

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

VANGUARD FIRE & CASUALTY COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 1/03/03

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I. INTRODUCTION

Vanguard Fire and Casualty Insurance Company (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, January 1999 to October 2000. The examination began November 26, 2000 and ended December 16, 2000. There has been no prior market conduct examination, of this insurer by the Florida Department of Insurance.

The purpose of this target examination was to determine compliance with Florida Insurance Statutes and Rules.

During this examination, records reviewed included homeowners, dwelling fire policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1999 through October 2000, 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 advised 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.

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. 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

Vanguard Fire and Casualty Insurance Company initially began operations as Professional Protective Insurance Company on January 1, 1999, with the assumption of approximately 13,600 homeowners and dwelling fire policies from the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA). The Company assumed the unearned premium from the FRPCJUA and bore the risk of the related losses incurred subsequent to the date of assumption.

The Company adopted its current name on June 1, 2000. The Company's website can be accessed at www.vanguardfire-casualty.com.

The Company's Home Office is located at 2105 Park Avenue North, Winter Park, Florida 32789.

B. MANAGEMENT

The Company currently underwrites business in Florida through one Managing General Agent (MGA), Southeast Insurance Solutions, Inc. The Managing General Agency markets policies through the independent agency system. The Company contracts with Policy Management System Corporation (PMSC) for policy administration.

The Company has contracted with Crawford and Company in Sarasota, Florida, for all claims adjusting services.

The Company has a written Disaster Preparedness and Recovery Plan and a Disaster Committee.

Policy issuance and maintenance functions are performed on a Point software system supported by an AS/400 hardware platform. All system services are provided by PMSC.

The Company contracts with Crawford and Company to provide Special Investigative Unit services.

The Company's internal audit procedures consist of quarterly system queries to check for a variety of possible errors. In addition, a small selection of new business applications are pulled monthly and verified for accuracy.

C. OPERATIONS

Vanguard Fire and Casualty Insurance Company currently writes homeowners, dwelling fire and personal liability policies throughout the State of Florida including the coastal areas.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Vanguard Fire and Casualty Insurance Company currently uses rules/rates filed under the name Professional Protective Insurance Company in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Vanguard Fire and Casualty Insurance Company is a member of Insurance Service 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 is currently using some forms filed under the name of Professional Protective Insurance Company.

c. Statistical Affiliation

ISO 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>
1999	10,685,679	10,834
2000	3,507,565	12,356

The data for 2000 is through June 30, 2000.

3. Exam Findings

Fifty (50) policy files were examined.

Sixteen (16) errors were found.

Errors affecting premium resulted in fourteen (14) overcharges.

The errors are broken down as follows:

1. Fourteen (14) errors were due to use of an unfiled rating plan. This constitutes a violation of Section 627.062, Florida Statutes. The Company applied an unfiled Florida Hurricane Cat Fund Recoupment Surcharge. These errors resulted in overcharges totaling \$2,396.00 on 14 of the 50 policies reviewed. A rerate of this line was requested to address the unfiled surcharge (Exhibit I.). As of December 11, 2000, the number of policies affected was approximately 8,023 with a total of \$1,281,019 being overcharged to consumers. The refund of these overcharges has been addressed by Consent Order 43537-01 CO.

2. One (1) error was due to the Company's failure to file a name change endorsement to be utilized on Professional Protective Insurance Company business until Vanguard forms were filed. This constitutes a violation of Section 627.410, Florida Statutes.

3. One (1) error was due to the Company's use of an unfiled Declarations Page. The Company changed the form filed by Professional Protective Insurance Company to incorporate its name without submitting such change to the Department for approval. This constitutes a violation of Section 627.410, Florida Statutes.

B. DWELLING FIRE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Vanguard Fire and Casualty Insurance Company currently uses rules/rates filed under the name Professional Protective Insurance Company in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Vanguard Fire and Casualty Insurance Company is a member of 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 is currently using some forms filed under the name Professional Protective Insurance Company.

c. Statistical Affiliation

ISO 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>
1999	639,448	1,314
2000	152,570	1,326

The data for 2000 is through June 30, 2000.

3. Exam Findings

Twenty-five (25) policy files were examined.

Five (5) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$360.00.

The errors are broken down as follows:

1. Three (3) errors were due to use of an unfiled rating plan. This constitutes a violation of Section 627.062, Florida Statutes. The Company applied an unfiled Florida Hurricane Cat Fund Recoupment Surcharge. These errors resulted in overcharges totaling \$360.00 on three of the twenty-five policies reviewed. A rerate of this line was requested to address the unfiled surcharge (Exhibit II). As of December 11, 2000, the number of policies affected was approximately 917 with a total of \$78,865.00 being overcharged to consumers. The refund of these overcharges has been addressed by Consent Order 43537-01-CO.
2. One (1) error was due to the Company's failure to file a name change endorsement to be utilized on Professional Protective Insurance Company business until Vanguard forms were filed. This constitutes a violation of Section 627.410, Florida Statutes.
3. One (1) error was due to the Company's use of an unfiled Declarations Page. The Company changed the form filed by Professional Protective Insurance Company to incorporate its name

without submitting such change to the Department for approval.
This constitutes a violation of Section 627.410, Florida Statutes.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

The Company intended to nonrenew 304 policies in an effort to reduce its hurricane exposure. This act was in conflict with Consent Order 26779-98C, which prohibits the nonrenewal of any policy due to reduction of the Company's hurricane exposure (Exhibit IV). Two hundred seventy (270) nonrenewal notices were rescinded without being sent to insureds. The remaining thirty-four (34) notices were sent to the insureds and policies were nonrenewed.

Fifty (50) of the rescinded notices were reviewed to verify that the policies were, in fact, renewed.

No errors were found.

Seventy-one (71) cancelled/nonrenewed policies were examined.

Ninety (90) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Thirty-four (34) errors were due to failure to follow the requirements of the Consent Order. This constitutes a violation of Section 624.418, Florida Statutes. The Company nonrenewed policies in an attempt to reduce its hurricane exposure.
2. Thirty-four (34) errors were due to failure to provide timely notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.
3. Twenty-two (22) errors were due to failure to provide a specific reason for cancellation or nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes.

VII. 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 V.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has not 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 VI. Consumer complaints received during the scope of examination were reviewed, and findings are as follows:

1. One (1) error was due to failure to comply with the unfair trade practice statute. This constitutes a violation of Section 626.9541, Florida Statutes. The Company did not maintain a complete record of complaints received as the complaint log was missing complaints sent by the Florida Insurance Department.

IX. PENDING ISSUES

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

Documentation of all refunds is to be provided to the Florida Department of Insurance within 90 days of the execution of the Consent Order for this examination.

1. Homeowners Section – The Company should file all forms used in providing coverage.
2. Dwelling Fire Section – The Company should file all forms used in providing coverage.

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
HOMEOWNERS RERATE	I
DWELLING FIRE RERATE	II
CONSENT ORDER NUMBER 26779-98C	III
CLAIMS HANDLING PROCEDURES	IV
COMPLAINT HANDLING PROCEDURES	V