

2000 PROPERTY AND CASUALTY MARKET CONDUCT EXAMINATION

OF

SERVICE INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

Service Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1997 through December 1999. The examination began August 13, 2000 and ended September 30, 2000. The last examination of this insurer was completed by the Florida Department of Insurance in 1997.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, 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 Company 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 Company in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, \$88.00 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/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company 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

Service Insurance Company is a wholly owned subsidiary of Bay Area Insurance Services, a holding Company. Other affiliated Companies owned by Bay Area Insurance Services are A & E Premium Finance Company, Bay Area Claims Service, and Pillar Insurance Agency. Bay Area Insurance Services sold the name and commercial lines business of its former Managing General Agency (MGA), Redmond-Adams Underwriters in 1999. The MGA formerly wrote both commercial and personal lines business (primarily condominium coverages) for Service Insurance Co. The remaining personal lines segment of business is currently serviced by Pillar Insurance Agency. Effective October 1, 1998, the Company assumed 100% of the Florida homeowners business written by Redland Insurance Company. In turn, Service Insurance Company ceded their high value homeowners business (policies above \$200,000) to Redland Insurance on a 50/50 quota share basis.

The Company primarily writes commercial multiple peril packages, allied lines and homeowners coverages principally in Florida through approximately ninety (90) independent agents. The Company specializes in commercial package policies for restaurants, churches, mobile home and travel trailer parks, small strip shopping centers, and mercantile businesses. The homeowner business is primarily standard and preferred policies and condominium coverages. The Company participates in the Write Your Own (WYO) federal flood program. Most of the flood operations are outsourced to National Flood Services.

B. MANAGEMENT

All of the outstanding capital stock is owned by the sponsor, Bay Area Insurance Services, Inc., Bradenton Florida, a holding Company. Financial control of the parent Company is held by the members of the Board of Directors with the

majority shareholder (33%), John Weichel, serving as the Company's chairman of the board and chief executive officer.

The administrative affairs of the Company are under the direction of John A. Weichel, chairman and chief executive officer. In May 1990, David C. Cruikshank joined the Company as president and chief operating officer.

Service Insurance Company utilizes Insurance Data Processing (IDP), Inc., which is the vendor for the computer system in which business is processed, claims are handled, and agent's accounting is processed. The Company has utilized (IDP) as a vendor for over 20 years and the Company is presently operating on their most current version of Vision 21.

With regard to disaster recovery plans, the Company backs up the system every night with the data stored in a safe. Off-site storage of the system is done periodically through third party vendor, (IDP). This is always done prior to a hurricane. The system is PC based and can be easily restored. Outside assistance is available from (IDP) as well as Strickland Insurance Group, Goldsboro, N.C., a large shareholder in the Company.

Each Company department informally checks its own work. No formal records are kept. The product development personnel perform random informal policy reviews against coverage reports generated by the Company's system. The Company is implementing an appointment review of the Company's agent and adjusters utilizing the Department of Insurance's web site. The Company utilizes Cart, Cartier, Melby, and Guarimo to do the outside audit of accounting operations, but this also helps verify numerous internal operations as well.

The Company has in place Special Investigative Units (SIU). This is a part of the claims function whereby suspicious losses are investigated separate from the normal claims adjuster's activities. Suspected fraudulent activity of any portion of a claim is referred to (SIU) for a thorough investigation.

C. OPERATIONS

Service Insurance Company writes in all areas of the state.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Service Insurance Company is a subscriber of Insurance Services Office (ISO) and as such (ISO) is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Service Insurance Company is a subscriber of Insurance Services Office (ISO) and as such (ISO) is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

National Association of Independent Insurers (NAII) acts as the Company's official statistical agent.

2. Premium and Policy Counts

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>
1997	\$2,839,756	8,646
1998	\$2,644,592	5,820
1999	\$3,874,555	5,901

3. Exam Findings

One hundred (100) policy files were examined.

Thirteen (13) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$88.00 and one (1) undercharge totaling \$61.00.

The errors are broken down as follows:

1. One (1) error was due to the use of an incorrect territory code. This error resulted in an overcharge totaling \$74.00, which has been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
2. One (1) error was due to failure to give a 2% smoke alarm credit. This error resulted in an overcharge totaling \$14.00, which has been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
3. One (1) error was due to the use of an incorrect base rate. The preferred rate was used in lieu of the applicable standard rate. This error resulted in an undercharge totaling \$61.00. This constitutes a violation of Section 627.062, Florida Statutes.
4. Three (3) errors were due to the use of incorrect protection classes. These errors did not affect premium. This constitutes a violation of Section 627.062, Florida Statutes.

5. Seven (7) errors were due to failure to provide the insured 45 days advance written notice of the renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes.

B. COMMERCIAL MULTI-PERIL

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Service Insurance Company is a subscriber of Insurance Services Office (ISO) and as such (ISO) is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Service Insurance Company is a subscriber of Insurance Services Office (ISO) and as such (ISO) is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

National Association of Independent Insurers (NAII) acts as the Company's official statistical agent.

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>
1997	\$6,306,533	4,824
1998	\$7,262,845	5,391
1999	\$8,380,995	5,659

b. Error Percentages

Fifty (50) policies were examined.

Four (4) errors were found.

Errors affecting premium resulted in one (1) undercharge totaling \$17.00.

The errors are broken down as follows:

1. One (1) error was due to the use of an incorrect premium charge for valuable papers coverage on an office program policy. This error resulted in an undercharge totaling \$17.00. The error was a computer programming error, which has been corrected. This constitutes a violation of Section 627.062, Florida Statutes.
2. Two (2) errors were due to the use of incorrect protection classes. These errors did not affect premium. This constitutes a violation of Section 627.062, Florida Statutes.
3. One (1) error was due to the use of an unfiled \$200.00 flat charge for Director and Officers \$200,000 liability coverage on a Church program policy. This constitutes a violation of Section 627.062, Florida Statutes.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

No errors were found.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Two (2) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Two (2) errors were due to failure to return unearned premium within the required 15 working days after the effective date of cancellation. This constitutes a violation of Rule 4-167.001, Florida Administrative Code.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Twenty-two (22) errors were found.

None of the errors affected payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

1. Eleven (11) errors were due to the use of an unlicensed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
2. Ten (10) errors were due to the use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
3. One (1) error was due to the use of an unappointed independent adjuster. This constitutes a violation of Section 626.863, Florida Statutes.

VIII. COMPLAINTS REVIEW

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

IX. EXHIBITS

SUBJECT _____ EXHIBIT NUMBER

CLAIMS HANDLING PROCEDURES I

COMPLAINT HANDLING PROCEDURES II