

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

STATE NATIONAL INSURANCE COMPANY, INC.
(STATE NATIONAL INSURANCE COMPANIES)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

File Date: 5/7/02

TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	2
III.	REVIEW OF POLICIES	
A.	PRIVATE PASSENGER AUTOMOBILE	3
IV.	AGENTS/MGA REVIEW	5
V.	CANCELLATIONS/NONRENEWALS REVIEW	6
VI.	CLAIMS REVIEW	7
VII.	COMPLAINTS REVIEW	8
VIII.	INVESTIGATION	9
IX.	PENDING ISSUES	10
X.	EXHIBITS	11

I. INTRODUCTION

State National Insurance Company, Inc. is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1998 through December 1998. This examination began June 4, 2000 and ended July 8, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1994.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1998 through December 1998 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 this examination, \$117,375 will be returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

II. PRE-EXAM REVIEW OF COMPANY'S 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. Error Percentages

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. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

Rate/Rule Filings:

State National Insurance Company, Inc. independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings:

State National Insurance Company, Inc. independently files forms in accordance with Section 627.410, Florida Statutes.

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>
1998	\$ 9,176,047	4,695

3. Exam Findings

Twenty-five (25) policy files were examined.

No errors were found.

IV. AGENTS/MGA REVIEW

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

One (1) error was found.

Errors affecting policy fees resulted in (4,695) overcharges totaling \$117,375.

The error is broken down as follows:

1. One (1) error was due to use of an unappointed MGA (Mobile Home Division of America, Inc.). The company did not appoint the MGA, therefore, the \$25.00 MGA fee charged on appropriately, 4,695 policies within the scope of examination was not in compliance with Section 626.091, Florida Statutes. The Company has had a \$25.00 MGA fee in their rate filing since November 26, 1977. This error resulted in overcharges totaling \$117,375, which has not been refunded by the Company. The company disagrees with the error.

V. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

No errors were found.

VI. CLAIMS REVIEW

Twenty-five (25) claims were examined.

No errors were found.

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

VII. 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 II. The Department of consumer complaints received during the scope of examination were reviewed, and findings are as follows:

Five (5) errors were found.

The errors are broken down as follows:

1. Five (5) errors were due to failure to comply with return of unearned premium requirements. The company failed to return the unearned premium to the finance Company within thirty days of cancellation. This constitutes a violation of Section 627.7283, Florida Statutes.

VIII. INVESTIGATION

The Department conducted an investigation with regard to licensing issues to verify that business was being produced by licensed and appointed agents.

It was determined that policies had been produced by Harry Lamar Orrell, whose license had been revoked by the Department, and processed through the Mobile Home Division of America, Inc. (MHD), acting as a managing general agency on behalf of the Company.

This constitutes a violation of Section 626.112, Florida Statutes.

IX. PENDING ISSUES

The following issues were pending at the conclusion of the examination:

1. The use of an unlicensed\unappointed MGA. The Company was requested to return the MGA Fees charged on policies reviewed within the scope of the exam. The Company has mailed letters to all affected policyholders and is refunding accordingly.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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CLAIMS MANUAL: FLORIDA	I
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COMPLAINT PROCESSING PROCEDURES	II
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