



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

PEOPLE'S TRUST INSURANCE COMPANY

February 5, 2016

NAIC COMPANY CODE: 13125

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
PURPOSE AND SCOPE OF EXAMINATION.....	1
COMPANY OPERATIONS	2
CANCELLATIONS AND NONRENEWALS	2
RATING PRACTICES	3
WAREHOUSES INSPECTIONS.....	4
ADVERTISING	5
CLAIMS HANDLING.....	5
COVERAGE “A” (DWELLING) REPLACEMENT COST ESTIMATOR.....	6
SINKHOLE COVERAGE	7
EXAMINATION FINAL REPORT SUBMISSION.....	9
EXHIBIT A.....	10
EXHIBIT B.....	11
EXHIBIT C.....	13

EXECUTIVE SUMMARY

A target market conduct examination of People's Trust Insurance Company was performed to determine compliance with Florida Statutes and Florida Administrative Code.

The following represents general findings; however, specific details are found in each section of the report.

<u>TABLE OF VIOLATIONS</u>			
Statute/Rule	Description	Files Reviewed	Number of Exceptions
627.4091(2), F.S.	The Company failed to provide a specific reason for nonrenewal.	116	44
627.062(2)(a), F.S.	The Company failed to follow its filed rating plan.	116	28
627.062(2)(a), F.S.	The Company failed to implement rate changes timely.	n/a	1
627.706(1)(b), F.S. 627.062(2)(a), F.S.	Failure to make sinkhole coverage available, per filed underwriting guidelines	1	1

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a targeted examination of People's Trust Insurance Company (Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Examination Resources, LLC. The scope period of the examination was June 1, 2012 through July 31, 2013 for Underwriting and Rating and September 1, 2013 through April 4, 2014 for Cancellations and Nonrenewals. The onsite examination began April 21, 2014 and ended May 9, 2014. The examination and investigation continued offsite and was concluded on August 14, 2014.

The purpose of the examination was to review the Company's business practices, including but not limited to those in each of the following categories: cancellations and nonrenewals; underwriting and rating, and claim handling.

The examination included verification of compliance with the following Florida Statutes Sections:

- **Underwriting and Rating** – (Rating Practices, Mandated Disclosures, Forms Filings, Cancellations, Declinations, Rescissions, Nonrenewals) Section 627.410, Florida Statutes, Section 627.062, and Section 627.4091, Florida Statutes.

- **Claims Handling** – (Claim Acknowledgments, timely investigations, paid, denied and overdue claims) Section 626.9541(i)3.c., Florida Statutes.

In addition, the examination included inspections of the Company’s affiliate Rapid Response Team’s (RRT) 8 warehouses to determine the existence and capacity of the warehouses.

This Final Report is based upon information from the examiner’s draft report, additional research conducted by the Office, and additional information provided by the Company. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

People’s Trust Insurance Company is a Florida domiciled property and casualty insurer. The Company became licensed in the State of Florida on January 17, 2008. The Company was authorized to transact homeowners multi-peril coverage in the State of Florida on March 6, 2008.

Total Direct Premium Written in Florida:

Year	Total Direct Premiums Written in Florida (Per Schedule T of the Annual Statement)
2011	\$37,472,024
2012	\$63,817,273
2013	\$211,182,469
2014	\$264,799,616

The Company is headquartered in Deerfield Beach, Florida. Claims are processed by the Company at its office in Deerfield Beach.

CANCELLATIONS AND NONRENEWALS

Cancellations and nonrenewals were reviewed to verify proper notice was given and applicable refund of premiums was processed timely and accurately. In addition, the reasons for the cancellation and nonrenewal were reviewed to ensure they were valid, that the Company was following its guidelines, and in compliance with Florida Statutes. There were a total of 1,617 cancellations during the period under examination. A sample of 116 cancellations was selected. There were a total of 1,593 nonrenewals during the period under examination. A sample of 116 nonrenewals was selected.

Findings:

1. **In 44 instances the Company failed to provide a specific reason for nonrenewal. This is a violation of Section 627.4091(2), Florida Statutes.**

The Company agreed with the findings and indicated the nonrenewals related to underwriting issues identified by the Company, but the notices inadvertently did not include the underwriting details.

The Office recommends the Company establish procedures to ensure specific reasons are provided on nonrenewal notices.

RATING PRACTICES

Underwriting and rating was reviewed to verify compliance with Florida Statutes, the Florida Administrative Code and filed rates and underwriting guidelines.

The Company writes mainly homeowners multi peril policies in Florida.

A random sample of 116 policies was reviewed.

Findings:

- 1. In 28 instances the Company failed to follow its filed rating plan. This is a violation of Section 627.062(2)(a), Florida Statutes.** The finding relates to the Company's transition rule which was designed to set a maximum, or a cap, on policies transitioning into the new Marble and Granite programs. Specifically, the finding regards the application of a fixed expense fee and resulting premium increases that exceeded the filed cap.

The Company initially disagreed that it failed to follow its filed rates and rules. The Company believed it implemented caps for the resulting rate adjustments as indicated in the filings.

The Office recommended the Company re-rate all policies that were renewed into the Marble and Granite Programs. Based on an extrapolation of the rating errors, an estimated 6,094 policies may have been affected, with an average overcharge of \$196. It was estimated the total refund amount would be approximately \$1,194,424.

The Company subsequently agreed to reevaluate the application of the transition rule and ultimately refunded the overcharges to policyholders. On January 22, 2015, the Company mailed refunds totaling \$1,408,814 to 7,728 affected policyholders.

- 2. Failure to follow filed rates and/or rules. This is a violation of Section 627.062(2)(a), Florida Statutes.** The Company failed to implement rate changes timely. The original effective date for renewal business for the Marble and Granite Programs was August 1, 2012. The Company notified the Office of a delay to be effective September 1, 2012; however, the implementation of the change was not effective until January 27, 2013, and the Office was not notified.

The Company initially did not comment on this finding. Subsequently, the Company acknowledged the need for communicating any delay to the Office promptly, and accepted the recommendation to do so in the future.

The Office recommends the Company communicate with the Office and receive approval for any rate implementation date changes.

WAREHOUSE INSPECTIONS

Policyholders with the Preferred Contractor Endorsement are members of the VIP Gold Program. Members of the VIP Gold Program receive a 5% premium discount in exchange for agreeing to allow the Company to select the contractor for repairs. Approximately 97% of policyholders are enrolled in the VIP Gold program.

The Company uses Rapid Response Team (RRT) for repairs and adjusting services. The Company indicated RRT has approximately 250 employees and 90 trucks. RRT has 8 warehouses in Florida, located in Bradenton, Boca Raton, Cutler Bay, Fort Myers, Jacksonville, Miami Gardens, Altamonte Springs and Pompano Beach, the location of the main warehouse.

A team of 4 examiners performed an unannounced inspection of the 8 warehouses on May 9, 2014. It appears these warehouses were regional offices with very limited materials used to station employees and repair vehicles for servicing a designated area. The warehouses appeared to contain very little supplies to make significant repairs in the wake of a catastrophic event.

The Company stated they had contracts with Lowes and Home Depot to restock their warehouses, but were unable to provide a copy of the contracts to either the Office or the examiners. Following is a chart of the findings from the warehouse inspections as of May 9, 2014.

Warehouse Location	Percentage of space stocked	Building space occupied by RRT	# of staff including drivers	# of box trucks/ vehicles
Boca Raton	40%	3000 SF	13	10
Pompano Beach	80%	17,500 SF	22	12
Cutler Bay	0.50%	2000 SF	14	6
Miami Gardens	10%	4500 SF	50 (10 observed)	19 box trucks/ 5 others
Altamonte Springs	10%	6360 SF	37	13
Jacksonville	10%	2500 SF	10	3
Bradenton	35%	2500 SF	20	11
Fort Myers	25%	2000 SF	11	5
Totals			177	84

Subsequent to the examination the Company represented that RRT opened a warehouse in Tavares on June 1, 2014, and one in Melbourne on July 1, 2014. RRT also claimed it increased the number of employees to 207 and the number of vehicles to 107. The Company advised, if needed, it can respond in the same manner as most other insurers—adjust the claims and issue payments, without relying on the use of RRT.

The Office recommends that the Company's warehouses be sufficiently stocked with supplies and equipment to facilitate repairs.

ADVERTISING

The Company circulated a mass mailing advertisement (Exhibit A) to Floridians which states, *"You can rely on more than 260 trained professionals based at Response Centers around the state, fully equipped with building materials, tarps, plywood and other supplies."*

There is one response center in North Florida, located in Jacksonville. With the exception of Pompano Beach, the existing response centers contained limited supplies and materials. The statement *"around the state, fully equipped"* on the advertisements could be considered an inaccurate representation of benefits both because there were not response centers around the state, nor were they fully equipped with supplies.

In June 2014, following the scope, the Office learned of advertising being sent by Company representatives, stating insureds could save money by switching from their Citizens Property Insurance Corporation (Citizens) policy to the Company. Upon further investigation, the Office determined the advertising did not disclose that the coverage offered by the Company was not comparable with the Citizens policy as inferred and included incomplete representations. (Exhibits B and C)

The Company responded that they offer a wider array of coverage options than is available through Citizens. The Company stated, however, they want to ensure that its advertising materials are fair and truthful. As a result, the Company will strive to better indicate how or why they might be a better choice for the policyholder.

The Office recommends the Company update its advertising and marketing plans to ensure it reflects accurate information and disclose material terms of their comparisons.

CLAIMS HANDLING

Company claim handling was reviewed to determine if claims were handled properly and to determine if claimants were treated differently on claims handled by RRT than those handled by other contractors. There were 1,806 claims during the scope period, September 30, 2008, through May 8, 2014. Of those, 1,650 claimants used RRT. A sample of 136 claims was reviewed. The review determined claims were handled timely and claimants were not treated differently on claims handled by RRT.

A second claims test was conducted for completeness. A sample of 50 payments from the check register was selected to ensure accurate claims payment and accounting. The payments selected were traced back to the claim file. The claim files contained supporting documentation, and no exceptions were noted.

COVERAGE “A” (DWELLING) REPLACEMENT COST ESTIMATOR

The Company’s underwriting guidelines state, “All homeowner residential dwellings requesting replacement cost coverage must be insured to 100% insurance to value. “Insurance to value” means that the dwelling is insured to 100% of the full replacement cost. PTIC may use a commercially available replacement cost estimator to verify values.”

Prior to mid-2011 the Company used a statewide replacement cost factor of \$125 per square foot to estimate dwelling replacement costs. At that time, Marshall & Swift/Boeckh (MSB) purportedly conducted an aggregate study that determined the Company’s book of business averaged \$124 per square foot, validating the \$125 factor. The Company subsequently evaluated several construction/contractor websites and performed replacement cost calculations on numerous types of risks in different county regions across a range of total living areas of insured properties. The Company created a matrix that would be more refined than the \$125 per square foot method, yet easy to understand and apply, in order to determine a minimum level of replacement cost. The matrix allows for differences between 3 geographical regions in Florida (area) and 3 construction types based on square footage (refer to following matrix).

<u>Construction Types</u>	<u>Replacement Cost Estimates*</u>	*Per Sq. Ft.		
Type 1: basic standard quality up to 2200 sq ft	Type 1:	<u>Area 1</u>	<u>Area 2</u>	<u>Area 3</u>
		\$115	\$105	\$95
Type 2: average/good standard quality 2201 sq ft to 4000 sq ft	Type 2:	<u>Area 1</u>	<u>Area 2</u>	<u>Area 3</u>
		\$130	\$120	\$110
Type 3: best/custom quality Over 4000 sq ft	Type 3:	<u>Area 1</u>	<u>Area 2</u>	<u>Area 3</u>
		\$155	\$140	\$125

Areas

Area 1: Palm Beach
Broward
Miami-Dade

Area 2:	Hillsborough	Brevard	Charlotte
	Pinellas	Indian River	Lee
	Manatee	St Lucie	Collier
	Sarasota	Martin	

Area 3:	Volusia	Alachua	Hardee
	Flagler	Marion	Okeechobee
	St Johns	Lake	Highlands
	Duval	Orange	Glades
	Nassau	Seminole	Hendry
	Baker	Osceola	DeSoto
	Clay	Polk	All Other
	Putnam	Sumter	

The Office randomly sampled 50 new business policies that were written June 1, 2012 or later to compare the Coverage “A” (dwelling) insured value to the Company’s own matrix and MSB Replacement Cost Estimator. The Office used the information from declaration pages and county property appraiser websites to calculate the estimated replacement cost using both the Company matrix and MSB. The Office used basic assumptions for the MSB estimate including but not limited to the grade of the kitchen, bathrooms, flooring, and wall covering materials.

Based on this information, it appears that 8 new business policies were issued with a dwelling amount less than the Company’s own matrix calculation, which the Company advised it does not permit. Comparing the matrix estimate to MSB, 13 policies showed MSB to be 20% or more above the matrix estimate.

The Office also reviewed 115 renewal policies to compare the dwelling amount to the Company matrix and the MSB Replacement Cost Estimator calculations. Twenty-three of the renewal policies were insured for less than the matrix estimate. Thirty-four of the renewal policies resulted in MSB estimates 20% or more above the matrix estimate.

The Company’s methodology for estimating replacement costs is based largely on a simplistic, internally developed matrix that has not been updated recently.

The examiners requested a copy of the 2011 MSB study; however, the Company never provided the Office or the examiners with a copy. The Company subsequently provided the Office with two more recent data quality analyses of replacement cost values which concluded that replacement costs valuations were within acceptable ranges.

SINKHOLE COVERAGE

On August 25, 2014, the Company advised the Department of Financial Services, Division of Consumer Services, in writing that due to excessive sinkhole exposure, its policies only include catastrophic ground coverage collapse and the Company is not writing sinkhole coverage in any region in Florida.

Additionally, in the course of investigation by the Office, the Company advised that it has not offered sinkhole coverage since May 2012. However, the Company’s approved underwriting rules, both those in effect in 2012 and those amended in 2015, provide that sinkhole coverage may be added to the base policy for an additional premium, subject to underwriting review and approval.

Pertinent language from the 2012 approved underwriting manual provides:

907. Form PTIC P003 Sinkhole Loss Coverage

A. Sinkhole coverage is **not** provided in the base policy. However, Section I Property Coverage may be endorsed to provide coverage for sinkhole loss.

B. Sinkhole Loss Coverage Endorsement

Subject to appropriate underwriting review, sinkhole loss coverage may be purchased using endorsement Sinkhole Loss Coverage – Section I Property Coverage Endorsement PTIC E012. This endorsement is offered for all new policies and at renewal for existing policies. No midterm endorsements are acceptable.

Pertinent language from the 2015 approved underwriting manual provides:

Rule 507. Sinkhole Loss Coverage

A. Sinkhole coverage is excluded in the base policy but optional Sinkhole Loss Coverage may be added to Section I – Property Coverage for additional premium.

B. Requirements

New policies may be bound only with Catastrophic Ground Cover Collapse. If the policyholder elects the option for Sinkhole Loss Coverage, an approved structural inspection of the home must be completed prior to adding the coverage. The inspection will document existing damage, evaluate the structural integrity of the dwelling, and verify that there is no current or proximate sinkhole activity that has not been disclosed. Optional Sinkhole Loss Coverage will be approved for those homes that do not display characteristics associated with sinkhole damage.

.....

This endorsement is offered for all new policies and at renewal for existing policies. No mid-term endorsements are acceptable.

The language of the Company’s underwriting manual is consistent with Florida law, which provides at Section 627.706(1)(b), Florida Statutes:

(b) The insurer shall make available, for an appropriate additional premium, coverage for sinkhole losses on any structure, including the contents of personal property contained therein, to the extent provided in the form to which the coverage attaches. The insurer may require an inspection of the property before issuance of sinkhole loss coverage.

Findings

- 1. The Company failed to make sinkhole coverage available to applicants and policyholders, for an appropriate additional premium, in violation of its approved underwriting guidelines, and in violation of Section 627.706(1)(b), Florida Statutes and Section 627.062(2)(a) Florida Statutes.**

The Office recommends that the Company implement appropriate internal procedures to ensure that sinkhole coverage is made available to eligible applicants and policyholders, subject to the payment of an appropriate additional premium and the successful completion of a required inspection.

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 the Company.

EXHIBIT A



**You'll save money with
benefits not available anywhere else.
LET US PROVE IT TO YOU.**

- Exclusive vipGOLD membership saves you time and money. You'll get a discount on your premium, expedited claim service and peace of mind knowing that we are here for you when you need us.
- If you experience damage to your home, repairs and restoration services provided by our Rapid Response Team[®] will get you back to normal fast with no hassles and superior workmanship.
- The Rapid Response Team is available 24/7, offers a 3-Year, 100% Satisfaction Guarantee and is fully licensed, bonded and insured.
- We are prepared like no one else. You can rely on more than 260 trained professionals based at Response Centers **around the state**, fully equipped with **building materials**, tarps, plywood and other supplies.

We've literally reinvented homeowner's insurance. And we did it so well, we were honored with the 2013 Enterprise Florida Innovators in Business Award. But the honor that really matters most is the 130,000 Florida homeowners who have switched to join the People's Trust family. Call us today to start saving and enjoying benefits not available anywhere else.



We're proud to have earned a Financial Stability Rating[®] of A, Exceptional from Demotech, Inc., a leading insurance industry rating firm!

*Each insurer's actual rates will vary according to the unique characteristics of each insured home. Individual ratings may vary. Savings not guaranteed. Availability, and coverage level, of some plan features subject to state level and underwriting requirements. Coverage, discounts, and features subject to individual eligibility, and to availability. Coverage, exclusions and limitations may apply. For more information on this insurance and related programs, contact People's Trust Insurance Company. © 2014 People's Trust Insurance Company. All rights reserved. People's Trust Homeowners Insurance and logo are service marks of People's Trust Insurance Company.

**Participation in vipGOLD program requires election of Preferred Contractor Endorsement Form, E023, vipGOLD Program subject to product terms, exclusions and limitations. ** 3-year guarantee provided by Rapid Response Team, LLC. † PTIC has received a Financial Stability Rating[®] of A (Exceptional) from Demotech, Inc., an independent financial analysis firm. The rating scale used by Demotech, Inc., ranges from A⁺ (Unsurpassed) to L (Licensed), with A (Exceptional) being the third highest rating available. The most current Financial Stability Rating must be verified by visiting www.demotech.com. Financial Stability Rating is a registered trademark of Demotech, Inc.

GET A FREE QUOTE IN 10 MINUTES.

Please have your current homeowner's insurance policy declarations page and wind mitigation available when you call.

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Or online anytime:

www.PeoplesTrustInsurance.com/Proof



EXHIBIT B

**PINELLAS residents
are saving on their homeowners insurance.**

Homeowners HO-3

Policy Period: From 12/20/13-12/20/14

Named Insured and Mailing Address: [REDACTED] Clearwater, FL 33762	Location of Residence Premises: [REDACTED] CLEARWATER, FL 33762	Agent: [REDACTED] West Palm Beach, FL 33411
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DEDUCTIBLES: ALL OTHER PERILS: \$2500

HURRICANE DEDUCTIBLE: 2%

SECTION I - PROPERTY COVERAGES

- A - Dwelling
- B - Other Structures
- C - Personal Property
- D - Loss of Use

LIMIT OF LIABILITY

- \$310,000
- \$6,200
- \$77,500
- \$31,000

SECTION II - LIABILITY COVERAGES

- E - Personal Liability
- F - Medical Payments

- \$100,000
- \$2,000

TOTAL POLICY PREMIUM INCLUDING ASSESSMENTS AND ALL SURCHARGES: \$1,728

**CANCEL and SWITCH
YOUR CITIZENS
POLICY TODAY!**

- You don't have to wait until your current policy expires, Start Saving Money Today
- Have unused premiums refunded to you
- It's easy, we can help

INSURANCE EXPRESS



Call Toll Free

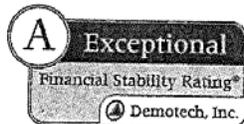
1-800-263-9607

for a FREE quote and start saving TODAY!

Please have your homeowner's policy ready when you call

Se habla español.

1-800-264-0375



People's Trust is proud to have earned a Financial Stability Rating of A, Exceptional, from Demotech, Inc., a leading insurance industry rating firm!

† PTIC has received a Financial Stability Rating® of A (Exceptional) from Demotech, Inc., an independent

NEWS

CITIZENS TO RAISE RATES FOR FLORIDA HOMEOWNERS

Public records indicate that you're paying **\$1,728** with your current Citizens Insurance Policy and you could be paying **\$1,071** by switching to People's Trust.

Call Toll Free

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for a **FREE** quote and start saving **TODAY!**

Please have your homeowner's policy ready when you call.

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Por favor tenga lista la poliza de seguro de su propiedad cuando llame.

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Mon.-Fri. 9:00 am - 9:00 pm • Sat. 9:00 am - 1:00 pm
peoplestrustquotes@insuranceexpress.com

EXHIBIT C

Your Homeowners Insurance WILL EXPIRE in February!
 See what you can save TODAY on your homeowners insurance.

Homeowners HO-3 Policy Period: From 2/16/15 - 2/15/16

Named Insured and Mailing Address: [Redacted] Panama City, FL 32405 [Redacted]	Location of Residence Premises: [Redacted] Panama City, FL 32405 [Redacted]	Agent: Insurance Express.Com 2005 Vista Parkway, suite 200 West Palm Beach, FL 33411
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DEDUCTIBLES: ALL OTHER PERILS: \$2,500 HURRICANE DEDUCTIBLE: 2%

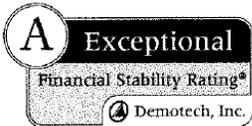
SECTION I - PROPERTY COVERAGES	LIMIT OF LIABILITY
A - Dwelling	\$214,000
B - Other Structures	\$4,280
C - Personal Property	\$53,500
D - Loss of Use	\$21,400
SECTION II - LIABILITY COVERAGES	
E - Personal Liability	\$300,000
F - Medical Payments	\$2,000



People's Trust offers quality homeowners insurance at some of the lowest rates in Florida.

SWITCH AND SAVE TODAY!

- Now is the time to switch your current policy before it expires. Start Saving Money Today!
- Have unused premiums refunded to you
- It's easy, we can help



People's Trust is proud to have earned a Financial Stability Rating® of A, Exceptional, from Demotech, Inc., a leading insurance industry rating firm!

has received a Financial Stability Rating® of A (Exceptional) from Demotech, Inc., an independent financial analysis firm. The rating scale used by Demotech, Inc., ranges from A* (Unsurpassed) to L (Sensed), with A (Exceptional) being the third highest rating available. ® Financial Stability Rating is a registered trademark of Demotech, Inc.



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