



THE STATE OF FLORIDA

**OFFICE OF INSURANCE REGULATION
PROPERTY AND CASUALTY MARKET REGULATION**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

LIBERTY STF, INC.

FLORIDA COMPANY CODE 11947

June 13, 2017

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EXECUTIVE SUMMARY

Pursuant to the provisions of Section 634.141, Florida Statutes, a target market conduct examination was conducted of the books, records, and affairs of Liberty STF, Inc. (hereinafter "Liberty"). The scope period of the examination was from January 1, 2013 through July 31, 2016. The following table represents general findings; however, specific details are found in each section of the report.

<u>TABLE OF VIOLATIONS</u>				
Statute Cite	Description	Total Files	Files / Records Reviewed	Number of Violations
Section 634.121(3)(a), Florida Statutes	Liberty failed to refund to the insured at least 95% of the gross premium paid, less claims paid, for those warranty agreements that were cancelled by the purchaser within 60 days of the effective contract date.	2,814	50	10
Section 634.121(3)(b)4., Florida Statutes	Liberty failed to provide a notice of cancellation by certified mail to those insureds whose warranty agreements were cancelled by the service agreement company for non-payment of premium.	2,814	50	18
Section 634.121(3)(b)4., Florida Statutes	Liberty failed to return 100% of the unearned premium refund to the insured, less claims paid, for those warranty agreements that were cancelled by the service agreement company.	2,814	50	3
Section 634.121(3)(d), Florida Statutes	Liberty failed to provide a number of specific documents to properly and adequately substantiate the issuance of eight refunds.	2,814	50	8
Section 634.171, Florida Statutes	Liberty sold motor vehicle service agreements through representatives that were not licensed and / or appointed at the time of sale.	5,274	5,274	1,068

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Property and Casualty Market Regulation, conducted a target market conduct examination of Liberty STF, Inc. (hereinafter "Liberty") pursuant to Section 634.141, Florida Statutes. The scope period of this examination was from January 1, 2013 through July 31, 2016.

The objective of the examination was to determine the extent of compliance with the provisions of Chapter 634, Part I, Florida Statutes and Chapter 690-200, Florida Administrative Code. The scope of the examination was limited to the examination of Liberty's warranty register, sales representatives, service agreement cancellations, and refunds.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by Liberty. This report is a report by exception, and the information within has been limited to identification of exceptions, errors or unusual problems noted during the examination.

COMPANY OPERATIONS

Liberty was granted a license by the Office to issue motor vehicle service agreements on May 18, 2012. The company is located in Pompano Beach, Florida, with the administration office located in Colorado. Liberty markets and sells its motor vehicle service agreements only in Florida. The motor vehicle service agreements are sold via telephone solicitation and direct mailings.

Reported Adjusted Premiums Written in Florida for Motor Vehicle Service Agreements for the period noted during the scope of the exam was as follows:

Year	Adjusted Premiums Written in Florida (Per Exhibit V of the Annual Statement)
2013	\$794,612
2014	\$1,999,080
2015	\$2,632,001

MOTOR VEHICLE SERVICE AGREEMENT REFUNDS

Liberty provided the warranty register containing the motor vehicle service agreements executed during the scope period of the examination. A sample consisting of 50 cancelled motor vehicle service agreements was selected from the register and tested for compliance with Section 634.121(3), Florida Statutes.

MOTOR VEHICLE SERVICE AGREEMENT REFUNDS (Continued)

Findings:

Pursuant to Section 634.121(3)(a), Florida Statutes, for contacts cancelled by the purchaser within 60 days of purchase, the refund must be 100% of the gross premium paid less any claims on the agreement. A reasonable administrative fee may be charged not to exceed 5% of the gross premium paid by the agreement holder.

1. **Of the 50 cancellations examined, there were ten instances in which the service agreement holder requested cancellation of the motor vehicle service agreement within 60 days of the effective contract date. In each of the ten instances, the refund amounts issued were less than permitted.**

Recommended Corrective Action: The Office recommends Liberty review the calculations of refunds related to all cancellation requests by the service agreement holder. The results of said review, including pertinent details, should be submitted to the Office within 30 days after the issuance of the final report.

Findings:

Section 634.121(3)(b)4., Florida Statutes, provides that a motor vehicle service agreement that has been in effect for 60 days may be canceled by the service agreement company for nonpayment of premium by the agreement holder, in which case the service agreement company shall provide the agreement holder notice of cancellation by certified mail.

2. **Of the 50 cancellations examined, there were 18 instances in which the motor vehicle service agreement was cancelled by the service agreement company for non-payment of premiums. None of the 18 contracts cancelled for non-payment of premium was sent a cancellation notice via certified mail, as required by Section 634.121(3)(b)4., Florida Statutes.**

Recommended Corrective Action: The Office recommends Liberty review and amend as needed its policy and procedures for the administration of cancellation of the motor vehicle service agreements by the service agreement company for non-payment of premium.

Findings:

Pursuant to Section 634.121(3)(b)4., Florida Statutes, if the motor vehicle service agreement is canceled by the insurer or service agreement company, the return of premium must not be less than 100% of the paid unearned pro rata premium, less any claims paid on the agreement.

MOTOR VEHICLE SERVICE AGREEMENT REFUNDS (Continued)

3. **Of the 18 motor vehicle service agreements that were cancelled by the service agreement company, there were three paid refund amounts less than amounts permitted by Section 634.121(3)(b)4., Florida Statutes.**

Recommended Corrective Action: The Office recommends Liberty review the calculation of refunds related to all motor vehicle service agreements that have been in effect for more than 60 days from the effective contract date and cancelled by the service agreement company. The results of said review, including pertinent details, should be submitted to the Office within 30 days after the issuance of the final report.

Findings:

Section 634.121(3)(b), Florida Statutes, states in pertinent part that, the salesperson, agent, or service agreement company shall maintain a copy of certain documents, as applicable, demonstrating that the refund owed pursuant to paragraph (c) has been refunded. This statute also states that, "A salesperson or agent effectuating a refund shall maintain a copy of the documentation required by this paragraph and shall provide a copy to the service agreement company within 45 days after a request is made by the department or the office to either the service agreement company or the salesperson."

4. **There were eight refunds purportedly made by Liberty that were unsubstantiated to the Office. That is, documentation to support the accuracy and the actual issuance of the refunds were non-existent and/or unattainable by Liberty.**

Recommended Corrective Action: The Office recommends Liberty review and amend as needed all of its policies and procedures regarding the maintenance of records relating to refund documents.

SALES REPRESENTATIVES

Liberty provided the warranty register including the names of the selling representatives of all motor vehicle service agreements executed since the company's licensure. The selling representatives and their corresponding appointment dates were examined and compared to the contract sale date in order to verify compliance with Section 634.171, Florida Statutes.

SALES REPRESENTATIVES (Continued)

Findings:

Liberty sells its motor vehicle service agreements through three marketing companies, one of which has 14 sub-sellers acting in the capacity of sales representatives. Section 634.171, Florida Statutes, requires salespersons for motor vehicle service agreement companies to be licensed, appointed, renewed, continued, reinstated, or terminated as prescribed in chapter 626 for insurance representatives in general. Review of the warranty records (5,274) indicated 1,068 motor vehicle service warranties were sold by representatives not properly licensed and/or appointed at the time of sale.

The examination found that one of the three marketing companies, and ten of the 14 sales representatives that sold approximately 20% of the motor vehicle service agreements were not properly licensed and/or appointed, as required by Section 634.171, Florida Statutes. The marketing company sold motor vehicle service agreements prior to its appointment date. Three of the ten sales representatives sold motor vehicle service agreements without a license. The examination also found that six of the ten sales representatives sold motor vehicle service agreements prior to their appointment dates. Lastly, one of the ten sales representative, though licensed, sold motor vehicle service agreements without being appointed.

Recommended Corrective Action: The Office recommends Liberty review and amend as needed its policy and procedure used to appoint representatives, as well as the license and appointment status of each representative.

SUBSEQUENT EVENT

Warranty Register and Unearned Premium Reserve

During the examination it was revealed that in Annual Reports filed with the Office for the periods ending December 31, 2013, 2014, and 2015, Liberty reported only those premiums remitted by its representatives, rather than the actual premiums written, as is required by Section 634.137(2), Florida Statutes. This resulted in in-force gross written premiums being understated by approximately \$2.4 million in 2013 and in 2014, and \$1.9 million in 2015. In addition, the number of warranties in-force was understated by 851 in 2013, 835 in 2014, and 696 in 2015. As a result of this understatement, the company failed to establish an unearned premium reserve for the unearned portion of the unreported gross premium during these periods.

Management has represented that gross written premiums and unearned premium reserve have been properly reported and funded for 2016. While reporting accuracy is confirmed by the Office, Liberty has represented that it is not writing new business.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issues this Final Report based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by Liberty STF, Inc.