

**FLORIDA DEPARTMENT
OF
FINANCIAL SERVICES**

**OFFICE OF INSURANCE REGULATION (OIR)
BUREAU OF MARKET CONDUCT**

TARGET MARKET CONDUCT EXAMINATION REPORT

OF

LINCOLN GENERAL INSURANCE COMPANY

AS OF

APRIL 18, 2003

EXAMINERS:

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Filed date: 10/30/2003



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INTRODUCTION

Lincoln General Insurance Company (Company) is a foreign property and casualty insurer 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 January 1, 2002 through March 31, 2003. The examination began March 24, 2003 and ended April 18, 2003.

The purpose of this examination was to review all issues pertaining to the discontinuance of mobile homeowners and homeowners insurance in the State of Florida by the Company and to determine if the Company's practices and procedures were in accordance with Florida Statutes and the Florida Administrative Code. Complaints were reviewed to verify compliance with countersignature, additional premium notification and managing general agent (MGA) appointment requirements for private passenger automobile insurance.

This report represents findings of the examination, including corrective action to be taken by the Company.

COMPANY OPERATIONS/MANAGEMENT

PROFILE

Lincoln General Insurance Company was incorporated on March 17, 1977, under the laws of the State of Pennsylvania. The Company is owned by Kingsway Financial Services, Inc., a Canadian corporation. The Company received its original Certificate of Authority from the State of Florida in July 2000. The Company is licensed in 49 states and the District of Columbia, with a continuing primary focus on “wheels” insurance - both private passenger and commercial automobile insurance. In 2002, Florida direct premiums written totaled \$44,646,765 (8 percent of countrywide direct premiums written) for fire and allied lines, homeowners, commercial multi-peril, inland marine, other liability, private passenger automobile, commercial automobile and surety. Florida direct premiums written ranked third after California and Texas.

The Company writes mobile homeowners and homeowners insurance in Florida and Pennsylvania. During the next year, the Company is withdrawing from these lines of business in Florida and Pennsylvania. The Company advised that despite their planned homeowners and mobile homeowners withdrawal from Florida during 2003, it anticipates writing a substantial volume in other lines; primarily, commercial automobile and private passenger automobile.

MARKETING

The following MGA’s are used exclusively to produce all Florida business:

MGA Name	Lines of Business
West Point Underwriters, Inc.	Homeowners and Mobile Homeowners
Insurance Management Services, Inc.	Homeowners and Mobile Homeowners
Western Summit	Homeowners and Mobile Homeowners
Access General Insurance Agency of FL, Inc.	Private Passenger Automobile
The Insurance Professionals	Comm. Auto, CMP, Motor Truck Cargo
Petcare Insurance	Inland Marine

CLAIMS

Company adjusters located in Pennsylvania, and independent adjusters located in Florida, handle claims.

WITHDRAWAL PLAN

The Company began the homeowners and mobile homeowners nonrenewal process without the required notification to the Florida Office of Insurance Regulation (OIR), pursuant to Section 624.430, Florida Statutes, and Rule 4-141.020, Florida Administrative Code. Nonrenewals began on October 3, 2002, and were discontinued on January 31, 2003, when the Company was advised by the OIR of the requirements of Section 624.430, Florida Statutes, and Rule 4-141.020, Florida Administrative Code. On February 5, 2003, the Company filed its withdrawal plan with the OIR, but was advised on February 10, 2003, that the plan was unacceptable as submitted. The Company submitted a revised withdrawal plan on March 6, 2003, which is still under review by the OIR.

The Company advised in their withdrawal plan that the reason for discontinuance of its homeowners and mobile homeowners insurance lines in the State of Florida is the cost of voluntary catastrophe reinsurance. The Company obtained this reinsurance for losses not covered by the Florida Hurricane Catastrophe Fund (FHCF) based on projected premium volume but did not achieve that premium volume. The Company was not entitled to any return premium from the reinsurer.

The Company plans to utilize the following language on its nonrenewal forms if the withdrawal plan is approved:

"Lincoln General has decided to discontinue writing this line of business for all policyholders in the State of Florida due to a substantial increase in the costs associated with offering this type of policy."

REVIEW OF POLICIES

HOMEOWNERS

The Company has independently filed its homeowners program. The Company writes HO-3 and HO-6 policy forms under its homeowners program, which are filed for an annual policy term. However, the examination revealed that the Company issued policies with six (6) month policy terms.

As of December 31, 2002, there were 4,469 homeowners policies issued with direct written premiums of \$2,842,613.

The Company issued 1,624 notices of nonrenewal between October 3, 2002, and January 31, 2003, on policies expiring between December 30, 2002, and May 21, 2003. The Company, in previous correspondence to the OIR, had indicated that only policies with expiration dates between January and April were affected. However, during the examination it was discovered that 20 policyholders with policies expiring in December, 2002, and 155 policyholders with policies expiring in May, 2003 had also been sent notices of nonrenewal.

A total of 292 policyholders were offered six (6) month renewals, in lieu of annual renewals, on policies expiring between December 17, 2002, and December 31, 2002. Two hundred twenty-one (221) policyholders accepted the offer. These policies will expire between June 17, 2003, and June 30, 2003. Also, the Company issued 43 additional six (6) month policies during 2002. As indicated above, the Company's filed homeowners program allows for the issuance of only annual policies. Therefore, the Company did not follow its filed rates and rating rules.

After January 31, 2003, the Company sent annual renewal offers to 624 policyholders (of the 1,624 that previously were sent notices of nonrenewal for policies expiring between March 15, 2003, and May 21, 2003). As of April 1, 2003, a total of 280 annual renewal offers had been accepted by policyholders. The remaining 1,000 policies that expired prior to March 15, 2003, did not receive an offer to renew.

There were 361 renewal offers made to policyholders with policies expiring between May 22, 2003, and June 23, 2003. The Company has not made renewal offers for policies expiring after June 23, 2003.

MOBILE HOMEOWNERS

The Company has independently filed its mobile homeowners program. The Company's filed program includes twelve (12), six (6), four (4), and three (3)-month policy terms. However, only twelve (12) and six (6)-month policies were issued during the scope of the examination.

As of December 31, 2002, there were 24,041 mobile homeowners policies issued with direct written premiums of \$8,082,960.

The Company issued 9,527 notices of nonrenewal between October 3, 2002, and January 31, 2003, on policies expiring between December 30, 2002, and May 21, 2003. The Company, in previous correspondence to the OIR, had indicated that only policies with expiration dates between January and April, 2003, were affected. However, during the examination it was discovered that 13 policyholders with policies expiring in December 2002, and 1,145 policyholders with policies expiring in May 2003, had also been sent notices of nonrenewal.

A total of 686 policyholders were offered six (6) month renewals on policies expiring between December 17, 2002, and December 31, 2002. Six hundred seventy-nine (679) policyholders accepted the offer. These policies will expire between June 17, 2003, and June 30, 2003. The Company changed the renewal terms to six (6) months without the insureds' knowledge.

The Company has not made renewal offers for policies expiring after May 21, 2003.

COMPLAINTS REVIEW

COMPLAINTS/INVESTIGATIONS REFERRED BY MARKET CONDUCT

Complaints were reviewed for compliance with countersignature, additional premium notification and managing general agent (MGA) requirements.

The Company was found in compliance with countersignature and additional premium notification requirements. See MGA License/Appointment Review Section for findings relative to MGA requirements.

CLAIMS/LICENSE REVIEW

As of April 1, 2003, there were no claims denied relating to policies that were nonrenewed due to the Company's plan to withdraw from doing business in Florida.

The examination also revealed that the Company's fourteen (14) in-house adjusters were not licensed nor appointed as required by Section 626.864, Florida Statutes. The Company advised that the required documentation for the licensing of its in-house adjusters has been submitted to the OIR. The examiners confirmed that four (4) adjusters were licensed on March 27, 2003, and March 28, 2003 and that the remaining adjusters are still in the fingerprinting process. The Company also advised that it would immediately process all the required appointments.

MGA LICENSE/APPOINTMENT REVIEW

Florida business is produced through six (6) MGA's. The examination revealed that two (2) MGA's were properly licensed but not appointed. Four (4) were neither licensed nor appointed.

Licensed/Unappointed-Charging MGA Fee

West Point Underwriters

The MGA writes homeowners and mobile homeowners insurance for the Company. It is properly licensed, but has not been appointed by the Company. Since September 1, 2001, the MGA has issued 26,410 policies.

Insurance Management Services

The MGA writes homeowners and mobile homeowners insurance for the Company. It is properly licensed, but has not been appointed by the Company. Since September 10, 2001, the MGA has issued 2,100 policies.

Unlicensed/Unappointed-Charging MGA Fee

Western Summit

The MGA writes homeowners and mobile homeowners insurance for the Company. It was neither licensed nor appointed by the Company. The MGA has issued 26 policies.

Access General Insurance Agency

The MGA writes private passenger automobile insurance for the Company. It was neither licensed nor appointed by the Company. Since July 5, 2002, the MGA has issued 11,516 policies.

Pet Care Insurance

The MGA writes inland marine insurance for the Company. It was neither licensed nor appointed by the Company. Since May 23, 2001, the MGA has issued 822 policies.

Unlicensed/Unappointed-Not Charging MGA Fee

The Insurance Professionals

The MGA writes commercial automobile, commercial multi-peril and motor truck cargo insurance for the Company. It was neither licensed nor appointed by the Company. Since June 18, 2002, the MGA has issued 51 policies.

CORRECTIVE ACTION

Homeowners

1. Issue the 12 month renewal offer to the 71 insureds who were offered six-month homeowners renewals and did not accept them.
2. Issue the offer for a 12 month policy to the 1,000 insureds who were issued homeowners nonrenewals and have not been offered the opportunity for reinstatement.
3. Issue renewal offers on all homeowners policies expiring after June 23, 2003, until the effective date of the withdrawal plan as approved by the OIR.
4. Renew homeowners policies, which were renewed for six (6) months, for an additional six (6) month policy term. The rate to be charged for the additional six (6) months will be 45 percent of the 12 month rate. No additional fees (MGA, fire marshal or any other fee) will be charged. This will equate to annual coverage and annual premium for the two (2) six (6) month policy periods.

Mobile Homeowners

1. Issue the 12 month renewal offer to the seven (7) insureds who were offered six-month mobile homeowners renewals and did not accept them.
2. Issue the offer for a 12 month policy to the 9,527 insureds who were issued mobile homeowners nonrenewals and have not been offered the opportunity for reinstatement.
3. Renew mobile homeowners policies, which were renewed for six (6) months, for an additional six (6) month policy term. The rate to be charged for the additional six (6) months will be 45 percent of the 12 month rate. No additional fees (MGA, fire marshal or any other fee) will be charged. This will equate to annual coverage and annual premium for the two (2) six (6) month policy periods.

Claims/License Review

Complete the process for the licensing and appointment of all in-house adjusters.

MGA License/Appointment Review

Ensure that all MGA's are licensed and appointed to produce Florida business.