

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SUNSHINE STATE INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 6/22/01

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I. INTRODUCTION

Sunshine State Insurance Company 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 1, 2000 and ended October 28, 2000. This is the first examination of the Company by the Florida Department of Insurance.

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, \$100.87 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

Sunshine State Insurance Company (SSIC) was incorporated under the laws of the State of Florida as a privately held stock property and casualty insurer and commenced business on November 21, 1997. Sunshine State's Home Office is at 814 AIA North, Ponte Vedra Beach, Florida. Sunshine State initially underwrote homeowners policies obtained from the Florida Residential Property and Casualty Joint Underwriting Association in accordance with the Florida Insurance Department's "Market Challenge Program." Pursuant to this program, SSIC assumed over 33,000 policies through 5 separate assumptions from December 1, 1997 through February 28, 1999. During 1998 and 1999, SSIC began expanding its independent agents base and commenced writing homeowners policies on a "voluntary" basis. Today, over 200 independent agencies have been appointed by SSIC to write homeowners in the voluntary market. Originally licensed to write homeowners policies only, Sunshine State's Certificate of Authority was expanded to include the Fire, Allied, Inland Marine and Other Liability lines of business.

B. MANAGEMENT

Sunshine State Holding Corporation (SSHC) owns SSIC 100%. The ownership of SSHC is comprised of the following shareholders: Fenelon Ventures, LLC (15.5%), X. L. Mid Ocean Reinsurance Company, LTD (21.5%), The Seibels Bruce Group, Inc. (21.5%), Risk Capital Reinsurance Company (21.5%), Insurance Group of Brevard (12.3%), and Management (7.9%).

Underwriting, policy processing and customer service are provided to SSIC by Apex Managers, Inc., a managing general agent (MGA) located in Rockledge, Florida. Sunshine State personnel handle all rate and form filings utilizing Insurance Services Office. Computer hardware and software on site at Apex are

owned and maintained by Apex. Sunshine State can access its data in the Apex system on an online basis, as needed.

With regard to Apex's disaster recovery plan, portable backup boxes with Apex application software programs are utilized by designated catastrophe team members in the event of an emergency.

Prior to April 1, 2000, Apex processed claims pursuant to the MGA agreement with SSIC. SSIC claims personnel utilize the Apex claims data processing system to record and adjudicate losses. Apex, in turn, contracted with York Claims Services in the handling of claims for SSIC. York has direct access to the Apex computer system as well as its own Special Investigative Unit whose investigators assist with potential fraudulent claims. On April 1, 2000, SSIC began adjusting claims in-house.

Sunshine State's book of business is reinsured through a 50% Quota Share agreement. Additionally, three layers of catastrophe excess of loss provide coverage up to the 100-year probable maximum loss estimate.

C. OPERATIONS

Sunshine State Insurance Company writes in all areas of the state.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Sunshine State Insurance Company is a member of Insurance Services Office (ISO), and as such ISO 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

Sunshine State Insurance Company is a member 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

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	\$0	0
1998	\$18,902,488	25,617
1999	\$19,424,941	28,326

3. Exam Findings

One hundred (100) policy files were examined.

Seventeen (17) errors were found.

Errors affecting premium resulted in one (1) overcharge totaling \$100.87 and three (3) undercharges totaling \$5,058.00.

The errors are broken down as follows:

1. Two (2) errors were due to use of incorrect territory codes. An incorrect territory code used for Metro Dade County resulted in an overcharge totaling \$100.87, which has been refunded by the Company. The other error resulted in an undercharge of \$934.00. Both errors were also corrected in the subsequent 1999 policy term. This constitutes a violation of Section 627.062, Florida Statutes.
2. Fifteen (15) errors were due to use of incorrect protection class codes. Two (2) errors resulted in undercharges totaling \$4,124.00. Ten (10) of the protection class errors were also corrected in the

1999 and 2000 terms. This constitutes a violation of Section 627.062, Florida Statutes.

V. AGENTS/MGA REVIEW

Ten (10) applications/policies written during the scope of the 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 give the insured the required 90 days notice of nonrenewal for their homeowners policy. This constitutes a violation of Section 627.4133, Florida Statutes.

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 I.

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 II.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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CLAIMS HANDLING PROCEDURES	I
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COMPLAINT HANDLING PROCEDURES	II
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