

FLORIDA DEPARTMENT OF INSURANCE
DIVISION OF INSURER SERVICES
BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY AND MARKET CONDUCT
MARKET CONDUCT SECTION

TARGET MARKET CONDUCT REPORT
OF
JMIC LIFE INSURANCE COMPANY, INC.
AS OF
DECEMBER 31, 2000

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May 16, 2005

Honorable Tom Gallagher
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, FL 32390-0300

Dear Commissioner Gallagher:

Pursuant to the provisions of Section 624.3161, Florida Statutes, and in accordance with the Agreement for Market Conduct Services dated June 8, 2001, a Target Market Conduct Examination has been performed on:

JMIC Life Insurance Company
500 NW 12th Avenue
Deerfield Beach, FL 33442

The examination was conducted at the Company's main administrative office in Deerfield Beach, Florida. The report of such examination is herein respectfully submitted.

Sincerely,

Debora Finn, AIE, FLMI
Independent Contract Analyst

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Executive Summary

Introduction

The Department selected JMIC Life Insurance Company (“JMIC” or “Company”) for a targeted market conduct examination due to complaints relating to the cancellation of credit life and credit disability policies, and the return of premium associated with these cancellations. The Department received 22 complaints for this company in 1999 and 16 complaints in 2000. JMIC is a Florida domestic company with home offices in Deerfield Beach, FL, and in 2000, wrote more premium in Florida than any other state.

The Sales Structure

The Company sells a group master policy to appointed dealerships, who in turn sell individual credit life and credit disability insurance to consumers who purchase automobiles. Due to this arrangement, JMIC relies on the automobile dealer/insurance agent to collect premiums, remit payment, and handle complaints and requests for cancellations. Although this type of insurance is optional for those purchasing automobile insurance, the commission structure is such that it provides an incentive for automobile dealerships to encourage car-buyers to purchase this insurance --- commission rates as high as 50% of premium for credit life and 47% of premium for disability life.

Cancellations / Return of Unearned Premium

After reviewing the complaint logs, the examiner determined that the primary reason for complaints was due to delays in processing cancellations, and returning the associated unearned premium.

Because JMIC’s policies are purchased in conjunction with an automobile sale, the nature of cancellations is very different from more traditional types of insurance. Only 27% of JMIC’s requests for cancellation are directly due to individuals wanting to terminate coverage prior to full ownership of the vehicle. Repossession of the car accounts for 33% of the cancellations while early pay-off of the vehicle also accounts for 33% of the cancellations. Despite the diversity of cancellation modes, the Company generally does

well in processing cancellation requests --- 93% of the cancellation requests requiring unearned premium are processed within 60 days.

However, there are some notable exceptions. A few cancellations took exceptionally long to process generating complaints to the Department --- JMIC Complaint No. 00.07 (214 days), JMIC Complaint No. 00.11 (460 days), and JMIC Complaint No. 00.12 (70 days). The company also has some record keeping problems, as JMIC could only retrieve 80 of the 100 sampled cancellation notices during the examination.

Other Issues

The examiner also reviewed other areas including claims handling and claims denials. According to the sample, the company paid 92% of its claims within 60 days, and 85% of its claims within 45 days. Although not cited as a violation, this would be beyond the acceptable error ratios as established by the NAIC. However, the statute that establishes the 45 day standard for late claims payments, Section 627.613(2), specifically excludes group disability and group life policies.

Conclusion

This report does not cite JMIC for many violations under the Florida Statutes or Administrative Code as the Company is generally in compliance with areas that were reviewed. The examiner does note some problems in the return of unearned premium and late claims payments, which could be contributing to complaints received by the Department. However, the examiner determined that JMIC's high complaint ratios relative to other companies could be due to the nature of the business, specifically that credit life and credit disability policies have low premium amounts per customer.

The examiner does cite the Company in violation of records retention laws, and does make recommendations to improve the Company's oversight of the automobile dealers' record-keeping for insurance purposes.

Scope of Examination

The Florida Department of Insurance (Department) conducted a limited scope market conduct examination of JMIC Life Insurance Company, hereinafter referred to as JMIC or the Company. Independent contract analyst, Debora Finn, AIE, FLMI, conducted the examination pursuant to §624.3161, Florida Statutes.

This examination was conducted at the administrative offices of JMIC located at 500 NW 12th Avenue, Deerfield Beach, FL 33442. The examination commenced on June 11, 2001 and concluded on July 27, 2001.

The purpose of this examination was to determine if the practices and procedures used by JMIC to administer in-force credit life and credit disability certificates sold in Florida, conformed to the Florida Statutes and the Florida Administrative Code.

The survey period was January 1, 1999 through December 31, 2000, and included an additional review of disability claims that remained open beyond December 31, 2000.

The primary areas reviewed were:

- Notices of Cancellation and Premium Refunds;
- Claim Denials;
- Claim Handling; and
- Consumer Complaint Handling.

Procedures and conduct of the examination were in accordance with the Department's Field Examination Guidelines and the National Association of Insurance Commissioners (NAIC) Market Conduct Examiners Handbook. The NAIC handbook standards of a seven percent (7%) error factor for claim resolution procedures and a ten percent (10%) error factor for other procedures were given consideration and applied where applicable.

Introduction

History

JMIC Life Insurance Company was incorporated under the laws of the State of Arizona on April 16, 1979 and commenced business on June 1, 1979. JMIC redomesticated to Florida on December 31, 1986. JMIC is a wholly owned subsidiary of JM Family Enterprises, Inc., (JMFE). JMFE is a holding company domiciled in Delaware whose holdings consist of a variety of automotive related subsidiaries.

Certificate of Authority

The Company is authorized to write the following lines of business in the State of Florida:

- Credit Life and Health; and
- Credit Disability.

JMIC is licensed in 40 states. Premiums written by JMIC in Florida during calendar years 1999 and 2000 are listed in the table below.

Year	Life Premiums	Accident and Health Premiums
1999	\$6,140,994	\$4,943,562
2000	\$6,452,680	\$5,165,165

The business written in Florida is classified as Group Credit Life and Group Credit Disability insurance.

The insurance is marketed as a point of sale product by automobile dealerships having an insurance agency license and an active appointment by JMIC. JMIC enters into a group master policy with all appointed dealerships. The dealership processes vehicle loan applications, which include any insurance coverage applied for by the purchaser of the vehicle, and submits the information to the creditor. The creditor remits the loan proceeds including any insurance premiums to the dealer. The dealer then remits the insurance proceeds (less commissions) to JMIC by the 10th of each month. The commission rate is 50 percent for credit life certificates and 47 percent for credit disability certificates.

The credit life and disability coverage is optional and not required to obtain a vehicle loan. Proper disclosures were noted on loan documents, as well as on the insurance application. Coverage can be cancelled by the insured at any time. JMIC does not medically underwrite coverage, however the policy application does contain a Health Statement that must be signed by the insured. During the first 2 years after the effective date of the policy, JMIC can deny a claim if it is discovered the applicant misrepresented their health at the time they applied for coverage.

Notice of Cancellations and Premium Refunds

The examiner conducted a review of cancellations and premium refunds to determine if the Company promptly returned the correct amount of unearned premiums to the creditor or policyholder in accordance with §4-163.003, Florida Administrative Code, which reads in part:

(1) Group Credit Life insurance and Group Credit Disability insurance – if through prepayment, renewal or refinancing the indebtedness is discharged prior to its scheduled maturity date, and the insurance coverage is thereby automatically terminated, the return of any unearned premium shall be paid promptly or credited to the person entitled thereto.

Examination procedures included tests on a random sample of 100 cancelled certificates. The sample was extracted from a data file of 9,041 certificates cancelled during calendar years 1999 and 2000. The reasons listed for cancelled certificates were as follows:

- Repossessions (33%);
- Early Payoff (33%);
- Insured Request (27%);
- Flat Cancel (5%); and
- Claim Related Refunds (2%).

Procedures used by JMIC to cancel certificates and refund unearned premiums for the reasons listed are narrated below.

Repossessions - Creditors typically notify both the insured and the automobile dealership when a vehicle has been repossessed. Repossession triggers cancellation of credit insurance and results in a refund of unearned premium. The cancellation date is the date of repossession. Upon receiving notice of repossession, the dealership processes the full refund of unearned premium to the creditor. The dealer reports cancellations to JMIC by the 10th of each month. Upon receipt of the dealer's monthly report, JMIC cancels the certificate and processes a refund less commissions, to the dealership account.

Early Payoff - Loans paid off early typically result in the creditor notifying the insured the loan has been paid-off early and that credit insurance should be cancelled. The cancellation date is the date of the loan pre-payment. Upon notification from the insured, the dealer processes the full refund of unearned premium to the insured. The dealer reports cancellations to JMIC by the 10th of each month. Upon receipt of the dealer's monthly report, JMIC cancels the certificate and processes a refund less commissions, to the dealership account.

Insured Request & Flat Cancels – The insured can provide a written request to cancel coverage at any time. Insured's are advised to contact the dealership to process cancellations. If JMIC receives a written request to cancel coverage, they will refer the request to the dealership. Upon receiving an insured's request to cancel coverage, the dealership processes the refund of unearned premium to the creditor. The dealer reports cancellations to JMIC by the 10th of each month. Upon receipt of the dealer's monthly

report, JMIC cancels the certificate and processes a refund less commissions, to the dealership account.

Claim Related Refunds – If during a claim investigation, JMIC discovers the insured misrepresented their health at the time of application, the claim is denied and a full refund of policy premiums are processed by JMIC to the creditor. JMIC then notifies the dealer of the policy cancellation and requests a refund of commissions.

If for any reason, a dealer is not able to process a refund as indicated above, JMIC will process the refund including the dealership's commission portion. Premium refunds are calculated using the *Rule of 78's* for decreasing term life and credit disability coverages, and on a Pro-Rata basis for level term life coverage. The timeline for processing refunds is between 1 and 60 days. That is from the date the dealer receives notification to cancel coverage and the date the refund is processed and JMIC cancels the certificate. The examiner determined that refunds processed more than 60 days after the receive date were considered late processed refunds. A tolerable error of \$5 between differences in computed unearned premium amounts was considered acceptable.

The Examination findings included the following:

Missing documents

JMIC was not able to provide copies of 20 out of 100 (20%) cancellation notices or evidence that the dealer appropriately and timely processed refunds. When the examiner questioned JMIC why records could not be provided, Jim Williams, Vice President of

JMIC, advised that once the Company processed the dealer's monthly cancellation notices they did not retain the supporting documents. Mr. Williams further advised as of July 1, 2001, cancellation procedures were changed to require retention of cancellation notices. Because JMIC was able to retrieve duplicate copies of cancellation notices for 80 out of 100 (80%) cancellation files from their dealerships, the examiner determined the results of the 80 files reviewed were considered to be representative of the population, and the 20 files were not replaced.

Late Processed Refunds

Six out of 80 (7%) of the unearned premium refunds processed by the dealerships were processed more than 60 days after they were received. The overall error ratio was within the 10% error rate established for the examination.

Correctly Computed Refunds

The examiner noted that there were no exceptions found in the computation of unearned premium refunds. The methodology used and the payments amounts were consistent without exception.

Recommendation

The examiner recommends that JMIC implement verification procedures to ensure their dealerships process refunds promptly in accordance with §4-163.003, Florida Administrative Code.

Claim Denials

The examiner reviewed claim denials to determine if the Company appropriately denied claims in accordance with the terms of the policy certificate. In addition, time studies were conducted to assess compliance with the provisions outlined in the certificate and §626.9541, Florida Statutes - Unfair methods of competition and unfair or deceptive acts or practices defined.

The data file of denied claims included 611 claims denied between January 1, 1999 and December 31, 2000. The processing times noted for denied claims indicated 97% of the denied life claims were processed within 120 days after the claim receive date, and 95% of the disability claims were denied within 60 days after the claim receive date. The reasons listed for denying life claims were for misrepresentation of health at the time of application or because the certificate was no longer in force. The reasons listed for denying disability claims included: misrepresentation of health at the time of application; normal pregnancy is an excluded benefit; certificate waiting period not satisfied; applicant was not working more than 30 hours or more per week on the effective date of the policy; and pre-existing conditions are not a covered benefit.

The examiner determined there were no exceptions or violations noted during the review of denied claims.

Claim Handling

The examiner reviewed paid and pended claims to determine if the Company promptly processed payments in accordance with the terms of the policy certificate. In addition, time studies were conducted to assess compliance with the provisions outlined in the certificate and §626.9541, Florida Statutes - Unfair methods of competition and unfair or deceptive acts or practices defined. Tests were also conducted to determine whether the insurance certificates were written for the appropriate amount of indebtedness and term as listed in the loan documents, and in accordance with coverage limitation requirements outlined in §627.679, Florida Statutes.

The data file of paid claims included 427 credit life claims and 1730 credit disability claims paid between January 1, 1999 and December 31, 2000. The examiner sampled 50 life insurance claims. The sample was reduced to 38 files when it was discovered that 12 of the claims were either denied claims or claims that fell outside of the survey period. The resulting sample included 38 files or 8% of the claims paid between 1999 and 2000. The examiner sampled 100 disability claims that were paid between 1999 and 2000. The sample of disability claims was reduced to 94 claims when 6 claims were removed because they fell outside of the survey period or were actually denied claims.

In reviewing paid claims, the examiner verified the following without exception:

- On the date insurance was applied for, life insurance applicants were not more than 70 years of age, and disability insurance applicants were not more than 65 years of age;

- Benefits payments did not exceed the original loan amount;
- Benefit payments were computed in accordance with terms outlined in the policy certificate;
- The payment was distributed to the creditor listed on the insurance application, and or the insured or 2nd beneficiary listed on the application;
- The claims were processed promptly after the receive date;
- Proper investigations were conducted for policies during the contestable period;
- The Company communicated with the claimant regarding any processing delays.

The processing time for paid claims is depicted in the following table.

Description	Credit Life Claims	Credit Disability Claims
Range of days	0-71 days	0-94 days
Percent processed < 60days	92%	92%

The examiner determined there were no exceptions or violations noted during the review of paid claims.

The pended claims reviewed by the examiner consisted of claims being litigated. There were no exceptions or violations noted in the manner JMIC processed the claims.

Complaint Handling

The examiner conducted a review of consumer complaints to determine if the Company had procedures in place to record and resolve complaints timely in accordance with §626.9541(1)(j), Florida Statutes.

The data file of consumer complaints included 22 complaints received in 1999 and 16 complaints received in 2000. The complaints were received directly from both the Department and individual consumers. The reasons for the complaints concerned previously processed claims and cancellation refunds. The examiner reviewed 17 (44%) of the complaint files to verify JMIC processed complaints and the related claim or cancellation appropriately and timely.

The examiner determined no exceptions were noted in 13 of the complaints files reviewed, however 4 of the compliant files involved complaints related to cancellation refunds which were not timely processed by JMIC dealerships. It was determined that JMIC failed to ensure refunds were processed promptly in accordance with §4-163-003, Florida Administrative Code. The exceptions noted in the files are narrated below.

JMIC Complaint No. 99.15 – On January 28, 1998, JMIC contacted the policyholder and the dealership to advise the terms of the policy had been adjusted based on the age of the applicant and maximum policy limitations. The letter further indicated the change would result in a refund of unearned premium and that the policyholder should follow up with

their creditor in approximately 30 days to verify the refund was applied. The complainant's letter indicated they had phoned their dealership on several occasions and that the refund was never processed. On January 23, 1998, the policyholder sent a cancellation request to JMIC. On February 5, 1999, the dealer paid a full refund of unearned premium, including the refund reference in the January 28, 1998 letter. Refund processing time was 373 days.

JMIC Complaint No. 00.07 – On July 6, 1998, JMIC sent a request to the dealer to cancel coverage and process a refund for a policy that involved a repossessed vehicle. The dealer failed to process a refund. On February 2, 2000 JMIC processed a refund plus interest to the creditor. Refund processing time was 214 days.

JMIC Complaint No. 00.11 – On December 17, 1998, JMIC notified the dealer to process a refund of unearned premium for a policy that was adjusted because of the age of the applicant. The dealer failed to process the refund. On March 21, 2000, JMIC processed the refund to the policyholder. Refund processing time was 460 days.

JMIC Complaint No. 00.12 – On December 29, 1999, the insured pre-paid a loan resulting in a refund of unearned premium. The dealer failed to process the refund until March 14, 2000 after a complaint was filed with the Department. Refund processing time was 70 days.

Under the Cancellation and Premium Refunds section of this report, the examiner previously recommended JMIC implement verification procedures to ensure cancellation refunds are promptly processed by the dealerships in order to comply with the Florida Administrative Code.

Conclusion

The examiner wishes to express thanks to the Company for the courtesy and cooperation provided throughout the examination.

The customary practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) were followed in performing this Target Market Conduct Examination of JMIC Life Insurance Company, as of December 31, 2000, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

Debora Finn, AIE, FLMI
Independent Contract Analyst

Findings and Recommendations

The following recommendations were made in this report.

Page 11 Failure to Retain Records and Make Available to the Department

Violation of Section 624.318(2), Florida Statutes. The company did not retain supporting documentation to evaluate cancellation notification. As a result, the company could only produce duplicates of 80 of the 100 cancellation files requested by the examiner. The company has acknowledged this and changed its procedures.

Cancellations and Premium Refunds

The examiner recommends that JMIC implement verification procedures to ensure their dealerships process refunds promptly in accordance with §4-163.003, Florida Administrative Code.