

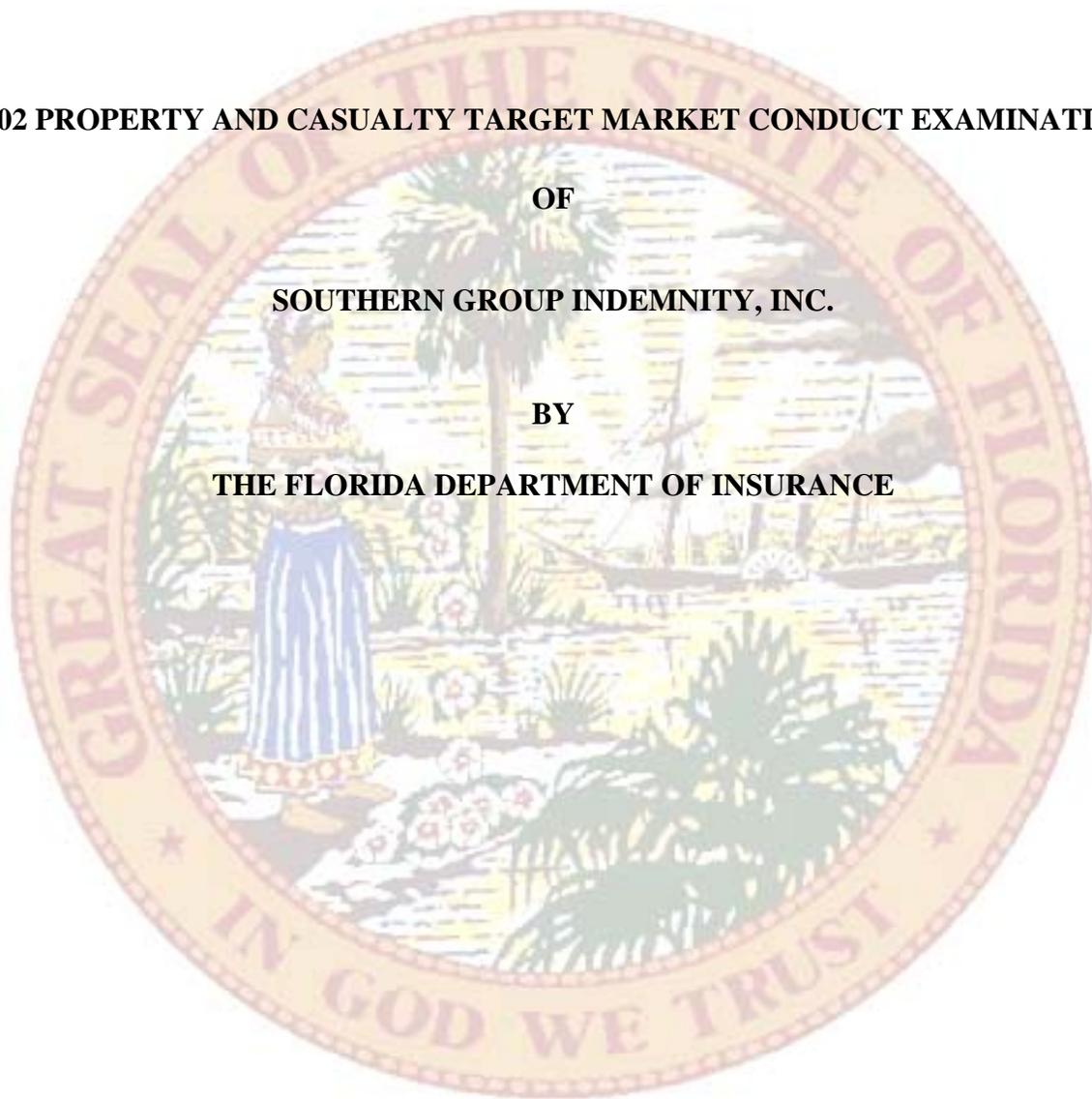
2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SOUTHERN GROUP INDEMNITY, INC.

BY

THE FLORIDA DEPARTMENT OF INSURANCE



DATE FILED: 5/30/02

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INTRODUCTION

Southern Group Indemnity Company, Inc. (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 2001 through January 2002. The examination began January 6, 2002 and ended February 9, 2002. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded in December 2000.

The prior examination report included the review of private passenger automobile, homeowners, agent and MGA, cancellations and nonrenewals, claims, and complaints. Violations cited included failure to apply safety discounts on motor vehicles, incorrect miscellaneous premium computations, failure to comply with company consent order by not maintaining copies of homeowners applications for FRPCJUA business, use of incorrect protection classes, use of incorrect territories, and failure to adhere to requirements pertaining to ab initio cancellations.

The purpose of the current examination was due to the volume of consumer complaints specifically relating to claims, cancellations, and premium issues. Also, to review private passenger automobile in order to evaluate the use of credit reports, tier rating, and to verify any corrective action that was to be taken as a result of the prior 2000 P & C Market Conduct Examination. In addition, to verify compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included private passenger automobile, claims and consumer complaints. 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.

As a result of the findings of this examination, \$210.00 was returned to Florida consumers due to overcharges of premium.

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority and Renewal Invoices were 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

Southern Group Indemnity, Inc. specializes in non-standard automobile and taxi cab liability insurance. The Company has a limited number of renewal policies in the homeowners market. The Company was admitted in Florida in October 1990 and began its operations in January 1991. The home office is located in Miami, Florida. The Company is a wholly-owned subsidiary of Club Marketing and Sales, which also owns Statewide Adjusters, an automobile insurance claims adjusting firm, and Southern Group Insurance Management, an MGA.

The Corporate officers and directors are: Thomas A. Green, ARM, President, CEO, Secretary, Director; Cary Eawaz, Treasurer; Mario Vives, Director; Donald Carlin, Director; Rolando Ortiz, Director; Jose Mon, Director.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company employs a mid-range computer system, IBM AS/400, for its insurance programs and data storage. Communications and internet access are controlled through a Microsoft network (Windows Professional 2000). All systems are housed in Florida.

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 of the Florida Statutes and Administrative Code by establishing a Special Investigation Unit. This unit is maintained by the Company's claim adjusting firm, Statewide Adjusters. Designated personnel conduct investigations into suspected fraud cases and forwards those cases with merit to State authorities for investigation.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business. The Company keeps a backup IBM AS/400 computer and several laptop computers available and ready to be shipped to any area not affected by the disaster. Telephone systems are portable and transferable. Off-site backups are maintained monthly.

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business by maintaining internal auditing systems and an internal audit committee. Independent audits are performed by the firm of Roger Infante, P.A.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The plan complies with Federal regulations and meets the requirements of this rule. The plan is communicated to policyholders and other applicable vendors and agents by sending leaflets.

Statistical Affiliations

The Company employs the National Association of Independent Insurers (NAII) as its statistical agent. The Company also maintains an affiliation with Insurance Services Office (ISO) for automobile symbols.

Credit Reports

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

OPERATIONS/MARKETING

Marketing

The Company writes non-standard automobile business in Florida primarily to lower and middle income families. There were no substantive changes in business practices since the last audit. The Company writes business throughout Florida.

Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling

Automobile business is underwritten by the Company's MGA, Southern Group Insurance Management, and is written utilizing approximately 220 independent licensed and appointed agents. Homeowners insurance is underwritten by Apex Managers in Rockledge, Florida, without use of independent agents as business is strictly renewals handled directly through Apex. Taxi cab business is written directly by the Company utilizing licensed and appointed agents.

The Company maintains a web site, sgroupind@cs.com, for use by its agents for basic information and statistics. No products are sold via this medium.

Automobile claims are adjusted by the Company's adjusting firm, Statewide Adjusters, and homeowners claims are handled by York Adjusting Services in Maitland, Florida, utilizing licensed and appointed Company and independent adjusters.

Lines of Business

The Company writes private passenger automobile, homeowners (renewals only), and commercial automobile including taxi cab liability insurance.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

This is a monoline program for non-standard risks. Credit reports and rating tiers are not used. The amount of premium charged depends upon the make and age of vehicle, renewal policy discount, usage of the vehicle, point surcharges from MVR, age of the driver, multi-cars, safety device discounts, amount of coverage selected, and other normal underwriting criteria.

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>
2001	\$14,038,795	28,139

Examination Findings

Fifty (50) policy files were examined.

Three (3) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$210.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to provide safety device discounts. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were caused by a failure to apply safety discounts to various coverages on motor vehicles when the Insurance Services Office (ISO) motor vehicle safety device identification system software indicated this equipment as standard. These errors resulted in two (2) overcharges totaling \$19.00, which have been refunded by the Company.
2. One (1) error was due to failure to follow the filed rates. This constitutes a violation of Section 627.0651, Florida Statutes. This error was due to using rates effective 3/1/01, in lieu of applicable rates effective 8/15/01, on a renewal policy. This error resulted in one (1) overcharge totaling \$191.00, which has been refunded by the Company.

The Company has implemented procedures to ensure motor vehicle safety device discounts are given when applicable by use of ISO motor vehicle safety device identification software, which automatically gives the discount when the vehicle identification number is entered into the computer. Two errors occurred when the applications in the files contradicted the ISO standard safety device information. The

applications indicated no air bag and no alarm system without reasonable documentation as to why these safety devices were eliminated, when ISO documented these devices as standard installation. The Company was requested, in the absence of acceptable documentation on the applications or in the files, to use the ISO information as the principle standard for giving all safety device discounts. See Pending Issues Section. Exhibit I.

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.

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

DOI COMPLAINTS RECEIVED/INVESTIGATIONS REFERRAL

Consumer Services Ref. Number	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-0001-0027796	STOECKLER	CANCELLATION REFUND	NONE	
DOI	DOI FINANCIAL SERVICES	CONFIRM PROPER NONRENEWAL NOTICE	NONE	NONRENEWALS DID NOT HAPPEN

COMPANY COMPLAINTS RECEIVED

Consumer Services Ref. Number*	Consumer's Last Name	Alleged Violation	Violation Found	Comments
S-0001-0058560	JOHNSON	Claim denial	NONE	NONE
S-0001-0037938	WHITE	Claim delay	NONE	NONE
S-0102-0002981	GOLBIN	Additional premium	NONE	NONE
S-0102-0001618	ROWE	Additional premium	NONE	NONE
S-0102-0000455	WARNER	Cancellation dispute	NONE	NONE
S-0001-0066353	HUNT	Non renewal inquiry	NONE	NONE
S-0001-0061130	MENTEK	Additional premium	NONE	NONE
S-0102-0010682	TARSITANO	Cancellation dispute	NONE	NONE
S-0001-0069534	OLSON	Additional premium	NONE	NONE
S-0102-0009416	LUZULA	Additional premium	NONE	NONE
S-0102-0003216	JONES	Cancellation inquiry	NONE	NONE
S-0102-0004286	BILDI	Agent Handling	NONE	NONE
S-0102-0017846	FERNANDEZ	Binder Question	NONE	NONE
S-0102-0027196	REYES	Binder Question	NONE	NONE
S-0102-0025696	WRIGHT	Additional premium	NONE	NONE
S-0102-0026569	CHARNIN	Additional premium	NONE	NONE
S-0102-0012359	HAYNES	Cancellation refund	NONE	NONE
S-0102-0016342	CHAFFEE	Cancellation dispute	NONE	NONE
S-0102-0013081	SOUFFRANT	Coverage dispute	NONE	NONE
S-0001-0065949	BORGES	Cancellation dispute	NONE	NONE
S-0102-0005656	MEDINA	Policy inquiry	NONE	NONE
S-0001-0064781	SANCHEZ	Refund inquiry	NONE	NONE
S-0102-0000186	PORTER	Additional premium	NONE	NONE
S-0001-0064496	MENDIETA	Cancellation dispute	NONE	NONE
S-0001-0052571	BOWMAN	Premium refund	NONE	NONE
S-0001-0054665	BARGE	Premium refund	NONE	NONE
S-0102-0032932	MALONEY	Claim delay	NONE	NONE
S-0102-0027852	FERNANDEZ	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0102-0028526	BUTLER	Claim delay	NONE	NONE
S-0102-0030369	ANDREW	Claim dispute	NONE	NONE
Company received	DAVIS	Claim dispute	NONE	NONE
S-0102-0030763	ANDREWS	Claim delay	NONE	NONE
S-0102-0030724	HORN	Claim delay	NONE	NONE
S-0102-0032482	CICCONE	Claim delay	NONE	NONE
S-0102-0029442	ALVES	Claim payment	NONE	NONE
S-0102-0031159	PINDER	Claim delay	626.9541 (1) (i) 3c	14 day diary

S-0102-0031769	GILLIS	Claim payment	NONE	NONE
S-0102-0030160	WILKINSON	Claim status	NONE	NONE
S-0102-0021246	PENA	Claim delay	NONE	NONE
S-0102-0028630	CRUZ	Claim judgement	NONE	NONE
S-0102-0025109	SBRACCIA	Claim delay	NONE	NONE
S-0102-0026646	RUGE	Claim payment delay	NONE	NONE
S-0102-0025021	COLLINS	Claim delay	NONE	NONE
S-0102-0017410	VARGAS	Rental reimbursement	NONE	NONE
S-0102-0020429	MCCLORY	Claim delay	NONE	NONE
S-0102-0020631	FLORES	Claim delay	NONE	NONE
S-0102-0022640	BERTENS	Claim delay	NONE	NONE
S-0102-0020385	VOYLES	Claim delay	NONE	NONE
S-0102-0018101	ACHONG	Claim delay	NONE	NONE
S-0102-0014387	RAMSEY	Claim delay	NONE	NONE
S-0102-0019623	MESQUITA	Claim denial	NONE	NONE
S-0102-0017308	PORTER	Claim payment	NONE	NONE
S-0102-0018444	SELMAN	Claim delay	NONE	NONE
S-0102-0010839	CROSS	Claim delay	NONE	NONE
S-0102-0015789	LANIER	Claim delay	NONE	NONE
S-0102-0015497	CRUZ	Claim delay	NONE	NONE
S-0102-0011726	SEABURY	Coverage question	NONE	NONE
S-0102-0009629	ORJUELA	Claim denial	NONE	NONE
S-0102-0010063	BODONI	Claim delay	NONE	NONE
S-0102-0009626	SCHUETTE	Claim delay	NONE	NONE
S-0102-0010726	RIVERO	Claim denial	NONE	NONE
S-0001-0065062	MCCLAIN	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0102-0009131	WARNER	Claim denial	NONE	NONE
S-0102-0002696	MILLER	Claim denial	NONE	NONE
S-0001-0065881	LEJA	Claim denial	NONE	NONE
S-0102-0002223	COX	Claim delay	NONE	NONE
S-0001-0069175	WILLIAMS	Coverage dispute	NONE	NONE
S-0001-0057153	MURPHY	Claim delay	NONE	NONE
S-0001-0068864	SLATTERY	Claim delay	NONE	NONE
S-0001-0068294	DENSON	Claim denial	NONE	NONE
S-0001-0067753	MILLS	Claim delay	NONE	NONE
S-0001-0069302	MARTIN	Settlement dispute	NONE	NONE
S-0001-0060520	PENNI	Claim delay	NONE	NONE
S-0102-0001432	MILANO	Coverage dispute	NONE	NONE
S-0001-0068826	SNYDER	Claim delay	NONE	NONE
S-0001-0065062	MCCLAIN	Claim delay	NONE	NONE
S-0001-0052398	GARCIA	Claim delay	NONE	NONE
S-0001-0065724	GOODNOW	Claim delay	NONE	NONE
S-0001-0055618	JAI	Claim delay	NONE	NONE
S-0001-0055121	NANIA	Claim delay	NONE	NONE
S-0001-0050901	WILLIAMS	Claim delay	NONE	NONE
S-0001-0060018	KINKAID	Claim delay	NONE	NONE
S-0001-0054503	ROMERO	Claim denial	NONE	NONE
S-0001-0058474	MODAFFARI	Claim delay	NONE	NONE
S-0001-0054513	JOHNSON	Claim delay	NONE	NONE
S-0001-0059716	DOMINGUEZ	Claim denial	NONE	NONE
S-0001-0050574	WRIGHT	Claim delay	NONE	NONE
S-0001-0054826	KINDNERSKI	Claim delay	NONE	NONE
S-0001-0053417	ROESKE	Claim delay	NONE	NONE
S-0001-0047479	JOHNSON III	Claim delay	NONE	NONE
S-0001-0053458	FREDERICKSON	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0001-0044578	ALVES	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0001-0046216	RUIZ	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0001-0044376	BEHNEY	Claim delay	NONE	NONE
S-0001-0042771	COBER	Claim delay	NONE	NONE
S-0001-0033197	VIEGAS	Settlement dispute	NONE	NONE
S-0001-0019939	JACKSON	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0001-0033561	FIOCHETTA	Claim delay	626.9541 (1) (i) 3c	14 day diary
S-0001-0033127	PICARDAT	Claim form inquiry	NONE	NONE
S-0001-0057153	ADKINS	Claim delay	626.9541 (1) (I) 3c	14 day diary

One hundred (100) consumer complaints were reviewed.

Nine (9) errors were found.

The errors are broken down as follows:

1. Nine (9) errors were due to failure to act promptly upon communications with respect to claims. This constitutes a violation of Section 626.9541 (1) (i) 3.c., Florida Statutes. These errors were caused by excessive gaps of claim inactivity. This was a result of a failure to maintain a minimum 14 day diary necessary to expedite claim closure, specifically when requesting information or waiting for responses from claimants. The Company maintains this was a result of various adjusters who were not properly following up on their work during a specific period of time. These adjusters have been subsequently replaced. These were isolated incidences and do not constitute a business practice.

The purpose of this examination was due to the volume of consumer complaints specifically relating to claims, cancellations, and premium issues. The majority of the cancellation and premium complaints were caused by additional premium due as a result of consumer misinformation on the applications, and in a few instances, due to rate changes. In all additional premium cases, the Company has complied with the requirements of Section 627.7282, Florida Statutes, by notifying insureds of the three options requirement. Claim delays constituted the largest number of the complaints reviewed and have been addressed above. Reasons given for claim denials were adequately documented and justified. The complaints were not indicative of improper business practices.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

The types of claims reviewed included private passenger automobile first and third party claims, litigated claims, and subrogated claims. The types of losses included, bodily injury, property damage liability, PIP, comprehensive, and collision.

Examination Findings

Fifty (50) claims were examined. All fifty (50) claims were private passenger automobile.

Two (2) errors were found.

The errors are broken down as follows:

1. Two (2) errors were due to failure to comply with PIP benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes. These errors were due to paying PIP medical bills in excess of the required 30 days. The Company paid interest prior to the beginning of this examination.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

This review included PIP claims referred to independent medical examiners (IME) for medical review.

Examination Findings

Fifty (50) claims were examined. All fifty (50) claims were private passenger automobile PIP claims.

No errors were found.

PENDING ISSUES

The following issue was pending at the conclusion of the examination field work:

CORRECTIVE ACTIONS

1. Private Passenger Automobile – The Company is requested to use the ISO motor vehicle safety device identification system software as the standard for applying all applicable safety device discounts. Should file documentation differ from ISO, the file should contain acceptable documentation to substantiate any elimination of the items qualifying as standard equipment eligible for the discounts. The Company is requested to implement corrective action within ninety (90) days of the receipt of this examination report and provide the Department of Insurance with documentation of the corrective action. Exhibit I.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

PPA LETTER TO COMPANY

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