

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

Florida Citrus, Business & Industries Fund (Fund) is a Self Insurance Fund licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was April 1999 through April 2001. The examination began July 8, 2001 and ended July 21, 2001. The last property and casualty examination of this insurer, by the Florida Department of Insurance, was concluded September 28, 1996.

The prior examination report included the review of workers' compensation policies, which is the only line the Fund is authorized to write. Violations cited included failure to affix the risk identification number to the policy, failure to attach the forms and edition dates to the policies and failure to include the insurer's telephone number and its purpose as required.

The purpose of the current examination was to determine if violations found in the prior examination were corrected and to evaluate the ability of the Fund to manage the current volume of policies written.

During this examination, records reviewed included workers' compensation policies, cancellations/nonrenewals, agent/MGA licensing, and consumer complaints for the period of April 1999 through April 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 Fund 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 Fund in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, \$761.00 was returned to Florida consumers due to overcharges of premium.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority, which is continuous, was reviewed for the scope of the examination. Exhibit I.

2. Exam Findings

The review included verification of the lines of business the Fund 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

On April 1, 1977, the Fund was approved by the Department to function as a Group Self Insurance Fund under the name of Citrus Self-Insurance Fund. The Fund was created to write workers' compensation insurance, primarily citrus packing and related agriculture businesses. On November 4, 1998, the Fund entered into an agreement with the Florida United Businesses Association, Inc. (FUBA), to administrate the Fund, at which time the Fund changed its name to Florida Citrus Business & Industries Fund. FUBA is a not-for-profit trade association headquartered in Tallahassee, Florida, representing small and medium size businesses.

Effective June 1, 2001, the Fund moved its headquarters from Lakeland, Florida into the building that houses the FUBA offices in Tallahassee, Florida.

Effective July 1, 2000, the Fund entered into an agreement with United Self-Insurance Services (USIS), based in Orlando, Florida, to provide all claims administration and claim handling services for the Fund.

Effective November 4, 1998, the Fund entered into an agreement with United Association Services, Inc. (UAS), a licensed Managing General Agent (MGA), under which UAS performs all underwriting, policy services and marketing activities of the Fund for a fixed fee. The Fund uses the independent agency system.

The Funds website address can be accessed at: www.CSIF@aol.com.

B. MANAGEMENT

The Fund's Administrator is James Emerson and the Fund's Chief Financial Officer is Sam Oswald, a licensed CPA. The Fund has no other employees.

For policy service, accounting and underwriting, the Fund operates a Compaq Proliant 800 server. The system is also backed up on a daily basis through an internal tape drive with backup submitted through BackupExec software. For claims, the Fund is on-line with the claims handling and policy services system owned by its service company, USIS, in Orlando, Florida.

The Fund has developed a Catastrophe Plan which addresses three phases; initial, sustaining and close down.

The Fund maintains internal audit procedures. An outside accounting firm performs an internal audit review of the Fund's operation as part of its normal audit process. In addition, the Fund's policy service staff reconciles all cash receipts and bank deposits with the Fund's bank statements on a regular basis. All of the Fund's investments are managed and maintained by a third party vendor, Salem Trust Company.

A copy of USIS's internal procedures for fraud investigations is included as Exhibit IV of this report.

C. OPERATIONS

The Fund writes only workers' compensation coverage to employers located in the State. The Fund provides coverage statewide and does not concentrate its marketing efforts to any particular area of the State.

The Fund operates on a fiscal year basis from 12:01 a.m., April 1, to midnight of March 31, of the following year. All of the Fund's policies are anniversary-rated to have a common effective date of April 1.

Prior to the partnership with FUBA, the Fund wrote business directly on businesses engaged in the citrus and agriculture industry. With the agreement with FUBA, the Fund is now writing a broader range of general business, including retail establishments, light construction and service businesses. Business is now being marketed and produced throughout the State by independent agents. Due to the Fund's affiliation with FUBU, the policy production has increased in response to the broaden marketing plan. The increased volume of business appears to be processed in accordance with Florida Statutes except as noted in this report.

A copy of the Fund's Indemnity Agreement and minutes of the last two board meetings is included as Exhibits II and III of this report.

IV. REVIEW OF POLICIES

A. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Florida Citrus, Business & Industries Fund is a group self insurance fund pursuant to Rule 4-190 of the Florida Administrative Code (FAC). The Fund is a member of the National Council on Compensation Insurance (NCCI) and as such uses this organization's rules, rates and forms. The NCCI acts as statistical agent for this line of business.

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	\$3,849,434	198
*2000	\$4,239,592	473
*2001	\$4,617,606	606

* fiscal year as of March 31

b. Error Percentages

Fifty (50) policies and audits were examined.

Eighty-three (83) errors were found.

Errors affecting premium resulted in (1) overcharge totaling \$761.00.

The errors are broken down as follows:

1. Fifty (50) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.191, Florida Statutes. The Company failed to offer the mandatory \$2,500 deductible to insureds.
2. Twenty-seven (27) errors were due to failure to timely provide the policy renewal notice. This constitutes a violation of Section 627.4133, Florida Statutes.
3. Six (6) errors were due to failure to follow the filed rating plan, rating rule or rating schedule. This constitutes a violation of Section 627.191, Florida Statutes. The Fund failed to offer the Florida Contracting Classification Premium Adjustment Credit to those classifications that qualified.

2. Unit Statistical Review

The review of statistical cards is for the purpose of verifying that premium and claim statistics are properly reported to the NCCI. Workers' Compensation statistics are utilized in the rate making process when rate filings are presented to the Department of Insurance for consideration, as well as, in the development of experience modification factors on individual risks.

a. Audit Comparison

Forty (40) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Twenty-five (25) claim statistical cards were examined.

No errors were found.

V. AGENTS/MGA REVIEW

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

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-two (22) 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 specific reason for cancellation/nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.

VII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Fund 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 Fund. Complaint handling procedures are described in Exhibit V.

No complaints were received by the Fund during the scope of this examination.

VIII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
CERTIFICATE OF AUTHORITY	I
INDEMNITY AGREEMENT	II
MUNITES	III
ANTI-FRAUD PROCEDURES	IV
COMPLAINT HANDLING PROCEDURE	V