



OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

FILED

APR 10 2014

OFFICE OF
INSURANCE REGULATION
Docketed by:

IN THE MATTER OF:

Case No.: 141851-13-CO

PRAETORIAN INSURANCE COMPANY

CONSENT ORDER

THIS CAUSE came on for consideration as a result of an agreement between Praetorian Insurance Company (hereinafter "Praetorian") and the Office of Insurance Regulation (hereinafter "Office" or "the Office"). Following a complete review of the record, and upon consideration thereof, and being otherwise fully advised in the premises, the Office and Praetorian (collectively referred to as "the parties") hereby agree as follows:

THE BUSINESS ENTITIES SUBJECT TO THIS ORDER

1. Praetorian is a property and casualty insurer, domiciled in Pennsylvania, and authorized to transact insurance in Florida. Praetorian is a member of a group of insurance companies that are subsidiaries of QBE Insurance Group Limited, an insurance holding company. Praetorian's immediate parent is QBE Holdings, Inc., a Delaware Corporation ("QBEHI"). For purposes of this Consent Order, all terms binding on Praetorian are binding on its affiliates¹ and other insurance companies in the group.

¹ For purposes of this agreement, "affiliate" means any entity that exercises control over or is controlled by Praetorian Insurance Company, directly or indirectly, through: (a) Common managerial control; or (b) Participation by the management of the insurer and affiliate in the management of the insurer or the affiliate.

2. Among the products Praetorian offers in Florida is lender placed hazard insurance on residential and commercial properties (“LPI”). LPI is insurance taken out by a bank, lender or mortgage servicer (collectively “Servicers”) when a borrower does not maintain the insurance required by the terms of the mortgage. This can occur if the homeowner allows the property insurance policy to lapse, coverage is unavailable, or if the Servicer determines that the borrower does not have sufficient insurance coverage.

3. Following a review of business practices prevalent throughout the LPI industry, the Office has raised concerns regarding Praetorian’s business practices as such practices relate to the payment of commissions to affiliates of Servicers and payment of qualified expenses directly to Servicers.

4. The Office has reviewed materials and evidence made publicly available by other state insurance regulators and the NAIC, as well as information and evidence provided to the Office directly by Praetorian.

BUSINESS REFORMS AND RATES

5. Praetorian denies any violation of the Florida Insurance Code or the Florida Administrative Code with regards to the aforementioned business practices. Notwithstanding, and without admitting any violation of law, Praetorian agrees to the following business practice reforms for all LPI business in Florida:

A. Praetorian shall not pay commissions to a Servicer, or a person or entity affiliated with a Servicer on LPI policies obtained by that Servicer;

B. Praetorian shall not issue LPI on mortgaged property serviced by a Servicer that is an affiliate of Praetorian;

C. Praetorian shall not reinsure LPI policies with a captive insurer of any Servicer;

D. Praetorian shall not pay contingent commissions based on underwriting profitability or loss ratios to any Servicer or person or entity affiliated with a Servicer;

E. Praetorian shall not provide free or below-cost outsourced services to Servicers or their affiliates, provided, however, that outsourced services do not include expenses associated with tracking functions that Praetorian incurs for its own benefit to identify and protect itself from (a) exposure to lost premium and losses on properties on which no other insurance coverage is in effect or (b) administrative costs associated with providing and subsequently canceling LPI on properties on which LPI is not required;

F. Praetorian shall not make any incentive payments, including but not limited to the payment of expenses, to Servicers or their affiliates for the purpose of securing LPI business.

G. The prohibitions and requirements set forth in Subparagraph F (above) shall not preclude Praetorian from reimbursing "implementation expenses" incurred by a Servicer. For purposes of the preceding, "implementation expenses" means those expenses that are demonstrably and directly related to the implementation of Praetorian's LPI program, including but not limited to:

- 1) Identifying Servicer and Praetorian processes and system requirements;
- 2) Allocating and assigning resources to be dedicated to the conversion/implementation to Praetorian;
- 3) Developing project documentation;

- 4) Developing the project schedule and controls to manage against the schedule;
- 5) Designing, testing and implementation of information technology systems and interfaces need to exchange information needed for the effectiveness of Praetorian's LPI program;
- 6) Diverting mail, telephone, facsimile and web-based communications;
- 7) Testing accuracy and quality of project deliverables;
- 8) Training staff on Praetorian's product and processes;
- 9) Establishing specific controls to monitor Praetorian's service to ensure it meets documented requirements; and
- 10) Any similar activity related to the implementation of Praetorian's LPI program at program inception.

"Implementation expenses" that are reimbursed must be supported by documentary or other physical or electronic evidence (such as, but not limited to invoices, work orders or the like) of their expenditure by the mortgage servicer. Such expenses must bear a direct relationship to the implementation of Praetorian's LPI program at program inception.

6. The prohibitions and requirements set forth in Paragraph 5 (above) shall be effective six (6) months following the execution of this Consent Order, provided that substantially similar prohibitions and requirements have been agreed to or otherwise required of admitted LPI insurers constituting 90% of the LPI market in Florida, as measured by LPI premium volume. It is the intent of the Office that these new business practice reforms apply to all LPI insurers issuing LPI coverage in the state of Florida. In light of the actions agreed to in this Consent Order, and to ensure that a level playing field exists for all LPI insurers in this state, should the Office become aware of any LPI insurers

operating inconsistent with the above referenced business practice reforms, it is the intent of the Office to timely take any action the Office deems appropriate to require other such insurers to comply with such business practices.

7. In addition to the business reforms reflected in Paragraph 5, in an effort to increase the transparency of its business activities, Praetorian agrees, with regards to LPI business in Florida, that within one hundred and twenty (120) days of the execution of this Consent Order, it will:

A. Provide a notification, by way of letter, to be sent to any borrower then covered under an LPI policy issued by Praetorian, or any affiliate, effective within one hundred and twenty (120) days after the execution of this Consent Order, notifications the same as or substantially similar (such that they include no less than the information described therein) to the letters attached hereto as Exhibits A-D.

B. On the envelope containing any mailing set forth in part Paragraph 7. A. (above), Praetorian will include, in 12-point font, a clear and conspicuous disclosure that the envelope contains "Important Insurance Information";

C. Post a copy of this Consent Order on its website where it can be clearly and easily read by any consumer who wishes to review it.

8. Praetorian, and any licensed affiliate of Praetorian offering LPI coverage in Florida, shall re-file its LPI rates with the Office pursuant to Section 627.062(2) (a), Florida Statutes no later than March 1st of every year until further written notification from the Office.

9. In all future LPI rate filings, Praetorian will utilize the provisions of Section 624.4213, Florida Statutes, only for those documents which Praetorian in good faith believes are entitled to trade secret protection.

10. Nothing in this Consent Order shall preclude any payments pursuant to various agreements related to QBEHI's acquisition of the LPI business and substantially all of the assets of Balboa Insurance Company, Meritplan Insurance Company and Newport Insurance Company. It is understood and agreed that the Office has not approved the contracts related to such acquisition and no statement shall be made that the Office has approved, directly or by implication, the contractual arrangements between the parties related to such acquisition.

11. This Consent Order is a compromise settlement and is not an admission of liability, wrongdoing or violation of law and no court, or the Office, has made any factual findings or legal conclusions. Notwithstanding, Praetorian expressly waives a hearing on the issues specifically set forth herein.

12. The parties agree that this Consent Order shall be deemed executed when the Office has signed a copy of this Consent Order bearing the signature of the authorized representative of Praetorian, notwithstanding the fact that the copy may be transmitted to the Office electronically or via facsimile.

13. Praetorian agrees that the failure to adhere to one or more of the above terms and conditions of this Consent Order shall constitute a violation of a lawful order of the Office, and shall subject Praetorian to administrative action by the Office.

14. If any subsequently effective Florida statute or regulation prescribes requirements inconsistent with the provisions set forth in this Consent Order, this Consent shall be modified to conform to such statute or regulation.

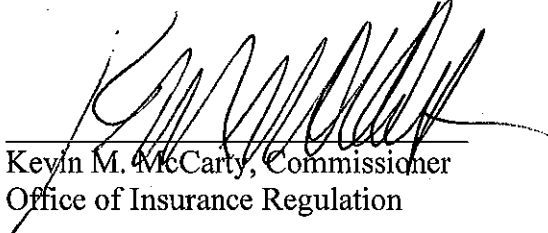
15. Except as noted above, each party to this action shall bear its own costs and attorney's fees.

WHEREFORE, the agreement between Praetorian and the Office, the terms and conditions of which are set forth above, is APPROVED.

FURTHER, all terms and conditions above are hereby ORDERED.

DONE and ORDERED this 10th day of April, 2014.





Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereof PRAETORIAN INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that he or she has the authority to bind PRAETORIAN INSURANCE COMPANY, to the terms and conditions of this Consent Order.

PRAETORIAN INSURANCE COMPANY

Corporate Seal

By: [Signature]

DAVID B. DUCLOS
Print or Type Name

Title: Chief Executive Officer

Date: April 7, 2014

STATE OF New York

COUNTY OF New York

The foregoing instrument was acknowledged before me this 7th day of April, 2014.

By David Duclos as Chief Executive Officer
(Name of Person) (Type of Authority - e.g. officer, trustee, attorney-in fact)

For Praetorian Insurance Company
(Company Name)

[Signature]
(Signature of the Notary)

CAROL ROSENSTEEL
Notary Public - State of New York
No. 01RO6238531
Qualified in New York County
My Commission Expires April 18, 2015

CAROL Rosensteel
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known OR Produced Identification

Type of Identification Produced _____

COPIES FURNISHED TO:

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MS-3(A) – MODEL FORM FOR FORCE-PLACED INSURANCE NOTICE CONTAINING INFORMATION REQUIRED BY § 1024.37(C)(2)

[Name and Mailing Address of Servicer]

[Date of Notice]

[Borrower's Name]

[Borrower's Mailing Address]

Subject: **Please provide insurance information for** [Property Address]

Dear [Borrower's Name]:

Our records show that your [hazard] [Insurance Type] insurance [is expiring] [expired], and we do not have evidence that you have obtained new coverage. **Because [hazard] [Insurance Type] insurance is required on your property, [we bought insurance for your property] [we plan to buy insurance for your property].** You must pay us for any period during which the insurance we buy is in effect but you do not have insurance.

You should immediately provide us with your insurance information. [Describe the insurance information the borrower must provide]. [The information must be provided in writing.]

The insurance we [bought] [buy]:

- **May be more expensive than the insurance you can buy yourself.**
- **May not provide as much coverage as an insurance policy you buy yourself.**

If you have any questions, please contact us at [telephone number].

[If applicable, provide a statement advising a borrower to review additional information provided in the same transmittal.]

**MS-3(B) – MODEL FORM FOR FORCE-PLACED INSURANCE NOTICE CONTAINING
INFORMATION REQUIRED BY § 1024.37(D)(2)(I)**

[Name and Mailing Address of Servicer]

[Date of Notice]

[Borrower's Name]

[Borrower's Mailing Address]

Subject: **Second and final notice – please provide insurance information for** [Property
Address]

Dear [Borrower's Name]:

This is your **second and final notice** that our records show that your [hazard] [Insurance Type] insurance [is expiring] [expired], and we do not have evidence that you have obtained new coverage. **Because [hazard] [Insurance Type] insurance is required on your property, [we bought insurance for your property] [we plan to buy insurance for your property].** You must pay us for any period during which the insurance we buy is in effect but you do not have insurance.

You should immediately provide us with your insurance information. [Describe the insurance information the borrower must provide]. [The information must be provided in writing.]

The insurance we [bought] [buy]:

- **[Costs \$[premium charge]] [Will cost an estimated \$[premium charge]] annually, which may be more expensive than insurance you can buy yourself.**
- **May not provide as much coverage as an insurance policy you buy yourself.**

If you have any questions, please contact us at [telephone number].

[If applicable, provide a statement advising a borrower to review additional information provided in the same transmittal.]

**MS-3(C) – MODEL FORM FOR FORCE-PLACED INSURANCE NOTICE CONTAINING
INFORMATION REQUIRED BY § 1024.37(D)(2)(II)**

[Name and Mailing Address of Servicer]

[Date of Notice]

[Borrower's Name]

[Borrower's Mailing Address]

Subject: **Second and final notice – please provide insurance information for** [Property
Address]

Dear [Borrower's Name]:

We received the insurance information you provided, but we are unable to verify coverage from
[Date Range].

Please provide us with insurance information for [Date Range] immediately.

We will charge you for insurance we [bought] [plan to buy] for [Date Range] unless we can
verify that you have insurance coverage for [Date Range].

The insurance we [bought] [buy]:

- **Costs \$[premium charge] [Will cost an estimated \$[premium charge] annually,
which may be more expensive than insurance you can buy yourself.**
- **May not provide as much coverage as an insurance policy you buy yourself.**

If you have any questions, please contact us at [telephone number].

[If applicable, provide a statement advising a borrower to review additional information provided
in the same transmittal.]

**MS-3(D) – MODEL FORM FOR RENEWAL OR REPLACEMENT OF FORCE-PLACED INSURANCE
NOTICE CONTAINING INFORMATION REQUIRED BY TO § 1024.37(E)(2)**

[Name and Mailing Address of Servicer]

[Date of Notice]

[Borrower's Name]

[Borrower's Mailing Address]

Subject: **Please update insurance information for** [Property Address]

Dear [Borrower's Name]:

Because we did not have evidence that you had [hazard] [Insurance Type] insurance on the property listed above, we bought insurance on your property and added the cost to your mortgage loan account.

The policy that we bought [expired] [is scheduled to expire]. **Because [hazard][Insurance Type] insurance] is required on your property, we intend to maintain insurance on your property by renewing or replacing the insurance we bought.**

The insurance we buy:

- **[Costs \$[premium charge]] [Will cost an estimated \$[premium charge]] annually, which may be more expensive than insurance you can buy yourself.**
- **May not provide as much coverage as an insurance policy you buy yourself.**

If you buy [hazard] [Insurance Type] insurance, you should immediately provide us with your insurance information.

[Describe the insurance information the borrower must provide]. [The information must be provided in writing.]

If you have any questions, please contact us at [telephone number].

[If applicable, provide a statement advising a borrower to review additional information provided in the same transmittal.]