

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

SECURITY PLAN FIRE

INSURANCE COMPANY

DONALDSONVILLE, LOUISIANA

AS OF

December 31, 2003

NAIC CODE 10246

NAIC ETS EXAM NO. LA071-M26

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LOUISIANA DEPARTMENT OF INSURANCE

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August 12, 2004

Honorable J. Robert Wooley
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to statutory provisions and in compliance with your instructions, a limited market conduct examination has been made of the affairs of the

SECURITY PLAN FIRE INSURANCE COMPANY

205 RAILROAD AVENUE

DONALDSONVILLE, LOUISIANA

as of December 31, 2003 and the report of examination is herewith submitted.

FOREWORD

A market conduct examination was performed of the activities of Security Plan Fire Insurance Company from January 1, 2000 through December 31, 2003. The examination was performed by test and all tests applied during the examination are included in this report.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

In accordance with **LSA-R.S. 22:1301 D**, the market conduct examination of Security Plan Fire Insurance Company, hereinafter referred to as ("Company"), was a limited market conduct examination authorized by the Louisiana Department of Insurance ("Department").

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of Insurance Commissioners ("NAIC") Guidelines. The NAIC Guidelines set the standards of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders. The *NAIC Market Conduct Examiner's Handbook, Volume I* was used as a measure of compliance.

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance, was utilized in this examination. Samplings were utilized to test the Company's records and procedures. The ACL Program was used to automatically generate a random sampling of claims records. "Random" is a theoretical concept meaning that all items in a population or file (before selection) have an equal

chance of appearing in the sampling. In instances in which ACL was not used, a systematic (sequential) sampling of certain company record listings was performed.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples. Based on a review of the sampling's error rate, additional samplings may be required.

The examination included, but was not limited to, the following areas of the Company's operation:

- Company Operations,
- Complaints,
- Producer Licensing and Appointments,
- Marketing and Sales,
- Underwriting and Rating and
- Claims.

COMPANY OPERATIONS

Company History

Security Plan Fire Insurance Company is a Louisiana domiciled property and casualty insurance company licensed to operate in Louisiana. The Company was formed on October 26, 1995 as a wholly-owned subsidiary of Loewen Group International, Inc. Prior to March 27, 1996, the Company had no insurance operations. On March 27, 1996, the Company acquired all of the insurance business of SI-SI Fire Insurance Company through a reinsurance assumption agreement.

During 1996, the common stock of Security Fire was contributed to Security Plan Life Insurance Company, whereby Security Fire became a wholly-owned subsidiary of Security Plan Life Insurance Company.

Parent, Subsidiaries, and Affiliates

The following schedule depicts certain affiliations with the Company. Ownership is denoted by indenture.

Alderwoods Group, Inc.
Alderwoods Life Insurance Group, Inc.
Mayflower National Life Insurance Company
Security Plan Life Insurance Company
Security Plan Agency, Inc.
Security Plan Fire Insurance Company
Funeral Service, Inc.
National Capital Life Insurance Company
Mayflower Corporate Services, Inc.

Certificate of Authority

The Company's Certificate of Authority was reviewed during the examination and was originally issued with an effective date of March 21, 1996. It was amended on August 25, 2000 and authorized the Company to write fire and extended coverage insurance.

Territory and Plan of Operations

The Company writes, through its home service distribution marketing system, low value dwelling (fire coverage) and contents coverage on residences that may not qualify for the minimum coverage provided by companies writing homeowner policies. The Company writes no commercial lines, worker's compensation, liability, multiple peril or automobile coverage.

For the period under examination, the Company's annual statements reflected the following gross premium volume:

<u>YEAR</u>	<u>PREMIUM VOLUME</u>
2000	\$4,336,033

2001	\$4,360,217
2002	\$4,430,245
2003	\$4,661,127

Antifraud Policy

The Company has a Special Investigation Unit (SIU) that was established to detect and investigate suspected fraudulent activity on life and fire insurance policies and provide for appropriate disposition. The SIU provides fraud education and training at least on a semi-annual basis to personnel integral to the fraud unit.

The fraud detection plan and procedures were reviewed and they seem adequate for handling questionable claims and detecting fraudulent new business.

Privacy Policies and Procedures

The Company has privacy procedures and a privacy policy in place that complies with federal and state laws. The privacy notice was reviewed and it contains all of the requirements of Regulation 76. The notice is mailed or hand-delivered to each premium payer annually and sent to each premium payer if a policy lapses or becomes paid up. If an application is declined or cancelled, a notice is sent with the refund of the premium.

Comments and Recommendations from Previous Reports

The Louisiana Department of Insurance conducted an examination of the Security Plan Fire Insurance Company as of December 31, 1999, but this examination report did not contain any recommendations relating to the Company's market conduct activities.

COMPLAINT REVIEW

This review was conducted in accordance with the provisions of Louisiana Revised Statute 22:1214(17) which states as follows:

“The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance: ...

Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. For purposes of this Paragraph, “complaint” shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance.”

The Company's complaint procedure was reviewed. It seems adequate for handling complaints and for the recording of the complaints and the responses in the AS400 computer system.

The Company's complaint register was reviewed. The complaints are entered into a database on the AS400 computer. The Company considers the database to be the register. The database contains all of the requirements of the statute except for the total number of complaints. A report listing the complaints is available which does show the total number of complaints per year.

The Department's complaint register contains twenty-seven (27) complaints that have been submitted to the Company for investigation. The following table summarizes the complaints for the four (4)-year period under examination by category:

<u>Reason for Complaint</u>	<u>No. of Complaints</u>
Claim Delays	5
Claim Denials	11
Unsatisfactory Settlement	7
Cancellation of Policy	1
Problems with Premiums	2
Total	<u>26</u>

The Company's response to one (1) complaint was not within the time limit specified in the Department's directives. It is recommended that the Company implement procedures to ensure that they respond to complaints submitted by the Department within the time limits specified in the Department's directives or request an extension to the time limit in writing.

The Company responded that they have established a new procedure whereby all complaints will be routed to one supervisor who will be responsible for ensuring that the responses to the complaints are sent within the time allowed in the Department's directives.

The average response time for the complaints in the sample was fifteen (15) days.

PRODUCER REVIEW

The Company's list of current appointed producers was compared to the Department's list of appointments. All of the producers were properly appointed.

During this exam the Company was reminded of the DOI's Bulletin #99-01 dated June 1, 1999 referencing "Consent for Prohibited Person to engage in Insurance Business". This Bulletin was a notification to all persons and entities engaged in or contemplating being engaged in the business of insurance in this state, that the Louisiana

Department of Insurance has enacted guidelines and requirements for granting written consent to engage in the business of insurance for individuals who are considered "prohibited persons" under The Violent Crime Control and Law Enforcement Act of 1994, Title 18 U.S. Code, Sections 1033 and 1034.

The Company believes its procedures for contracting producers are in compliance with the DOI's Bulletin #99-01.

Twenty (20) producer files were reviewed. A systematic sample of ten (10) files was selected from the Department's list of producers that had been terminated during 2003. Another systematic sample of ten (10) files was selected from the Company's list of current producers. The files for these producers were reviewed to determine the reason for termination and to determine if the termination notices were filed within the statutory time limits. The appointment records were also reviewed to determine if they had been filed within the statutory time limits.

The termination notice for one (1) producer was not filed within the statutory time limit. It was filed four (4) days after the thirty (30) day time limit. This is not in compliance with **LSA-R.S. 22:1145 A** which states:

"An insurer or authorized representative of the insurer that terminates the appointment, employment, or contract with a producer for any reason not set forth in R.S. 22:1142, shall notify the commissioner of insurance within thirty days following the effective date of the termination, in a manner prescribed by the commissioner, stating the circumstances of the termination. Upon written request of the commissioner, the insurer shall provide additional information, documents, records, or other data pertaining to the termination."

It is recommended that the Company implement procedures to ensure that the termination notices are sent out within the time period required by the statute.

The appointment notices had all been filed within the time limits required by the statute.

MARKETING AND SALES REVIEW

The Company does not use any radio, television or other media advertising for its products. It relies on brochures provided to customers by its producers. The brochures provided by the producers were reviewed. All sales brochures appear to be in compliance with applicable statutes.

The Company's Internet website, www.securityplan.com, was reviewed. It contains an overview of the various products offered, a company overview, contact information, frequently asked questions, a glossary of terms and a way to make an appointment with an agent. It does not offer the ability for a customer to apply for insurance online.

The Company's Field Operating Manual was reviewed. It contains detailed training information for the producers and includes a rate book, company policies, list of acquired companies, plan code listing, specimen policies and a fire training manual. All producer training materials appear to be in compliance with applicable statutes, rules and regulations.

Several issues of the Company's monthly newsletter *The Key to Success* were reviewed. The newsletters appear to be in compliance with applicable statutes, rules and regulations.

This review was completed without any exceptions.

CLAIMS REVIEW

Claims Walkthrough

A claims walkthrough was conducted on May 3, 2004. The examiner was accompanied by the claims supervisor. Claims are received by mail from the district office and date stamped the same day of receipt with a hand stamp. When a claim is received, the claims card and the application are checked. The items that must be received to constitute proof of loss are the proof of loss forms, inventory list for contents claims, pictures, lightning form from a technician if lightning is involved and the extended coverage worksheet for dwelling claims.

Paid Claims Review

The Company provided a listing of all paid claims for the period January 1 through December 31, 2003 in an electronic file. This file was analyzed by ACL and various reports were generated.

These ACL reports are based on the actual number of claims processed and include both clean and unclean claims. The following table shows the time it took to process and pay the claims:

FIRE CLAIMS

71% were paid within 30 days
13% were paid within 60 days
7% were paid within 90 days
3% were paid within 120 days
1% was paid within 150 days
1% was paid within 180 days
4% were paid 181 days or later

Paid Claims Sample Review

A random sample of sixty (60) paid claims was selected by ACL from an electronic file provided by the Company for the period January 1 through December 31, 2003. The files were reviewed to determine the time it took to pay the claims and to determine if the files contained adequate documentation. Also, files were reviewed to determine if the claims were paid in accordance with the terms of the policy.

The claims in the sample were paid in an average of forty-five (45) days after the loss was reported and eight (8) days after proof of loss was received.

Three (3) claims files in the sample could not be found. This is not in compliance with **LSA-R.S. 22:1214 (16)** which states:

"Failure to maintain marketing and performance records. Failure of an insurer to maintain its books, records, documents, and other business records in such an order that data regarding complaints, claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance commissioner. Data for at least the current calendar year and the two preceding years shall be maintained."

It is recommended that the Company implement procedures to ensure that all books and records are maintained for the period of time defined in the above statute.

Four (4) claims in the sample were not paid within the thirty (30)-day time limit required by the statute. This is not in compliance with **LSA-R.S. 22:658 A(1)** which states:

"All insurers issuing any type of contract, other than those specified in R.S.22:656, R.S. 22:657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest."

It is recommended that the Company implement procedures to ensure that all claims payments are made within the time limit required by the statute.

The Company stated that these four (4) claims occurred during Hurricane Lili and Tropical Storm Isidore and they had seven (7) times the normal number of claims to process.

Denied Claims Review

A systematic sample of sixty (60) denied claims was selected from boxes of files at the Company for the examination period of January 1, 2000 through December 31, 2003. The files were reviewed to determine the reasons for denial and to review the general handling of the claims. The following table shows the reasons for denial for the sample:

<u>Reason for Denial</u>	<u>No. of Claims</u>
Not covered in policy	25
Roof Endorsement on policy	19
No damage found	7
Damage is old	3
Claim filed too late	2
Claim not for this policy	2
Loss before policy effective date	1
Policy lapsed	1
Total	60

This review was completed without any exceptions.

UNDERWRITING AND RATING REVIEW

New Business Review

The Company provided an electronic file of all policies issued during the period of January 1, 2001 through December 31, 2003. ACL was used to analyze the file. A summary of the types of policies issued is presented below:

<u>Type</u>	<u>No. of Policies</u>
Fire Contents	21,895
Fire Dwelling	6,793
Living Expense Rider	<u>22,106</u>
Total	50,794

New Business Sample Review

A random sample of sixty (60) policies was selected by ACL from the file of new business provided by the Company. The files were reviewed in order to review the application forms, policy forms, timeliness in issuing policies, premium rates charged, writing producers and a general review of the file. All of the applications were complete and had been signed and dated by both the applicant and the writing producer. Policies were issued in an average of nine (9) days after the applications were completed and four (4) days after the applications were received.

Policy Forms Review

The policy forms, endorsements, living expense rider and application form were reviewed and they have all been approved by the Department.

Form IF-100N (Application Form) does not have the form number on each page as required by **LSA-R.S. 22:624 B (9)** which states:

"B. A policy shall specify and conform to the following:

(9) Each such form, including riders and endorsements, shall be identified by a form number in the lower left-hand corner of each page."

It is recommended that the Company implement procedures to ensure that all forms have the form number on each page as required by the statute.

The application form in use during the examination period does contain the fraud statement on the back of the form as required by statute **LSA-R.S. 40:1424 B**. This statute states:

"All applications for insurance and all claim forms provided and required by an insurer or required by law as a condition of payment of a claim shall contain a statement, permanently affixed to or included as a part of the application or claim form, that clearly states in substance the following: "Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.""

Writing Producer Review

The sixty (60) policies in the new business review were reviewed to verify that the writing producers were properly appointed.

It was found that nine (9) producers had sold fire insurance policies before their licenses were issued and before their appointments had become effective. This is not in compliance with **LSA-R.S. 22:1133 A** and **LSA-R.S. 22:1144 A (1)**.

LSA-R.S. 22:1133 A states as follows:

"No person shall act as or hold himself out to be an insurance producer unless licensed by the Department of Insurance."

LSA-R.S. 22:1144 A (1) states as follows:

"An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer, except for surplus lines policies placed through licensed surplus lines brokers, surplus lines policies placed with unauthorized insurers by licensed surplus lines brokers, and workers' compensation policies placed with the Louisiana Workers' Compensation Corporation."

It is recommended that the Company implement procedures to ensure that all producers are properly licensed and appointed in order to be in compliance with the above statutes.

Rating Review

Copies of the rate filings were obtained for the period under examination. All filings had been approved by the Department.

A systematic sample of twenty (20) policies was selected from the new business sample. The premium rates on the applications were checked against the Company's rate manual dated April 2003 to determine if the rates had been applied correctly. No discrepancies were found.

Declined Application Review

A random sample of sixty (60) declined applications was selected for review from an electronic file provided by the Company for the period January 1, 2001 through December 31, 2003. The files were reviewed to determine the reason for declination and to verify that the declinations are not unfairly discriminatory. The reasons for declination are listed in the computer system and in some cases in notes on the applications.

In one (1) case, the application was cancelled by the agent but no reason for the cancellation was given. It is recommended that more complete and descriptive reasons for canceling applications should be listed in the files or computer system in these cases.

The following table lists the reasons for the declinations:

<u>Reason for Declination</u>	<u>No. of Applications</u>
Incorrect premium	14
Insured did not pay premium	8
High risk	5

Insured has insurance in another debit	5
Dwelling in bad condition	5
Dwelling Unoccupied	4
Altered app not acceptable	3
Agent not licensed for fire	2
Incorrect coverage listed	3
Cancelled by agent	1
Miscellaneous	<u>10</u>
Total	60

Cancellation Review

The Company provided an electronic file of all policies cancelled during the period of January 1, 2001 through December 31, 2003. ACL was used to analyze the file. A summary of the types of policies cancelled is presented below:

<u>Type</u>	<u>No. of Cancellations</u>
Fire Contents	158
Fire Dwelling	158
Living Expense Rider	<u>184</u>
Total	500

The cancellation review was conducted to verify that these cancellations are not unfairly discriminatory.

Cancellation Sample Review

A random sample of sixty (60) cancelled policies was selected by ACL from an electronic listing provided by the Company for the period January 1, 2001 through December 31, 2003. The files were reviewed to determine the reason for the cancellation and to determine if the amount of advance notice given in the notice of cancellation complied with the statutes. The following table lists the reasons for cancellation:

<u>Reason for Cancellation</u>	<u>No. of Policies</u>
Dwelling is vacant	30
Excessive claims	7
Co. doesn't wish to continue coverage	7
Mobile homes not insured	4
Cancelled at insured request	3
Poor condition of home	3
Cancelled until repairs made	3
Dwelling suffered total loss	2
Business attached to dwelling	1
Total	60

The cancellation letters for seven (7) policies did not contain a cancellation date. The cancellation letters for twenty-seven (27) policies did not give an advance notification of cancellation of at least thirty (30) days that is required by statute. This is not in compliance with **LSA-R.S. 22:636 A (1)(a)** which states:

"Written notice of such cancellation must be actually delivered or mailed to the insured or to his representative in charge of the subject of the insurance not less than thirty days prior to the effective date of the cancellation except when termination of coverage is for nonpayment of premium."

It is recommended that the Company should implement procedures to ensure that all cancellation letters contain the effective date of the cancellation. Also, the Company should ensure that an advance notice of cancellation of at least thirty (30) days is given in order to be in compliance with the above statute.

UNIFORM DISPOSITION OF PROPERTY ACT REVIEW

Effective July 10, 1997, Act 809 of the 1997 Regular Legislative Session requires all companies, including life insurance companies, to file a report by November 1st each year of unclaimed property in its possession.

The Company stated that they did not have any unclaimed property to report for the period under examination 2000-2003 and did not make any filings.

This is not in compliance with the Uniform Disposition of Unclaimed Property Act, **LSA-R.S. 9:151-181**. It is recommended that the Company begin annual filings of the Unclaimed Property Report in order to be in compliance with the above statute. The instructions for this statute state that if a company does not have any items to report, they should file the annual report indicating that fact.

The Company also stated that they will begin filing the annual report each November 1st.

COMMENTS AND RECOMMENDATIONS

COMPLAINT REVIEW

The Company's complaint register did not contain one (1) of the complaints. This is not in compliance with **LSA-R.S. 22:1214 (17)**. It is recommended that the Company implement procedures to ensure that all of the complaints received from the Department are entered in the Company's complaint register. During the course of the examination, the Company added the missing complaint to its complaint register.

The Company's response to one (1) complaint was not within the time limit specified in the Department's directives. It is recommended that the Company implement procedures to ensure that they respond to complaints submitted by the Department within the time limits specified in the Department's directives or request an extension to the time limit in writing.

PRODUCER REVIEW

The termination notice for one (1) producer was not filed within the statutory time limit. This is not in compliance with **LSA-R.S. 22:1145 A**. It is recommended that the Company implement procedures to ensure that the termination notices are sent out within the time period required by the statute.

CLAIMS REVIEW

Three (3) claims files in the paid claims sample could not be found. This is not in compliance with **LSA-R.S. 22:1214 (16)**. It is recommended that the Company implement procedures to ensure that all books and records are maintained for the period of time defined in the above statute.

Four (4) claims in the paid claims sample were not paid within the thirty (30)-day time limit required by the statute. This is not in compliance with **LSA-R.S. 22:658 A(1)**. It is recommended that the Company implement procedures to ensure that all claims payments are made within the time limit required by the statute.

UNDERWRITING REVIEW

Form IF-100N (Application Form) does not have the form number on each page as required by **LSA-R.S. 22:624 B (9)**. It is recommended that the Company implement

procedures to ensure that all forms have the form number on each page as required by the statute.

It was found that nine (9) producers had sold fire insurance policies before their licenses were issued and before their appointments had become effective. This is not in compliance with **LSA-R.S. 22:1133 A** and **LSA-R.S. 22:1144 A (1)**. It is recommended that the Company implement procedures to ensure that all producers are properly licensed and appointed in order to be in compliance with the above statutes.

During the review of declined applications, it was found that in one (1) case, the application was cancelled by the agent but no reason for the cancellation was given. It is recommended that more complete and descriptive reasons for canceling applications should be listed in the files or computer system in these cases.

The cancellation letters for seven (7) policies did not contain a cancellation date. The cancellation letters for twenty-seven (27) policies did not give an advance notification of cancellation of at least thirty (30) days that is required by statute. This is not in compliance with **LSA-R.S. 22:636 A (1)(a)**. It is recommended that the Company implement procedures to ensure that all cancellation letters contain the effective date of the cancellation. Also, the Company should ensure that an advance notice of cancellation of at least thirty (30) days is given in order to be in compliance with the above statute.

UNIFORM DISPOSITION OF PROPERTY ACT REVIEW

The Company stated that they did not have any unclaimed property to report for the period under examination 2000-2003 and did not make any filings. This is not in compliance with the Uniform Disposition of Unclaimed Property Act, **LSA-R.S. 9:151-**

181. It is recommended that the Company begin annual filings of the Unclaimed Property Report in order to be in compliance with the above statute.

The Company also stated that they will begin filing the annual report each November 1st.

CONCLUSION

I, Richard S. Robison, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

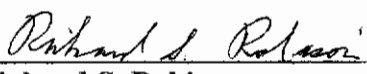
SECURITY PLAN FIRE INSURANCE COMPANY

DONALDSONVILLE, LOUISIANA

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

I would like to acknowledge the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,


Richard S. Robison
Louisiana Department of Insurance