

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

DESOTO INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 3/8/02

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I. INTRODUCTION

DeSoto Insurance Company (Company) is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, October 2000 through May 2001. This examination began June 3, 2001 and ended June 30, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded September 30, 2000.

The prior examination report included the review of dwelling fire and homeowners policies. Violations cited included use of incorrect territories and protection classes, rounding errors, use of incorrect rating factors, use of unfiled rates, failure to apply loss free credits and allowing incorrect or improper credits.

The purpose of this examination was to determine if errors found in the prior examination had been corrected.

During this examination, records reviewed included dwelling fire, homeowners policies, for the period of October 2000 through May 2001, 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, \$264.77 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

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. Inasmuch as DeSoto Insurance Company is a special purpose homeowners insurer, the Consent Order No. 21703-97-C was also reviewed.

No errors were found.

III. COMPANY OPERATIONS / MANAGEMENT

A. PROFILE

On December 12, 1997, DeSoto Insurance Company received its Certificate of Authority from the Florida Department of Insurance and commenced operations as a special purpose homeowners insurance company. In 1998, DeSoto entered into two portfolio assumption agreements with the Florida Residential Property and Casualty Association (FRPCJUA). The first ASSUMPTION consisted of homeowners and the second consisted of dwelling fire. Under these agreements, DeSoto assumed the unearned premium from the FRPCJUA and agreed to bear the risk of the related losses incurred subsequent to the date of assumption. Also during 1998, DeSoto entered into a replacement carrier agreement with CIGNA. Under this agreement, DeSoto made an offer of coverage to the CIGNA policyholders to replace the coverage that was being nonrenewed by CIGNA.

Upon assumption of the portfolio of policies from the FRPCJUA, the agent of record for all policies was changed to Robert Louis Ricker (Paget Insurance Agency), an affiliate. The Paget Insurance Agency is located within the offices of DeSoto Insurance Company. The Company's Managing General Agent, Pembroke Managing Agents, Inc. is also located within the offices of DeSoto Insurance Company. The Company's home office is located at 2473 Care Dr., Suite 201, Tallahassee, Florida 32308.

The Company's website can be accessed at www.desotoin.com.

B. MANAGEMENT

The Company relies on a managing general agent (MGA) to provide underwriting, production, marketing, policy issuance, premium billing and collection, premium accounting, claims adjusting and various other services. The MGA subcontracts the policy administration and claims administration functions to third party servicing providers. Apex Managers, Inc., 375 Commerce Parkway, Rockledge, Florida, was the outsource provider from March 1, 1998 to July 31, 1999 and INSpire Insurance Solutions, 300 Burnett Street, Ft. Worth, Texas, was the outsource provider from August 1, 1999 to present for JUA take-out policies and April 1, 1999 to present for CIGNA keep-out policies.

The Company also utilizes the services of an outside vendor for issuing payroll.

Claims are handled internally and are outsourced as necessary to multiple independent adjusting companies.

The Company's computer system has a corporate network based on a modern, PC-based, Client Server, Windows NT architecture for running corporate operations.

DeSoto Insurance Company has no internal operating Special Investigative Unit (SIU) staff members, but uses Facticon, Inc., to fulfill state requirement as outlined in Section 626.9891, Florida Statutes.

DeSoto Insurance Company has developed a Catastrophe (CAT) Plan. The CAT Plan addresses three basic phases; initial, sustaining and close down.

DeSoto Insurance Company does maintain internal audit procedures. Outsourced providers Apex, INSpire and independent adjusting firms also maintain procedures. All vendors are contractually required to perform annual internal audits. InSpire has an annual Quality Control Self Audit as well as an annual internal Statement Of Auditing Standards (SAS) perform by Ernest & Young. Adjusting firms have continuous audits of files as well as annual internal audits.

C. OPERATIONS

DeSoto Insurance Company is a special purpose homeowners company and the portfolio of homeowners and dwelling fire policies assumed from the FRPCJUA includes risks located throughout the state including the coastal areas. DeSoto Insurance Company continues to explore opportunities for portfolio assumptions and the possibility of participating in the FRPCJUA Take-Out Program.

IV. REVIEW OF POLICIES

A. DWELLING FIRE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

DeSoto Insurance Company is a subscriber 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

DeSoto Insurance Company 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

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>
2000	\$691,543	1,368
*2001	\$251,808	1,140

*As of May 2001

3. Exam Findings

Fifty-two (52) policy files were examined.

Twenty-two (22) errors were found.

Errors affecting premium resulted in fourteen (14) overcharges totaling \$128.77 and two (2) undercharges totaling \$18.00. In addition, an estimated \$10,285 will be refunded by the Company due to overcharges of premium.

The errors are broken down as follows:

1. Five (5) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect protection classes. There were no premium changes due to these errors.
2. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used and incorrect territory. There were no premium changes due to these errors.
3. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company failed to allow the ACV Roof Endorsement (DIC 30 4 98). This error generated an overcharge of \$3.77 that was not refunded due to the \$5.00 waiver rule. The Company was directed and has agreed to take immediate measures to ensure that the ACV Roof Endorsement is applied in compliance with the filed and approved underwriting rule. Exhibit I. See Pending Issues Section.
4. Fifteen (15) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company failed to allow

the correct loss free credit at renewal. These errors resulted in overcharges totaling \$128.77, which have been refunded by the Company. The Company is directed to rerate this line of business for the scope of the examination to determine which policies were not provided the loss free credit upon renewals, and refund the overcharges and provide documentation to the Department Of Insurance of the monetary impact of the rerate within 90 days of receipt of this examination report to the Department of Insurance. This violation was also found in the 2000 Examination, Page 9, Exhibit II. See Pending Issues Section.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

DeSoto Insurance Company is a subscriber of Insurance Service 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

DeSoto Insurance Company is a subscriber 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 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>
2000	\$11,786,613	19,176
*2001	\$ 3,016,217	15,360

*As of May2001

3. Exam Findings

Fifty (50) policy files were examined.

Twenty-eight (28) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$136.00 and one (1) net undercharge totaling \$589.00. In addition, an estimated \$185,460.00 will be returned due to overcharges of premium.

The errors are broken down as follows:

1. Six (6) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The company used incorrect protection classes. One (1) of these errors resulted in an overcharge totaling \$2.00, which has been refunded by the

Company. The same policy generated an undercharge totaling \$591.00.

2. Three (3) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company failed to apply the loss free credit to eligible risks. These errors resulted in overcharges totaling \$71.00, which have been refunded by the Company. The Company is directed to rerate this line of business for the scope of the examination to determine which policies were not provided the loss free credit upon renewal, refund the overcharges and provide documentation of the monetary impact of the rerate within 90 days of receipt of this examination report to the Department of Insurance. This violation was also found in the 2000 Examination, Page 12. See Pending Issues Section.
3. One (1) error was due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company failed to apply the filed new home credit. This error resulted in an overcharge totaling \$65.00, which has been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
4. Eighteen (18) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company failed to allow the filed ACV Roof endorsement.

V. PENDING ISSUES

The following issues were pending at the conclusion of the field work:

DWELLING FIRE

1. The Company was directed and agreed to do a complete review of this line to ensure that the ACV Roof Endorsement is attached to those policies that qualifies to comply with the filed and approved underwriting rules.
2. The Company is directed to rerate this line of business for the scope of the examination to determine which policies were not provided the loss free credit upon renewal, refund the overcharges and provide documentation of the monetary impact of the rerate within 90 days of this examination report to the Department of Insurance. The estimated refund is \$10,285.

HOMEOWNERS

1. The Company is directed to rerate this line of business for the scope of the examination to determine which policies were not provided the loss free credit upon renewal, refund the overcharges and provide documentation of the monetary impact of the rerate within 90 days of this examination report to the Department of Insurance. The estimated refund is \$185,460.

VI. EXHIBITS

SUBJECT _____ EXHIBIT NUMBER

MEMO – ACV ROOF ENDORSEMENT

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