

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SOUTHERN GROUP INDEMNITY, INC.

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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## I. INTRODUCTION

Southern Group Indemnity, Inc., is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1997 through December 1999. The examination began October 29, 2000 and ended December 16, 2000. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was completed on December 24, 1997.

The 1997 examination included the review of private passenger automobile and homeowners policies, cancellations/nonrenewals and claims. Violations cited included failure to provide safety device discounts, failure to allow the proper credits, failure to give a valid reason for cancellation/nonrenewal, failure to give proper notice of cancellation, failure to provide settlement of a claim within 20 days, failure to affix the fraud statement, failure to properly adjust claims and failure to pay sales tax.

The purpose of the current target examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included 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 of this examination, \$298.84 was returned to Florida consumers due to overcharges of premium.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/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

Southern Group Indemnity, Inc., obtained their domestic license in 1989. At that time, the Company wrote taxi cab liability insurance in Dade County and garage liability policies statewide through Creative Insurance Underwriters, an independent managing general agent. Claims handling was provided by Multi-Line Claim Service, an independent adjusting firm. Claims are currently adjusted by company adjusters and York Claims, an independent adjusting firm.

In 1991, the Company employed Berkshire Insurance Underwriters, an independent managing general agent, to produce nonstandard private passenger automobile physical damage only policies. Multi-Line Claim Service provided claims handling services at that time. In October of 1991, the Company began writing standard private passenger liability and physical damage insurance throughout the State of Florida. In October of 1998, the Company began its assumption of FRPCJUA homeowner policies and currently underwrites through Apex Managers, the Company's licensed MGA located in Rockledge, Florida.

#### B. MANAGEMENT

Southern Group Indemnity, Inc., consists of a board of directors, an executive board, an internal audit committee and a management staff.

All business is managed from the Miami, Florida Home Office. The Company's Anti-Fraud Plan is filed with the Department of Insurance and maintained by the Company's claim adjusting firm.

Internal audits are conducted on an ongoing basis within each department.

The Company maintains proprietary software systems on an AS/400 platform. The Company also maintains a backup product development unit.

The Company's Disaster Recovery Plan is primarily preventative in nature: (1) elevated computer room, with movable backup platform, (2) multiple off site backup data and systems files, (3) a generator system running on LP gas which can maintain critical systems for three days at a time and, (4) transferable phone systems.

C. OPERATIONS

The Company writes in all areas of the state, however, homeowners is predominantly written on the west coast of Florida. New homeowners business is currently not being written.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Southern Group Indemnity, Inc., independently files rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Southern Group Indemnity, Inc., independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Services Office 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	\$29,059,915	47,188
1998	\$13,065,114	21,846
1999	\$ 2,113,631	3,595

The decrease in DPW and policy counts from 1997 to 1998 was due to a reduction in premium writings contemplating an increase in homeowners business resulting from take-out assumptions, which did not materialize. The decrease was to enable the Company to stay within policyholder surplus requirements. The decrease from 1998 to 1999 was due to a reduction in agency force.

3. Exam Findings

One hundred (100) policy files were examined.

Six (6) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$56.92.

The errors are broken down as follows:

1. Five (5) errors were due to failure to provide safety discounts on motor vehicles with required safety equipment. This constitutes a violation of Section 627.0653, Florida Statutes. These errors resulted in two (2) overcharges totaling \$25.92, which have been refunded by the Company, including interest. The remaining errors generated overcharges under \$5.00 and were waived due to the waiver rule. This error was brought to the Company's attention in the 1997 Examination Report on Page 4. Exhibit I.
2. One (1) error was due to an incorrect premium computation. This constitutes a violation of Section 627.0651, Florida Statutes. This error resulted in an overcharge totaling \$31.00, which has been refunded by the Company.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Southern Group Indemnity, Inc., is a subscriber of Insurance Services Office (ISO) and as such is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Southern Group Indemnity, Inc., is a subscriber of Insurance Services Office (ISO) and as such 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 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	\$ 0	0
1998	\$300,441	317
1999	\$573,945	1,157

The increase from 1998 to 1999 was due to FRPCJUA take-out business.

3. Exam Findings

One hundred (100) policy files were examined.

One hundred-eighteen (118) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$241.92, and two (2) undercharges totaling \$331.00.

The errors are broken down as follows:

1. One hundred (100) errors were due to failure to comply with the requirements of the Consent Order No. 25255-98 filed with the Department by not maintaining copies of Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) policyholder applications, or obtaining new applications within 24 months after business was initially removed from (FRPCJUA). This constitutes a violation of Section 624.418, Florida Statutes.

2. Seventeen (17) errors were due to use of incorrect protection classes. This constitutes a violation of Section 627.062, Florida Statutes. This resulted in one (1) overcharge totaling \$241.92, which has been refunded by the Company, including interest, and one (1) undercharge totaling \$83.00. The remaining fifteen (15) errors did not affect premium.
  
3. One (1) error was due to use of an incorrect territory code for North Miami Beach. This constitutes a violation of Section 627.062, Florida Statutes. This resulted in an undercharge totaling \$248.00.

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 did not affect premium calculations.

The error is described as follows:

1. One (1) error was due to failure to send Form DI4-493, Report of Rescinded Policy, to the Department within 90 days after taking action to void ab initio a private passenger automobile policy. 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.

### A. COMPANY RECEIVED COMPLAINTS

There were no complaints received directly from consumers during the scope of this exam.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
1997 MARKET CONDUCT REPORT PAGE 4	I
CLAIMS HANDLING PROCEDURES	II
COMPLAINT HANDLING PROCEDURES	III