full credit for his payment/	None	Y	N
Fred Moldvan Esq	Company response was timely	None	None	None

Six (6) errors were found.

The errors are broken down as follows:

1. One (1) error was due to failure to deny a loss in writing. This constitutes a violation of Rule 4-166.026, Florida Administrative Code.
2. Four (4) errors were due to denying claims without conducting a reasonable investigation. This constitutes a violation of Section 626.9541(1) (i), Florida Statutes.
3. One (1) error was due to failure to timely respond to an inquiry by the Florida Department of Insurance. This constitutes a violation of Rule 4-166.025, Florida Administrative Code.

B. COMPANY RECEIVED COMPLAINTS

Two (2) complaints were reviewed.

No errors were found.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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CLAIMS PROCEDURES	II
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COMPLAINT PROCEDURES	III
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