

**FLORIDA DEPARTMENT
OF
FINANCIAL SERVICES**

**OFFICE OF INSURANCE REGULATION
BUREAU OF MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT EXAMINATION REPORT

OF

FEDERATED NATIONAL INSURANCE COMPANY

AS OF

February 6, 2004

NAIC COMPANY CODE: 27980

EXAMINER:

WILLIAM A. DOW, III, AIE, FLMI

FILED DATE: 4/5/04



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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Florida Department of Financial Services, Office of Insurance Regulation, Bureau of Market Investigations, pursuant to Section 624.3161, Florida Statutes, a property and casualty target market conduct examination of Federated National Insurance Company (Company) was performed by William A. Dow, III, AIE, FLMI, an independent contractor. The scope of this examination was January 1, 2003 through February 6, 2004. The examination began January 19, 2004, and ended February 6, 2004.

The purpose of this examination was to verify that the Company's claim handling practices are in compliance with Florida Statutes and Rules and to determine if an increase in homeowners policies resulting from a requested take out from the residential JUA could be incorporated into the Company without adversely affecting the quality of service to its policyholders.

In reviewing materials for this report, the examiner relied on records maintained by the Company. The examination included, but was not limited to, a review of staffing, systems capabilities and claims processing capabilities. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. The examination report is a report by exception. As a result, files or material reviewed containing no improprieties by the Company have been omitted from the examination report. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

Error tolerance levels applied are as follows: monetary returns under \$5.00 were waived; zero tolerance levels were applied to all improprieties by the Company which were in violation of Florida Statutes and Rules.

UNDERWRITING REVIEW

New Business

The Company's agents quote and bind all new business at the point of sale (POS) via the Company's software program, PTS (policy tracking system). This software program was developed by IDMI (Information Distribution and Marketing, Inc.). This is an Internet-based Windows operating system. The server is currently housed at IDMI's location in Atlanta, GA. Within thirty (30) days, the server will be housed at the Company's home office in Plantation, Florida. According to IDMI, the system is capable of handling hundreds of thousands of policies. This software program contains edits that ensure that all required data is entered. The policy is automatically underwritten per the Company's rates and rules. The insured leaves the agent's office with a copy of the application and a declarations page. The agent forwards the signed application, photos of the residence, the replacement cost estimator and the premium to the Company. When the Company receives the application and supporting documentation, an underwriter reviews the package to verify that the property qualifies pursuant to the Company's underwriting criteria. A policy is then issued and sent to the insured and lienholder, if applicable.

The Company's 2003 direct written premium for homeowners and mobile homeowners policies was \$21,682,930. The in-force policy count for 2003 was 21,128.

Endorsements

All endorsements and cancellation request forms or documents are mailed or faxed to the Company for processing by the Company's agents. When completed, the updated declarations page and other forms or notices are sent by the Company to the insured, agent and mortgage company. Since the agent has access to the Company's notes and policy changes, an updated declarations page or any other forms needed can be printed without waiting for the mail to arrive.

Renewals

There is no underwriting associated with renewals. All renewal billings are automatically computer generated and mailed sixty (60) days prior to the insured's renewal date. When the renewal premium is received, it is forwarded to the processing department for posting and issuance of the renewal policy.

At the present time, the homeowner's underwriting department is comprised of six (6) underwriters and six (6) support personnel. Mike Braun, President and current head of the homeowners underwriting department, indicated that the underwriting department is currently overstaffed in view of the processing capabilities of the PTS system. He advised that one (1) underwriter is capable of handling one hundred (100) new applications a day along with other duties including phone calls. He has four (4) additional underwriters available to add to this unit, if needed. Two (2) of these additional underwriters would be transferred from the private passenger automobile programs of the Company and American Vehicle Insurance Company, a sister company. American Vehicle Insurance Company is currently reducing its private passenger automobile business and the reduction has created overstaffing in the underwriting

department. The other two (2) additional underwriters are currently employed by other companies but have indicated a willingness to work for this company.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED

The current examination included a detailed review of claims filed under homeowners insurance policies and included the following types of coverage: dwelling, personal property and loss of use.

Sample Review Findings

Fifty (50) homeowners claim files were reviewed. The Company provided a list of all claim files closed during the scope of the examination. The claim files reviewed were selected systematically from this list using Microsoft Excel's "random sample" selection process and included claims closed with payment and claims closed without payment.

No errors were found.

Claims Handling Procedures

The Company is currently using Mansfield Insurance Adjusting Company (Mansfield) as the primary source for claims adjusting, including on-site estimates. The examiner met with John Mansfield, President, to discuss the business practices of Mansfield as they relate to the handling of claims for the Company. Mr. Mansfield advised that upon receiving assignments from the Company, claimants are contacted promptly and claims are handled in a timely manner. This was confirmed through a review of the claims files.

The Company is in the final stages of changing adjusting firms. The Company is contracting with Alacrity Services (Alacrity) to handle its homeowner claims processing using AlacNet, a managed direct repair service for homeowners. Mansfield will continue to assist in claims processing by conducting all on-site estimates of damages. Based upon information provided by Alacrity, this system will allow insureds to report claims any day of the week, twenty-four (24) hours a day, and will operate as follows: when a consumer calls the Company's claim number, the call will automatically be forwarded to Alacrity's call center. The Alacrity customer representative will access the Company's data regarding the insured and their coverage. As soon as coverage has been confirmed, a pre-approved, licensed contractor is assigned to the loss and responds within twenty-four (24) hours, or within one (1) hour if there is an emergency. The claim, when taken, will be e-mailed to Superior Adjusting Company, Alacrity's claims facility, for the establishment of a claim file. Superior's adjusters will contact the insured, review estimates and handle the claim going forward regarding any questions the insured may have. The contractor will transmit a guaranteed work estimate and digital images of the damage to the Company's adjuster within seventy-two (72) hours. As soon as authorization is given by the Company, the contractor will begin or complete the job. In the event of a large loss or losses that exceed \$10,000, the Company will assign an independent adjuster for the on-site adjusting process.

The Company currently has six (6) in-house property adjusters. It is anticipated that another adjuster may be needed. One of the automobile adjusters has experience in adjusting property losses and is to be moved to the homeowners department due to a reduction in the automobile claims load .

REPORT SUMMARIZATION

Based on the review of the following areas: claims handling, firms used and firms that will be used in the adjusting process, procedures for handling new business, endorsements and renewals, computer system capability and capacity, phone system capability and available personnel, it is the examiner's opinion that the Company is capable of increasing its homeowners policy count by the requested amount without affecting the quality of service to its policyholders.

EXAMINATION REPORT SUBMISSION

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged.

The undersigned examiner conducted the examination and prepared the draft report.

Respectfully submitted,

William A. Dow, III, AIE, FLMI
Independent Market Conduct Examiner