

**MARKET CONDUCT EXAMINATION**

**OF**

**AMERICAN SECURITY INSURANCE COMPANY**

**AS OF**

**OCTOBER 31, 2005**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of OCTOBER 31, 2005 of the

**AMERICAN SECURITY INSURANCE COMPANY**

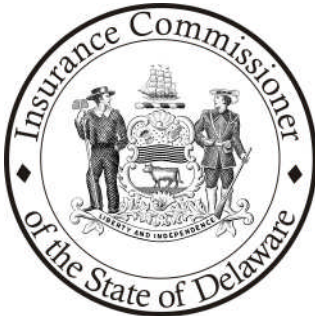
is a true and correct copy of the document filed with this Department.

ATTEST BY: \_\_\_\_\_

*Antoinette Handy*

DATE: 12 APRIL 2007

*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 12TH DAY OF APRIL 2007.



*Matthew Denn*

Insurance Commissioner

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**AMERICAN SECURITY INSURANCE COMPANY**  
AS OF  
**OCTOBER 31, 2005**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 12TH day of APRIL, 2007.

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## **SALUTATION**

September 25, 2006

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 05.724, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

### **American Security Insurance Company**

hereinafter referred to as the "Company" or as "ASIC." American Security Insurance Company is incorporated under the laws of the State of Delaware. This examination reviewed the operations of "ASIC." The on-site phase of the examination was conducted at the following location:

- 11222 Quail Roost Drive, Miami, Florida 33157

The examination is as of October 31, 2005.

Examination work was also conducted off-site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending of the type on insurer. For all insurers, these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a market conduct examination through a review of the written procedures of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated below. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

The examiners reviewed only the "Residential Hazard plus Fire and Vacant Property" program for ASIC that represents the majority of the Company's written business in Delaware. This is essentially a Forced Placed Hazard Insurance Coverage used to cover lender interests when a borrower fails to obtain a voluntary policy to cover the dwelling covered by a loan. The program is marketed to mortgage servicers who activate coverage when necessary to cover lender interests. The borrower is then charged for this coverage.

## **HISTORY AND PROFILE**

American Security Insurance Company (ASIC) was incorporated under the laws of Georgia on August 12, 1938, and commenced business September 1, 1938. On January 1, 1984, the Company merged with American Security Insurance of Delaware, a Delaware corporation incorporated on September 16, 1983. At the date of the merger, the domicile was changed from the State of Georgia to the State of Delaware.

All outstanding stock of the Company has been owned by Interfinancial, Inc., a Georgia corporation, since June 13, 1969. Fortis, Inc., a Nevada corporation, has had financial control of Interfinancial, Inc. since June 30, 1980. Fortis, Inc. is equally owned by Fortis SA/NV (Belgium) and Fortis N.V. (The Netherlands).

Effective August 18, 1999, the Company's ultimate parent purchased 100% of the American Bankers Insurance Group.

On September 25, 2003, Fortis N.V. announced its intentions to affect an initial public offering (IPO) of shares in its US insurance business, which are non-core. Fortis, N.V. plans to accelerate the development of its core activities, and at the same time Fortis, Inc. will have the opportunity to expand its operations by raising locally generated capital. Fortis N.V. intends to carry out a gradual divestment of its entire ownership interest in Fortis, Inc.

Fortis Inc.'s US insurance activities, which will be renamed Assurant, Inc., have operated as a single, stand-alone entity for over a decade. Assurant, Inc. will include American Security Insurance Company, Standard Guaranty Insurance Company and Union Security Life Insurance Company.

Fortis will own approximately 37% to 45% of the Assurant, Inc. common stock subsequent to the IPO. On February 5, 2004, the IPO took place on the New York Stock Exchange.

In 2004, Assurant established a "Virtual Claims Office," in Miami, Florida and in Ireland, which is projected to handle approximately 55% of the claims volume. Per the Company, all customer calls will be handled by the call center in Miami and all claims documentation will be received in Miami for imaging and sent to queues, which will be accessible by examiners. Examiners, who will be uniformly trained to handle claims adjudication, will pull the information from the queues based on their certified skill sets and payment authority levels. Education, management and monthly auditing of examiners in all sites will be handled by Claims Training and Compliance Department in Miami.



## METHODOLOGY

The reviews in this examination are based on the Standards and Tests for a Market Conduct Examination found in Chapter VIII of the Delaware Market Conduct Examiners' Handbook. This chapter is supported by applicable Delaware statutes, rules, and regulations as referenced herein and the NAIC Market Conduct Examiners' Handbook.

In this review, only two standards were directly tested. Standards and procedures were tested through a combination of "generic" review and observation of the processes used. A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

"Sample" review and "electronic" review methodologies were not used in this examination.

Each Standard reviewed is accompanied by a "Comment" describing the purpose or reason for the Standard. The Procedure review does not include this feature. The examiner's "Observations" are noted following each Standard or Procedure tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard or Procedure.

*Special Note: This examination reviewed only the Company's Delaware writings of forced placed hazard insurance.*

### A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with the exception of the following two standards dealing with appropriate licensure and cooperation with the examination process.

#### Standard A 08

*NAIC Market Conduct Examiners Handbook - Chapter VIII §A, Standard 8*

**The Company is licensed for the lines of business that are being written.**

18 Del. C. §318(a), §505(b), §508(b)

The review methodology for this standard is by generic review. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company's operations are in conformance with the Company's certificate of authority.

*Results: Pass*

*Observations: The Company is licensed for the lines of business being written.*

*Recommendations:* None

**Standard A 09**

*NAIC Market Conduct Examiners Handbook - Chapter VIII §A, Standard 9*

**The Company cooperates on a timely basis with examiners performing the examinations.**

18 Del. C. §318(a), §320(c), §508(b), §520(b)3

The review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. This standard is intended to ensuring that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing costs.

**Results: Pass with Recommendation**

*Observations:* During the course of the examination American Security was provided with fifty (50) Information Requests (IRs). The examiners experienced delays in receiving responses to all requests, with some of the requests not being provided to the examiners until the last day the examiners were on site. This hampered timely completion of the examination. The initial request for information was made on July 1, 2005. The Company noted that Hurricane Wilma impacted timely delay of responses, but that storm occurred on October 24, 2005, nearly four months after the request was made. The Company’s coordinator maintained open communication with the examiners.

*Recommendations:* It is recommended that the Company assign appropriate and adequate resources to achieve timely and accurate responses during an examination.

**B. COMPLAINTS/GRIEVANCES**

The evaluation of Complaints is based on the Company’s response to various information requests (IR items) and complaint files at the Company. 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware’s definition of a complaint is: "...any written communication primarily expressing a grievance."

*Observations:* The Company provided a database with four (4) logged complaints for the period of examination. These complaints represent only the Delaware forced place hazard insurance program complaints. After the review was completed no complaint patterns

were present in the master log. The review of the complaint process is noted in Procedure 11 below.

## **REVIEW OF PROCEDURES**

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this section. The processes usually include:

- a planning function wherein direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurements to take corrective action or to modify the process in order to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures as well as the absence of a means to determine that the process is performing as intended.

The reviews in the following sections are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues. *This examination reviewed only the Company writing of forced placed hazard insurance in Delaware.*

### **Procedure 01 – Audit Procedure (Internal and External)**

*Observations:* The Company has established a written process for internal audit and a written procedure for external or client audits. The examiners reviewed a general summation of internal and external auditors' duties, accreditation requirements, training and experience statistics, workflow, scope of audits and demographics. Additional information provided by the Company included the Insurance Program Review (IPR) and a checklist for analysts performing external (client) audits. Both the internal process description and external (client) procedure are clear. The version date of the internal auditors' process is January 2005 and is reviewed for updates on a monthly basis.

According to the Company, there are fifty-one (51) positions in the Assurant Audit Services Department. The 20 Certified Public Accountants (CPAs) and 14 Certified Information Systems Auditors (CISAs) are required to meet continuing education requirements. The normal duties of the internal auditors include assessing risk,

## **American Security Insurance Company**

developing audit programs, audit testing, creation of audit workpaper documentation and reports, and monitoring the implementation of previously issued audit recommendations. The Senior Vice President of Audit Services oversees all audit services activities. The internal audit group also supports PriceWaterhouseCoopers in an annual external financial audit performing controls and substantive based audit.

The general breakdown of the types of audits performed by the Company includes:

- 45% operational audits
- 22% information systems
- 10% general compliance/control
- 12% financial audits
- 11% special projects

According to the Company, responses to audit recommendations are documented within each respective audit report. The implementation of changes within internal audit reports due to recommendations is performed and monitored on a monthly basis. No other information regarding these reports was supplied to the examiners.

The client audit services group within the Company's regulatory compliance department is responsible for the IPR, which is a recurring analysis of a client's compliance with company components (forms, premiums and refunds). According to the Company, these IPRs are not audits but a "... state required evaluation of regulatory compliance issues using a mutually beneficial partnership approach between the Company and its clients." A review usually requires a five (5) to six (6) week cycle. The Company provided the examiners a copy of the IPR checklist, which is a step by step workflow for the analyst to follow when performing the clients' analysis. The phases of the IPR include:

- Understanding a clients operation, selection of random samples of premiums and refund transactions, and obtaining copies of insurance documents;
- Analysis of review procedures of client forms, premiums and refunds; and
- Reporting and addressing compliance issues.

The Company did not provide a copy of the internal and IPR audit reports, workpapers, or management recommendations. The Company did not provide information regarding measurement methodologies used to test the functioning of the internal and external audit process and procedure.

*Recommendations:* None.

### **Procedure 02 – Assertions of Privilege**

*Observations:* The Company did not provide the examiners any information regarding this process during the course of the examination.

*Recommendations:* None

### **Procedure 03 – Company Records, Central Recovery and Backup**

*Observations:* According to the Company, replication of databases and applications between the two Company's headquarters is also executed on a daily basis. Back up copies of data is written to tape each business day. Copies are then made of the back up tapes, which contain all data necessary to completely restore systems, applications and data.

*Recommendations:* None.

### **Procedure 04 – Computer Security Procedure**

*Observations:* The Company provided the examiners a written overview of their Information Security Program.

According to the Company, the computer security program includes: a written information security program, training information, policies and responses and recovery plans due to disaster. This security program details how security is created and administered within the organization and contains policies that state the criteria for security operations. Regulatory agencies, clients and the external auditors examine the Information Protection Services Department several times annually. The external auditors also produce an annual report stating the Company's fitness as a secure operation.

The information security overview also describes the various technologies, platforms and programs in place that the Company uses to ensure security and redundancy for all data, hardware and software. The Information Protection Services Department was created by the Company and is devoted to securing information and the administration of users of all information assets.

The Company is presently negotiating a managed security services provider to provide intrusion detection management and monitoring services for all business partners and networks.

The Company did not provide a copy of the information security procedures and process described within the overview and did not provide the measurement structures used to test the functioning of the procedures and processes described within the overview.

*Recommendations:* None.

### **Procedure 05 – Anti-fraud**

*Observations:* The Company provided the examiners a written overview of their Anti-fraud Procedure.

## **American Security Insurance Company**

The Special Investigations Unit (SIU) was created in February 1992. If the claims examiner or adjuster determines that further investigation of a claim is needed, that claim is sent to the SIU for processing. The SIU personnel enter the file information in the SIU database, which is then checked for prior entries. If one is found, the investigator reviews the previous claim, and then performs one or more of the following functions as part of the investigation:

- Recorded interviews with insured's and witnesses
- Background searches
- Review and verification of documentation
- Contact of appropriate authorities

If the SIU believes that fraud has been committed, the Company will report such fraud to the Fraud Prevention Bureau, Delaware Insurance Department or to the appropriate local, state or federal enforcement authorities. The SIU management reviews the information monthly and reports its findings to upper management. These procedures have been in place since February 1992 and do not appear to conflict with Delaware's statutes or regulations. No information regarding procedure updates, changes or versions was provided to the examiners.

Additionally, the Company provided the examiners a detailed description of the SIU. This included prevention and detection methodologies, education of investigators, prosecution processes, operation management, and SIU personnel and qualifications.

*Recommendations:* None.

### **Procedure 06 – Disaster Recovery**

*Observations:* Also see the observations discussed above in Procedure 03 - Company Records, Central Recovery and Backup. The Company provided the examiners a written overview of the business continuity planning and disaster recovery process.

According to the Company, a dedicated business continuity planning and disaster recovery team is in place that manages the business interruption and disaster recovery efforts. This team functions to ensure that all of the Company's business units have comprehensive business impact analysis surveys, business continuity plans, and information technology disaster recovery plans.

Disaster recovery testing is performed for the mainframe and all distribution systems and reflects a disaster scenario that ranges from minor business interruption to complete facility destruction. The disaster recovery plans also include processes for setting up a long-term office should it be required.

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The Company also maintains several hot site facilities, which contain all hardware, telecommunications and office space needed to recover systems and re-establish critical network connections. Disaster recovery plans are tested at the hot sites on an annual basis. Additional information regarding the testing of these hot sites was not provided.

*Recommendations:* None.

### **Procedure 07 – Managing General Agent (MGA) Oversight and Control**

*Observations:* The Company stated that they do not have an MGA oversight and control procedure.

*Recommendations:* It is recommended that the Company formulate, adopt and implement a written Managing General Agent Oversight and Control procedure. It is also recommended that the procedure address:

- Revision and audit history of the process adopted.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the process addressed by the written procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended.
- Utilization of the measurement structures to revise the procedure when indicated.

### **Procedure 08 – Vendor Oversight and Control**

*Observations:* The Company indicated that vendors are not used in its “Residential Hazard plus Fire and Vacant Property” program.

*Recommendations:* None

### **Procedure 09 – Customer and Consumer Privacy Protection**

*Observations:* The Company has a written procedure for Customer and Consumer Privacy Protection. The examiners reviewed the procedure and supplementary information provided by the Company including:

- A general synopsis of the customer and consumer privacy protection procedure
- Privacy mailing procedures
- Privacy notification letters to clients
- Privacy mailing project roles and responsibilities for employees
- Glossary of privacy terms, client options regarding privacy
- Processes and procedures when handling customer inquiries, and
- Standard operating procedures regarding privacy

## **American Security Insurance Company**

These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. These procedures were adopted in 2001 and are updated annually, however, no specific revision date was provided to the examiners. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures. The procedures do not appear to conflict with Delaware's statutes or regulations. According to the Company, it provides privacy notices as required by state and federal requirements. A dedicated privacy office works with business units, operations and clients to provide notices to customers and group master policyholders. Each year a manual is provided to Company personnel regarding the annual mailing process. This process includes timelines, required forms and templates, file layouts and other documents.

According to the Company, it only shares information under stated exemptions therefore no Opt-Out is offered. If the customer requests to Opt-Out, the Company offers to add the customer to the Do Not Solicit list. This allows the Company to remove the customer's name from soliciting campaigns, while still enabling the Company to share information required for account servicing and other exempted reasons.

Several methods and tools are used to track and measure the effectiveness of the procedure, including:

- Business matrix logs to track how notifications are handled for each client
- Spreadsheet reports to track and distribute Do Not solicit requests
- Mailing database is maintained to allow reporting and handling of customer service inquiries, and
- Information Technology (IT) audit reports to track disposition of files though IT and mailing house.

*Recommendations:* None.

### **Procedure 10 – Insurance Information Management**

*Observations:* Not tested.

*Recommendations:* None

### **Procedure 11 – Complaint Handling**

*Observations:* The Company provided the examiners a written overview of their Complaint Handling process for both regulatory and customer complaints.



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All complaints, both written and verbal, are date stamped and entered into a customer complaint database by one of three complaint coordinators within the Regulatory Administration Department.

Research is then performed by the complaint coordinator for each complaint and a response is sent to the complainant or regulatory agency. Complaints are monitored by department management to ensure adherence to state statutory due dates. Copies of all responses are attached to the complaint within the customer complaint database. All information that is entered into the complaint database is analyzed for completeness and accuracy by the resolving complaint coordinator. All complaints and associated correspondence are archived for a seven (7) year period.

Monthly reports are generated from the customer complaint database and the senior vice president of regulatory administration apprises senior management of any significant adverse trends.

The Company is in the process of implementing a written complaint handling training manual that will be implemented by the second quarter of 2006.

*Recommendations:* None.

### **Procedure 13 – Advertising, Sales and Marketing**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program is not advertised.

*Recommendations:* None

### **Procedure 14 – Agent Produced Advertising**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program is not advertised.

*Recommendations:* None

### **Procedure 15 – Producer Training**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program does not use producers.

*Recommendations:* None

**Procedure 20 – Producer Selection, Appointment and Termination**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program does not use producers.

*Recommendations:* None.

**Procedure 21 – Producer Defalcation**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program does not use producers.

*Recommendations:* None

**Procedure 22 – Prevention of Use of Persons with Felony Conviction**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program does not use producers.

*Recommendations:* None

**Procedure 23 – Policyholder Service**

*Observations:* The Company indicated that it does not have a written Policyholder Service Procedure for its “Residential Hazard plus Fire and Vacant Property” program.

According to the Company, the lender is the Named Insured and an assigned Client Relationship Manager (CRM) handles the policyholder service for the Named Insured’s master policy. The CRM coordinates all aspects of the master policy issuance and the addition of the lender information to the Tracking or Hazard system within the Company’s computer system.

If a borrower fails to provide acceptable evidence of insurance, the Named Insured will request coverage to protect its interest. The borrower is issued an additional insured endorsement and other forms and documents that will explain what to do if the borrower already has insurance or subsequently obtains their own insurance.

Hazard records are sent from the named insured to the Company via an electronic transmission. The electronic transmission will contain newly expired or canceled insurance records, cancellations, and non-money endorsement transactions.

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The insurance transactions are processed through a batch cycle. Expiration letters and insurance binders are printed and mailed to the borrower. Lender placed insurance records are canceled and lender placed records are updated. System reports are generated and reviewed by a Lender Placed Operations group.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

*Recommendations:* None.

### **Procedure 24 – Premium Billing**

*Observations:* The Company indicated that it does not have a written Premium Billing Procedure for its “Residential Hazard plus Fire and Vacant Property” program.

According to the Company, premiums are billed electronically and then a policy transmission is sent to the Named Insured. Upon receipt of the policy billing transmission, the Named Insured will remit to the lender and the lender then makes a premium payment to the Company. Once the premium payments are received and applied, a policy to replace the binder is printed and mailed to the borrower. Refund transmissions are sent to the Named Insured for the paid lender policies that processed a cancellation.

*Recommendations:* None.

### **Procedure 25 – Correspondence Routing**

*Observations:* The Company does not have a written Correspondence Routing Procedure.

According to the Company, correspondence is received in the form of electronic mail, facsimile, or physical documentation.

Document Solutions receives invoices, adjuster’s reports, and policyholder’s information through e-mail. When e-mail is received, it is opened in order to find if the information is related to a claim. Once this information is found, the e-mail documentation is indexed with the claim number, policy number, and policyholder’s name. It is then saved in the imaging system and is electronically routed to the claim examiner’s in-box for review. The claim examiner reviews the document in order to settle the claim. The document is retrievable at any time.

Faxed documentation is received through a common fax number. It is handled in a similar manner as e-mail documentation.

Mail is received and opened by the mailroom. It is then sorted and the Document Solutions associate delivers the mail to the addressee. The addressee reviews the

## **American Security Insurance Company**

documentation in order to settle the claim and once the claim is settled, the file is closed and any physical documentation is sent to Document Solutions in order to scan and index the documentation. The documentation is retrievable at any time.

The Document Solutions manager is responsible for performing a monthly audit to ensure that the process is effective and accurate. Management reports are presented to upper management on a monthly basis.

*Recommendations:* None.

### **Procedure 26 – Policy Issue Procedure**

*Observations:* See the Observations for Procedure 23.

*Recommendations:* None.

### **Procedure 27 – Reinstatement**

*Observations:* The Company indicated that a reinstatement process is not used in its “Residential Hazard plus Fire and Vacant Property” program.

*Recommendations:* None

### **Procedure 28 – Insured requested claim History**

*Observations:* The Company does not have a written Insured Requested Claim History Procedure. According to the Company, an insured request for claim history is handled by the customer service unit. The Company responds to written requests from the insured, confirms the data to be provided and sends the information to the insured with a cover letter.

*Recommendations:* None

### **Procedure 30 – Premium Determination and Quotation**

*Observations:* The Company does not have a written Premium Determination and Quotation Procedure for its “Residential Hazard plus Fire and Vacant Property” program. The Company did provide a description of the process utilized.

According to the Company, the premium charge is based upon the deductible selected by the Named Insured Lender to determine the rate per hundred dollars of dwelling coverage. The amount of dwelling coverage is requested by the Named Insured Lender,

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based on the last known coverage amount of the prior insurance policy for that property or the outstanding loan balance.

When it becomes evident that a borrower's insurance coverage has lapsed, a letter is mailed to the borrower reminding them of their duties and obligations to maintain insurance coverage. This letter may also include a quote of the forced place policy premium. If there is no response after an amount of time determined by the Named Insured, a binder is issued which displays the amount of premium that will be charged, along with another request to provide documentation if other coverage is in force or to please obtain coverage through an agent of the borrowers choice.

*Recommendations:* None.

### **Procedure 31 – Policyholder Disclosures**

*Observations:* Not tested.

*Recommendations:* None.

### **Procedure 32 – Underwriting and Selection**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program is not underwritten.

*Recommendations:* None

### **Procedure 33 – Rate and Form Filing**

*Observations:* The Company does not have a Rate and Form Filing Procedure. The examiners reviewed several items provided by the Company purporting to be written procedures, however, these were merely a description or overview of a process used in the absence of a written procedure. No version date or revision history was provided.

The Company relies upon a manual based upon state filings. The analysts must obtain rate certification from the Actuarial Department for rate filings requiring any of the following:

- a certification by a Company Officer;
- a certification by the Filing Analyst; or
- a rate checklist, whether it is required to be filed or not.

For form filing, a Filer Certification is required to be completed with any documents requiring an officer's signature for submission to the Department of Insurance.

**American Security Insurance Company**

*Recommendations:* None.

**Procedure 34 – Termination**

*Observations:* The Company did not provide a termination procedure for its “Residential Hazard plus Fire and Vacant Property” program.

*Recommendations:* None

**Procedure 35 – Underwriting File Documentation**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program is not underwritten.

*Recommendations:* None

**Procedure 36 – Underwriting Training**

*Observations:* The Company indicated that its “Residential Hazard plus Fire and Vacant Property” program is not underwritten.

*Recommendations:* None

**Procedure 40 – Staff Training Procedure**

*Observations:* The Company does not have a written Staff Training Procedure for its “Residential Hazard plus Fire and Vacant Property” program. The Company did not provide a copy of the measurement structures used to determine if management exercises oversight and control of the process.

According to the Company, the only processes in place relating to staff training are when changes to procedures are documented and reviewed with the staff. Evaluations are performed by management after implementation to ensure changes are being followed.

*Recommendations:* None.

**Procedure 42 – Adjustor (Claims Adjudicator) Training**

*Observations:* The Company does not have a written Adjuster Training Procedure. The Company provided the examiners a written overview of the adjuster training process.

## **American Security Insurance Company**

According to the Company, field staff adjusters and claims examiners go through a two (2) week course provided by the Company's training and compliance department. They are trained on the systems, policies and estimating software. The adjusters are also provided with bulletins explaining when a new process or procedure is implemented. These bulletins are created by the training and compliance department and are also discussed during the staff meetings.

*Recommendations:* None.

### **Procedure 43 – Claim Handling**

*Observations:* According to the Company, during the two (2) week new hire training, the adjusters and claims examiners go over the claims audit form as well as expectations. The audit form emphasizes many issues, such as verification of policy, sending status letters, responding to correspondence, and time standards. All of the claims examiners and adjusters are hired with claim handling experience. The Training and Compliance Department also distribute bulletins to the adjusters to inform them of changes in policies or procedures. These bulletins are also discussed during staff meetings. Managers have access to the pending claims report to identify old claims. With this information, the manager can assist the adjuster to settle the loss in a timely manner.

Managers audit five (5) claims per month for every examiner on their team. If any issues are identified the manager meets with the individual associate to go over the findings. The Training and Compliance Department recently began to do one group audit per year for all of the examiner units to identify any issues. The results are discussed with upper management and action plans are set in place for corrective actions.

### **Procedure 44 – Internal Claim Audit**

*Observations:* The Company has a written Internal Claim Audit Procedure. The Company provided the examiners a written overview of the internal claim audit procedure.

According to the Company, claim managers are responsible for auditing five (5) claims per examiner per month. They use the audit form and the audit definitions document for reference. During the year, the Training and Compliance Departments do one group audit per year for all the examiner units to identify any issues. The results are discussed with upper management and action plans are set in place for corrective actions.

To check for digit and fraud audit, the Company also performs an audit on a daily basis to ensure the accuracy of the checks that were issued on the previous day. Several reports are generated to identify claims in which a payment has been made sixty (60) days after the claim was closed, or claims that had an address change prior to the payment. The auditor reviews the claims payments for validity.

## **American Security Insurance Company**

Managers are provided with reports three times a week that identify all of the open claims. This report indicates the length of time the claim has been opened. The Managers act on these reports to assist the adjusters and examiners settle the loss.

*Recommendations:* None.

### **Procedure 45 – Claim File Documentation**

*Observations:* The Company does not have a written Claim File Documentation Procedure. However processes contained in the claim audit function and the initial training provide sufficient guidance to convey Company expectations for documentation.

According to the Company, the adjusters and claim examiners go through the audit form during their initial two week training as well as coaching sessions and staff meetings. The audit form ensures that the claim file documentation is appropriate. The claims examiner and/or adjuster are required to enter information into the system's comment section explaining any file activity (phone call, mail received, etc.).

Claim file documentation is one of the audit items in the audit form. The audit requires that the physical documents have a date stamp that comments are entered in the claims system, and any necessary documentation is kept as part of the claim file.

Managers audit five (5) claims per month for every examiner in their team. If any issues are identified, the manager meets with the individual associate to go over the findings. During the year, the Training and Compliance Departments do one group audit per year for all of the examiner units to identify any issues. The results are discussed with upper management and action plans are set in place for corrective actions.

*Recommendations:* None.

### **Procedure 46 – Subrogation and Deductible Reimbursement**

*Observations:* The Company has a written Subrogation and Deductible Reimbursement Procedure. The procedure was initially adopted in 1993 and was last revised in November 2004.

According to the Company, subrogation is pursued based on the laws present in the various jurisdictions. The Company will reimburse the insured's deductible based on the percentage recovery.

The Company did not provide information regarding measurement structures to determine if management exercises oversight and control of the process and to determine that the process is performing as intended.

*Recommendations:* None.



## **Procedure 47 – Reserve Establishment**

*Observations:* Not tested

*Recommendations:* None.

## **SUMMARY**

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims. This examination reviewed only the Company's Delaware writings of forced placed hazard insurance.

Company responses to information requests were provided late and often incomplete. The Company failed to provide requested information. The Company has few written procedures in place and typically has few measurements of control mechanisms in place to provide Company management with adequate feedback.

## **LIST OF RECOMMENDATIONS**

Recommendations have been made to address the areas of concern noted during the examination. These are summarized below.

### **Standard A-09 – Timely Cooperation with Examiners**

*Recommendations:* It is recommended that the Company assign appropriate and adequate resources to achieve timely and accurate responses during an examination.

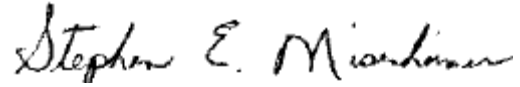
### **Procedure 07 – Managing General Agent (MGA) Oversight and Control**

*Recommendations:* It is recommended that the Company formulate, adopt and implement a written Managing General Agent Oversight and Control procedure. It is also recommended that the procedure address:

- Revision and audit history of the process adopted.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the process addressed by the written procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended.
- Utilization of the measurement structures to revise the procedure when indicated.

**CONCLUSION**

The examination was conducted by Stephen E. Misenheimer, Sean Connolly and Candace Reese and is respectfully submitted,



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