

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

FIRST COMMUNITY INSURANCE COMPANY
(BANKERS INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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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.	COMPANY OPERATIONS/MANAGEMENT	3
IV.	REVIEW OF POLICIES	
	A. PERSONAL INLAND MARINE	9
	B. EXCESS FLOOD	11
V.	AGENTS/MGA REVIEW	13
VI.	CANCELLATIONS/NONRENEWALS REVIEW	14
VII.	CLAIMS REVIEW	15
VIII.	COMPLAINTS REVIEW	16
IX.	EXHIBITS	17

I. INTRODUCTION

First Community Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1996 through December 1998. The examination began July 3, 2000 and ended August 26, 2000. The last examination of this insurer was completed in 1996.

The purpose of this target examination was to verify compliance with Florida Statutes and Rules, specifically addressing areas of noncompliance found in the 1996 examination.

The 1996 examination produced the following: Inland Marine Review errors due to the use of unfiled forms and errors for failure to display telephone number and purpose on policy/certificate; Agent/MGA Review errors were due to failure to use licensed agents; Cancellation/Nonrenewal Review errors were due to failure to provide specific reason for cancellation, errors were due to failure to provide proof of mailing, and errors were due to failure to provide notice of cancellation.

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 1996 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.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificates of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Examination 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

First Community Insurance Company has been a mono-line property and casualty insurance company since 1971. In 1993, the Company's domicile state, New York, approved expansion of its lines to allow it to become a multi-line company in conjunction with its acquisition by Bankers Insurance Group, Inc.

First Community Insurance Company's home office is located in St. Petersburg, Florida. The Company's core book of business is comprised of bail bonds, contract surety and commercial lines. In 1998, the Company expanded its product offerings to include personal lines.

Claims adjusting is outsourced to Insurance Management Solutions Group. However, some products are adjusted by Company adjusters and/or independent adjusters as deemed necessary.

B. Management

1. Fraud

a. Internal Fraud

Applications and endorsements are completed by computer. This system requires completion of appropriate fields of information before it will process the application/endorsement. As the system detects exceptions, reviews are completed on those applications that warrant follow-up.

Applications are reviewed when a claim is reported within the first three months of the policy. Applications are reviewed when a claim is presented and there are inconsistencies between the policy and claim files. All SIU reporting is done on a diary system that restricts access to SIU members and management only. Internal audits and payment verifications are performed regularly by our internal audit department. These processes are designed to detect and deter internal fraud. The findings are reported in claims management and corporate auditing. Periodic audits designed to identify repeat claims or unusual number of claims involving the same employee and outside party are conducted.

b. External Fraud

All injury claims are reported to the Index System. All property claims are reported to the Property Insurance Loss Register. All reported claims are monitored for “fraud indicators” as claims personnel process them. Pending claims are reviewed for fraud indicators by claims management at their normal review times. When closed claims are reviewed to assess propriety of handling, fraud indicators are a part of that review. Weekly audits are run for the entire Claims Department which sweep information from the policy files and newly reported claim files. The audits produce a listing of those new claims that have indicators that need to be explored. Those files are reviewed weekly by claims management. When sufficient fraud indicators are present and unexplained, the claim is transferred to the Special Investigation Unit. Period audits are secured denoting Attorney/medical provider combinations. This is monitored by SIU to spot unusual volume of cases or patterns of activity.

c. program/Application Access (Security)

Access to First Community Insurance Company's applications and data requires a valid user ID issued from the IS Department. To receive access, an associate must complete a Security Request Form. This form must be signed by the associate's supervisor in order to validate access requests and must explicitly list all required access. A valid Security Request Form is required for all new access, additions or changes to an existing user ID and deletions of user ID's that are no longer valid. Changes to any user's access will not be completed without a valid Security Request Form. This policy applies to all platforms upon which Bankers' data or other proprietary information is maintained.

Passwords are used in conjunction with a valid user ID. The Company reserves the right to bypass password protection at any level at its discretion. In order to adequately secure Company files, programs, applications and data, recommended guidelines governing access passwords have been established.

Access to the Data Center areas that are secured (Computer Room, Operations Area, Telecommunications Area, Print Room, Network Engineering Are, etc.) is limited to Authorized and Company Maintenance/Facilities personnel only.

Authorized personnel must use security badges to access this area. All visitors required to be in the Data Center for any reason must be escorted at all times by an authorized person. Visitors must sign in

Upon entering the Data Center and must sign out upon exiting.
The term “visitor” denotes any person identified by the Operations Supervisor as having a legitimate business need to be in one of the secure Data Center areas.

2. Disaster Recovery

This plan will be activated should destruction of the building occupied by Bankers Insurance Group, 360 Central Avenue, St. Petersburg, Florida, 33701, be sufficient enough to render it unusable to conduct normal business for a reasonable period of time (as determined by the extent of the destruction) or specifically, should the Data Center be destroyed. The plan manages overall corporate recovery directing activities necessary to restore and continue critical business functions (claims, cash office, customer services). Individual departments will activate their own area-specific plans. Recovery from partial destruction can also be achieved by use of, or a portion of, this plan.

a. Disaster Declaration

A disaster will be declared and processing will move to the recovery site as soon as any Data Center processing outage is known or expected to exceed 72 hours.

b. Notification

All individuals on the Emergency Contact List in the Appendix section must be informed as soon as possible.

c. External Communication

Following a disaster declaration communication with press and customers is limited to designated associates.

The above information is the property of Bankers Insurance Group and contains confidential, proprietary information for use by Bankers Insurance Group only. Unauthorized use or disclosure of the information contained herein is strictly prohibited.

3. Audit

Audit Services is an independent appraisal activity that examines and evaluates the activities of the Company as a services to management. Audit services through a systemic audit and review process examines and evaluates the adequacy and effectiveness of system of internal control and the quality of performance in carrying out assigned responsibilities. The scope of Audit Services activities include:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies , plans, procedures, laws, and regulations that could have a significant impact on operations and reports and whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.

- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

The Three-Year Audit Plan has been designed to assist the Audit Services in scheduling audit projects and setting forth a budget for hours to be spent in each operational/functional area. The plan was developed through the use of risk analysis techniques to ensure that a proper allocation of hours is spent in each area based on financial, operational and compliance related risk.

C. Operations

Products are marketed throughout the entire state of Florida through standard agencies that offer multiple lines of insurance. The Lensurance product is marketed directly to consumers through their health care professional. First Community Insurance Company also markets the National Flood Insurance Program (NFIP) throughout all fifty (50) states.

IV. REVIW OF POLICIES

A. PERSONAL INLAND MARINE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

First Community Insurance Company did not file rules/rates in accordance with Section 627.062, Florida Statutes, for the scope of examination.

b. Form Filings

First Community Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

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>
1996	\$119,702	2,237
1997	\$ 53,513	1,791
1998	\$ 18,671	759

3. Examination Findings

One hundred (100) policy files were examined.

One hundred (100) errors were found

None of the errors affected premium.

The errors are broken down as follows:

1. One hundred (100) errors were due to use of unfiled rating plans, rating schedules or rating rules. This constitutes a violation of Section 627.062, Florida Statutes.

B. EXCESS FLOOD

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

First Community Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

First Community Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

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>
1996	\$ 696,777	1,760
1997	\$1,748,007	4,477
1998	\$ 931,904	2,767

3. Examination Findings

Fifty (50) policy files were examined.

No errors were found.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Eighteen (18) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Four (4) errors were due to use of unlicensed agents. This error occurred in the 1995 Examination, Page 4. Exhibit I. This constitutes a violation of Section 626.112, Florida Statutes.
2. Four (4) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.
3. Ten (10) errors were due to failure to have policies or contracts issued by or through, and countersigned by, a local producing agent. This constitutes a violation of Section 624.425, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Thirty-two (32) cancelled/nonrenewed policies were examined.

No errors were found.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Fifty (50) errors were found.

None of the errors affected payments.

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

The errors are broken down as follows:

- 1 Fifty (50) errors were due to use of unlicensed/unappointed adjusters. This constitutes a violation of Section 626.864, Florida Statutes.

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 IV.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
1995 EXAMINATION, PAGE 4	I
NOTIFICATION LETTER FROM COMPANY	II
CLAIMS HANDLING PROCEDURES	III
COMPLAINT HANDLING PROCEDURES	IV