

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

U.S. SECURITY INSURANCE COMPANY
(KINGSWAY'S FINANCIAL SERVICES)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

U.S Security 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 August 28, 2000 and ended September 29, 2000. The last examination of this insurer by the Florida Department of Insurance was completed in 1996.

The purpose of this market conduct examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included certificates of authority covering the scope of the examination, policies including the application and underwriting file, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, as reflected in the report.

The prior examination, which was completed in 1996, reviewed fifty (50) Private Passenger Automobile policies and underwriting files. This review resulted in fifty (50) errors for failure to display telephone number and purpose on the policy. In the Agent/MGA review, ten (10) applications/policies were reviewed and ten (10) errors were found for failure to display the agent's license number on the application.

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, \$362.50 was returned to insureds 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 was 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

The Company started as a premium finance company, Appcp Finance Corporation (AFC) in 1974 and has since evolved into a holding company, Hamilton Risk Management. Underwriting is done through the independent agency system which brokers business through Insurance Management Services a general agency. Claims and losses are adjusted by Corporate Claim Services. The home office is located in Miami, Florida, and a branch office is located in Orlando, Florida. Hamilton Risk Management has recently been acquired by Kingsways Financial Services of Canada

B. MANAGEMENT

The Company's computer system operates with a IBM AS400 System Model 310 where policy and claims information is stored and managed.

The Company has established a Special Investigation Unit (SIU) whose mission is the protecting of the Company's employees, property and assets. In addition, an extensive Emergency Procedures Plan is provided to all essential employees.

C. OPERATIONS

The Company is actively writing non-standard automobile insurance and Write-Your-Own Federal Flood Insurance. The South Florida office markets in Palm Beach, Broward, Dade and Monroe counties and the Orlando office markets in twenty-five counties from Sarasota to Duval.

A. PRIVIAE PASSANGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

U.S. Security Insurance Company is a subscriber of Insurance Services Office (ISO) and as such ISO is authorized to file rules on the Company's behalf in accordance with Section 627.0651, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

U.S. Security Insurance 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

The 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	\$28,414,257.00	41,714
1998	\$25,155,268.00	36,194
1999	\$16,977,892.00	30,952

3. Exam Findings

Fifty (50) policy files were examined.

No errors were found.

V. AGENTS/MGA REVIEW

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

One (1) error was found.

The error did not affect policy fees.

The error is described as follows:

1. One (1) error was due to failure to appoint the agent. This constitutes a violation of Section 626.112, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Two (2) errors were found.

The errors are broken down as follows:

- 1 One (1) error was due to failure to charge the insured for insurance provided. This error resulted in overreturns totaling \$798.00. This constitutes a violation of Section 626.9541, Florida Statutes.
- 2 One (1) error was due to failure to report an abinitio cancellation to the Department of Insurance as required. This constitutes a violation of Rule 4-167.002, Florida Administrative Code.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Two (2) errors were found.

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

The errors are broken down as follows:

- 1 One (1) error was due to failure to respond to a claims communication within fourteen days. This constitutes a violation of Rule 4-166.024, Florida Administrative Code.
2. One (1) error was due to failure to deny a loss in writing. This constitutes a violation of Rule 4-166.026.

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

A. DOI REFERRALS

<u>Consumer</u>	<u>Violation</u>	<u>Money Returned</u>
Rosado	none	
Clausell	626.877	\$362.50
Trilling Atty	none	
Nieto	none	
Brackert	none	
Walsh	none	

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CLAIMS PROCEDURES	I
COMPLAINT PROCEDURES	II
MEMO REGARDING CLASS ACTION SUIT	III