

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

In Re:

SECURITY NATIONAL INSURANCE
COMPANY (NAIC #19879)

)
)
)
)

Market Conduct Examination
No. 317131

ORDER OF THE DIRECTOR

NOW, on this 15th day of November, 2021, Director, Chlora Lindley-Myers, after consideration and review of the market conduct examination report of Security National Insurance Company (NAIC #19879) (hereinafter "Security National"), examination report number #317131, prepared and submitted by the Division of Insurance Market Regulation (hereinafter "Division") pursuant to §374.205.3(3)(a)¹, does hereby adopt such report as filed. After consideration and review of the Stipulation of Settlement and Voluntary Forfeiture ("Stipulation"), relating to the market conduct examination #317131, the examination report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4). The Director does hereby issue the following orders:

This order, issued pursuant to §374.205.3(4), §374.280 RSMo, and §374.046.15. RSMo, is in the public interest.

IT IS THEREFORE ORDERED that Security National and the Division having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

¹ All references, unless otherwise noted, are to Revised Statutes of Missouri 2016, as amended, or to the Code of State Regulations, 2020, as amended.

IT IS FURTHER ORDERED that Security National shall not engage in any of the violations of law and regulations set forth in the Stipulation, shall implement procedures to place it in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri, and to maintain those corrective actions at all times, and shall fully comply with all terms of the Stipulation.

IT IS FURTHER ORDERED that Security National shall pay, and the Department of Commerce and Insurance, State of Missouri, shall accept, the Voluntary Forfeiture of \$23,150.00 payable to the Missouri State School Fund in connection with the examination.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 15th day of November, 2021.



Chlora Lindley-Myers
Chlora Lindley-Myers
Director

**IN THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF MISSOURI**

In Re:)
)
SECURITY NATIONAL INSURANCE) **Market Conduct Examination**
COMPANY (NAIC #19879)) **No. 317131**

STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter “the Division”) and Security National Insurance Company (NAIC #19879) (hereinafter “Security National”), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Commerce and Insurance (hereinafter “the Department”), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State of Missouri;

WHEREAS, Security National has been granted a certificate of authority to transact the business of insurance in the State of Missouri;

WHEREAS, the Division conducted a market conduct examination of Security National, examination #317131; and

WHEREAS, based on the market conduct examination of Security National, the Division alleges that:

1. In 14 instances, Security National did not use the filed terrorism rate in violation of §287.947¹.
2. In one instance, Security National did not include the member’s payroll limit in classification codes 8742 and 8810 in violation of §287.955.4.

¹ All references, unless otherwise noted, are to Missouri Revised Statutes 2016, as amended or to the Code of State Regulations, 2020, as amended

3. In two instances, Security National did not include the correct officer's payroll limit in certain classification codes in violation of §287.955.4.

4. In one instance, Security National did not allocate a flat 10% of member payroll in classification codes 8810 and 9082 in violation of §287.955.1.

5. In one instance, Security National did not include officer payroll in the correct classification code in violation of §287.955 and 20 CSR 500-6.950.

6. In one instance, Security National did not include the officer payroll limit in the correct classification code in violation of §287.947, §287.950, §287.955 and 20 CSR 500-6.950.

7. In one instance, Security National charged incorrect payroll to a classification code in violation of §287.955.

8. In one instance, Security National failed to adhere to the uniform classification system and charged incorrect payroll to classification code 8810 in violation of §287.955.

9. In 87 instances, Security National used unapproved forms in violation of §287.310.1 and 20 CSR 500-6.100 (1).

10. In 84 instances, Security National failed to attach the required Missouri endorsements to policies in violation of §§287.955.4 & .5, §287.310.1 and 20 CSR 500-6.100 (1).

11. In five instances, Security National did not provide a copy of the schedule rating worksheet or the experience modification worksheet in violation of §287.937, §374.205.2 (2) and 20 CSR 100-8.040 (3) (A).

12. In nine instances, Security National applied, or failed to apply, schedule rating credits or debits without documenting a change in the risk in violation of §§287.955.6 (2) (d) & (4) (d), §287.950.1 and 20 CSR 500-4.100 (7) (D).

13. In two instances, Security National applied an experience modification without documentation supporting the modification in violation of §287.955.1.

14. In one instance, Security National did not adhere to the uniform classification system, miscalculating an insured's operation as a restaurant rather than as a nightclub in violation of §287.955.

15. In five instances, Security National used an unfiled rate by incorrectly applying a multiplier of 150% to estimated payroll and failing to calculate the audit noncompliance charge in violation of §287.955.5 and §287.947.

16. In 47 instances, Security National materially aided producers, not listed on its Registry, to write business, in violation of §375.022.2 and 20 CSR 700-1.020.

17. In 11 instances, Security National failed to complete and bill audits or return premium within 120 days of policy expiration or cancellation in violation of §287.310.1, §§287.955.1 & .3 and 20 CSR 500-6.500 (2) (A).

18. In nine instances, Security National did not notify the insured of the specific amount of the audit noncompliance charge in violation of §287.955.5.

19. In 11 instances, Security National was late in responding to examiner criticisms in violation of §374.205.2 (2) and 20 CSR 100-8.040 (6).

20. In three instances, Security National was late in responding to formal requests in violation of §374.205.2 (2) and 20 CSR 100-8.040 (6).

WHEREAS, the Division and Security National have agreed to resolve the issues raised in the market conduct examination as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture (hereinafter "Stipulation") embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. Remedial Action. During the course of the examination, Security National represented that it had already corrected many of the issues raised in the market conduct examination. To the extent it has not already done so, Security National agrees to take further remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain such remedial actions at all times, to reasonably ensure that the errors noted in the market conduct examination and in this Stipulation do not recur. Such remedial actions shall consist of the following:

1. Security National agrees to use only filed rates in calculating workers compensation insurance with Missouri premium or exposure.

2. Security National agrees that it will attach all Missouri required forms or endorsements to workers compensation policies with Missouri premium or exposure.

3. Security National agrees not to utilize unfiled or unapproved forms on workers compensation policies with Missouri premium or exposure.

4. Security National agrees that it will not utilize a schedule rating credit or debit, or increase or decrease such credits or debits, on workers compensation policies with Missouri premium or exposure without documenting a change in the risk.

5. Security National agrees that it will maintain records for Missouri risks, including schedule rating worksheets, in an archival manner and will not add information to a record that is finalized for file documentation or permanent retention purposes.

6. Security National agrees that it will maintain policy file documentation as required by §374.205.2 and 20 CSR100-8.040 (3) (A).

7. Security National agrees that it will not utilize an experience modification on workers compensation policies with Missouri premium or exposure without maintaining documentation supporting the modification.

8. Security National agrees not to permit producers to write Security National workers compensation policies with Missouri premium or exposure unless the producer is licensed and listed on Security National's Producer Registry at the time of the sale.

9. Security National agrees that audits on workers compensation policies with Missouri premium or exposure will be completed, billed, and premiums returned within 120 days of policy expiration or cancellation unless a) a delay is caused by the policyholder's failure to respond to reasonable audit requests provided that the requests are timely and adequately documented or b) a delay is by the mutual agreement of the policyholder and Security National provided that the agreement is adequately documented.

10. Security National agrees to timely notify Missouri policyholders of the specific amount of the Audit Noncompliance Charge applied for non-cooperation in the audit process prior to applying such a charge.

11. Security National agrees to issue refunds to all policyholders identified as being overcharged in the Examination Report, and will include interest as determined under §374.191. A letter will be included with the payment indicating that "as a result of a Missouri market conduct examination, it was found that a premium refund was owed."

12. Security National agrees to timely respond to criticisms and to formal requests in future Missouri market conduct examinations.

C. **Compliance.** Security National agrees to file documentation with the Division, in a format acceptable to the Division, within 180 days of the entry of a final order of any remedial action taken pursuant to Paragraph B to implement compliance with the terms of this Stipulation or to document the payment of restitution required by this Stipulation. Such documentation is provided pursuant to §374.205.

D. **Ongoing Examination.** Security National agrees to pay any reasonable examination fees expended by the Division in conducting its review of the documentation provided by Security National pursuant to Paragraph C of this Stipulation.

E. **Other Penalties.** The Division agrees that it will not seek penalties against Security National other than those agreed to in this Stipulation, in connection with the above-referenced market conduct examination.

F. **Voluntary Forfeiture.** Security National agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$23,150 such sum payable to the Missouri State School Fund, in accordance with §374.049.11 and §374.280.2.

G. **Non-Admission.** Nothing in this Stipulation nor any act performed by Security National pursuant to or in furtherance of this Stipulation shall be construed as an admission by Security National, this Stipulation being part of a compromise settlement to resolve disputed factual and legal allegations arising out of the above-referenced market conduct examination. Security National expressly denies that any of its actions or alleged actions were knowingly committed or represented a pattern or business practice that would violate insurance unfair trade practice laws or any other applicable statutes or regulations. The parties agree that nothing in this Stipulation is intended to create any private rights or remedies against Security National, to constitute evidence of wrongdoing by Security National for the purpose of any third-party proceeding, or to waive any of Security National's defenses against any person or entity not a party to this Stipulation. Security National enters into this Stipulation to fully, finally, and completely resolve all matters encompassed within the scope of this Stipulation and market conduct examination without further regulatory or administrative process or any actions, requirement, or monetary payments beyond those enumerated herein.

H. **Waivers.** Security National, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the above-referenced market conduct examination.

I. **Changes.** No changes to this Stipulation shall be effective unless made in writing and agreed to by representatives of the Division and Security National.

J. **Governing Law.** This Stipulation shall be governed and construed in accordance with the laws of the State of Missouri.

K. **Authority.** The signatories below represent, acknowledge, and warrant that they are authorized to sign this Stipulation, on behalf of the Division and Security National respectively.

L. **Counterparts.** This Stipulation may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single document. Execution and delivery of this Stipulation by facsimile or by an electronically transmitted signature shall be fully and legally effective and binding.

M. **Effect of Stipulation.** This Stipulation shall become effective only upon entry of a Final Order by the Director of the Department (hereinafter "Director") approving this Stipulation.

N. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 11-02-2021



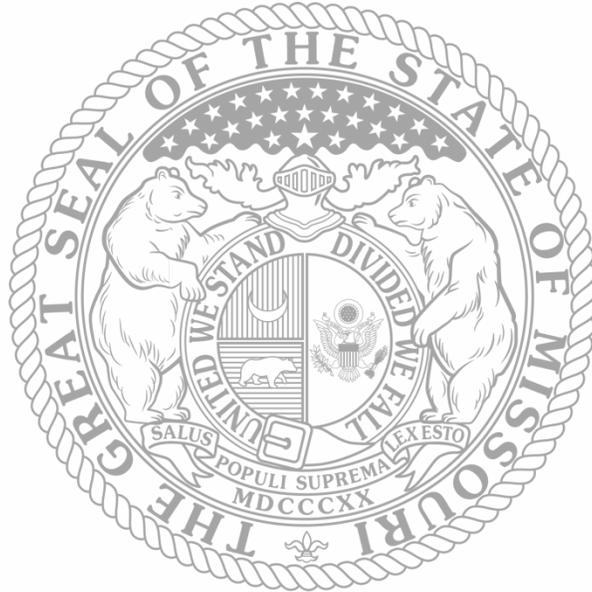
Stewart Freilich
Chief Market Conduct Examiner and
Senior Counsel
Division of Insurance Market Regulation

DATED: October 28, 2021



Barry Moses
Assistant Secretary and Vice President,
Senior Regulatory Counsel

Security National Insurance Company



**FINAL MARKET CONDUCT EXAMINATION REPORT
Property and Casualty Business of**

**Security National Insurance Company
NAIC # 19879**

MISSOURI SBS EXAMINATION # 317131

NAIC MATS #MO-HICKSS1-100

November 2, 2021

**Home Office
4455 LBJ Freeway Suite 700
Dallas, TX 75244**

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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November 2, 2021

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your market conduct examination warrant, a targeted market conduct examination has been conducted of the specified lines of business and business practices of

Security National Insurance Company (NAIC #19879)

hereinafter referred to as SNIC or as the Company. This examination was conducted as a desk examination at the offices of the Missouri Department of Commerce and Insurance (DCI).

FOREWORD

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DCI.

During this examination, the examiners cited errors considered potential violations made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” refers to the Security National Insurance Company
- “CSR” refers to the Missouri Code of State Regulations
- “DCI” refers to the Missouri Department of Commerce and Insurance
- “Director” refers to the Director of the Missouri Department of Commerce and Insurance
- “NAIC” refers to the National Association of Insurance Commissioners
- “NCCI” refers to the National Council on Compensation Insurance
- “RSMo” refers to the Revised Statutes of Missouri

SCOPE OF EXAMINATION

The DCI has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.938, and 375.1009, RSMo., conducted in accordance with §374.205.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DCI regulations. The primary period covered by this review is January 1, 2015 through December 31, 2017, unless otherwise noted. Errors found outside of this time period may also be included in the report.

The examination was a targeted examination involving the following lines of business and business functions: Workers' Compensation Insurance (Underwriting/Rating, Licensing, and Policyholder Service).

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the NAIC *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized for reviews not applying the general business practice standard.

In performing this examination, the examiners reviewed only a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been found. As such, this report may not fully reflect all of the practices and procedures of the Company.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

COMPANY HISTORY

Security National Insurance Company (the "Company") was incorporated on July 7, 1924, as a fire insurance company under the provisions of Chapter 861 of the Texas Insurance Code and commenced business on August 1, 1924, as Security National Fire Insurance Company. Trinity Universal Insurance Company ("TUIC") acquired the Company on December 8, 1942, and subsequently on December 3, 1954, the Company's current name was adopted, as the powers of the Company were broadened to permit writing all lines of fire and casualty insurance under the provisions of Chapters 822, 861 and 862 of the Texas Insurance Code. AmTrust Financial Services, Inc. ("AFSI") acquired the Company on June 1, 2008, as approved under Texas Commissioner's Order No. 08-0375, dated April 28, 2008. AFSI purchased the Company and certain affiliates with a combination of cash and notes payable to TUIC. On December 28, 2012, the Company re-domesticated from Texas to Delaware with the approval of both the Texas and Delaware Departments of Insurance.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company is licensed to write business in 49 states and the District of Columbia. The Company is also eligible to write surplus lines in the State of Florida. The Company has the authority to write the following lines of businesses: fire, allied lines, farm owners multiple peril, inland marine, other liability, products liability, commercial automobile liability and physical damage, and workers' compensation.

EXECUTIVE SUMMARY

The DCI conducted a targeted market conduct examination of Security National Insurance Company. The examiners found the following areas of concern:

UNDERWRITING AND RATING

Active Guarantee Cost Workers' Compensation Policies

- In 14 files, the Company failed to use the filed Terrorism rate of .02. Reference: §287.947.1, RSMo
- In seven policies, the Company failed to properly allocate the member's payroll. Reference: §287.955.1, RSMo, and NCCI Basic Manual-2001 Edition User's Guide
- In 80 policies, the Company failed to submit various forms for approval from DCI. Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1)
- In 80 files, the Company failed to attach the required forms to the policy. Reference: §§287.955.4 and .5 and NCCI Forms Manual
- In four files, the Company did not provide a copy of the completed schedule rate worksheet to the DCI examiners to support the schedule credit for the policy period. Reference: §§287.937, 374.205(2), RSMo, and 20 CSR 100-8.040(3)(A)
- In one policy, the Company did not maintain a copy of the NCCI Experience Modification worksheet to support the modification. Reference: §§287.937, 374.205(2), RSMo, and 20 CSR 100-8.040(3)(A)
- In two files, the Company increased the schedule rating credit with no documented reason for the change in the risk. Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)
- In three files, the Company decreased the schedule rating with no documented change in the risk. Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)
- In five files, the Company applied a schedule rating credit with no documented change in the risk. Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)
- In two files, the Company applied an experience modification with no supporting documentation for the modification. Reference: §287.955.1, RSMo, and NCCI Basic Manual(2001 MO) – Missouri Rule 2.E
- In one policy, the Company failed to adhere to the uniform classification code system and misclassified codes filed with the Director. Reference: §287.955, RSMo, and NCCI Basic Manual (2001 MO) Part 1, Rules 1.B and 2.B

Active Small Deductible Workers' Compensation Policies

- In one policy, the Company failed to complete and attach the required Missouri Benefits Deductible Endorsement WC 24 06 03 to the small deductible policy. Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1) and NCCI Forms Manual, WC 24 06 03 (Ed.10-95)

Late Audit Policies

- In five files, the Company incorrectly applied the multiplier of 150% to the estimated payroll and failed to calculate the Audit Noncompliance Charge (ANC) in accordance with the NCCI rule. Reference: §287.955.5, RSMo, and NCCI Rule 3-A-13 a. and b.
- In five files, the Company used an unfiled rate at audit to determine the ANC. Reference: §§287.947, 287.955.5, RSMo, and NCCI Rule 3-A-13 a. and b.
- In three files, the Company failed to attach the required Missouri Amendatory Endorsement WC240604B form. Reference: §§287.955.4 and .5, 287.310.1, RSMo, 20 CSR 500-6.100 (1) and NCCI Forms Manual
- In seven files, the Company failed to obtain approval for a previously withdrawn form. The Company used Missouri Amendatory Endorsement WC240604 after it was withdrawn for use. Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1)

PRODUCER LICENSING

Active Guarantee Cost Workers' Compensation Policies

- In 47 files, policies were written by producers that were not appointed by the Company. Reference: §§375.014, 375.022(2), RSMo, and 20 CSR 700-1.020

POLICYHOLDER SERVICE

Late Audit Policies

- In nine files, the Company failed to complete and bill audits or return premium within 120 days of policy expiration or cancellation without an allowable reason for the delay. Reference: §§287.310.1, 287.955.1 and .3, RSMo, and 20 CSR 500-6.500(2)(A)
- In nine files, the Company did not notify the insured of the amount of the Audit Noncompliance Charge that would be applied to the policy if the insureds were uncooperative in completing the audit. Reference: §287.955.5, RSMo, and NCCI Basic Manual Rule 3.A.1.13
- In two files, the Company failed to return the premium to the insured within 120 days of policy expiration date or cancellation date. Reference: §§287.310, 374.191, 287.955.1 and .3, RSMo, and 20 CSR 500-6.500(2)(A)

EXAMINATION FINDINGS

I. UNDERWRITING AND RATING

The underwriting and rating portion of the examination provides a review of the Company's compliance with Missouri statutes and regulations regarding underwriting and rating practices such as the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage.

A. Active Guarantee Cost Workers' Compensation Policies

- 1. NAIC Chapter 20 Underwriting and Rating Standard 1: The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.**

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policies from data supplied by the Company to determine if the premiums charged agreed with the Company's rate filing and NCCI rules.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	21
Error Ratio	25.00%

The following errors were found in this review.

Finding 1: In 14 files, the Company failed to use the filed Terrorism rate of .02. The rate utilized by the Company was not on file with the DCI and the Company did not submit a filing of the rate within 30 days after the effective date March 1, 2015, resulting in undercharges.

Reference: §287.947.1, RSMo

Finding 2: In one file, the company failed to include the member's payroll limit in classification codes 8742 and 8810 for the final audit, resulting in undercharges.

Reference: §287.955.4, RSMo, and NCCI Basic Manual – 2001 Editions User's Guide

Finding 3: In one file, the company failed to include the officer's payroll limit in classification codes 9083 and 8810 for the final audit, resulting in overcharges.

Reference: §287.955.4, RSMo, and NCCI Basic Manual – 2001 Edition User's Guide)

Finding 4: In one file, the Company failed to allocate a flat 10% of the member payroll in Code 8810-Clerical Office Employees NOC from Code 9082-Restaurant NOC, resulting in undercharges.

Reference: §287.955.1, RSMo, and NCCI Basic Manual-2001 Edition User's Guide

Finding 5: In one file, the Company failed to include 10% of the officer's payroll limit in classification code 8810 for the final audit, resulting in overcharges.

Reference: §287.955.4, RSMo, and NCCI Basic Manual-2001 Edition User's Guide

Finding 6: In one file, the Company failed to include the officer's payroll in the correct 8810 classification code at final audit, resulting in overcharges.

Reference: §§287.947, 287.950 and 287.955, RSMo, and 20 CSR 500-6.950, and NCCI Basic Manual – 2001 Edition

Finding 7: In one file, the Company failed to include the officer’s payroll limit in the correct classification codes at final audit, resulting in overcharges.

Reference: §§287.947, 287.950 and 287.955, RSMo, and 20 CSR 500-6.950, and NCCI Basic Manual – 2001 Edition

Finding 8: In one file, the Company failed to adhere to the uniform classification system and charged incorrect payroll to the class code 8810 when the insured did not have a chargeable risk to the policy, resulting in overcharges.

Reference: §287.955, RSMo, and NCCI Basic Manual (2001 MO) Rule 2.A.

2. NAIC Chapter 20 Underwriting and Rating Standard 5: All forms, including policies, contracts, riders, amendments, endorsement forms and certificates are filed with the insurance department, if applicable.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers’ compensation policies from data supplied by the Company to determine if the forms making the policy were filed with the Director and used as filed.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	84
Error Ratio	100.00%

The following errors were found in this review.

Finding 1: In 80 files, the Company failed to submit various forms to the DCI for specific approval prior to use. The Company continued to use forms WC 000000A and WC240604 after the forms were withdrawn from use by the filing agency.

Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1)

Finding 2: In 80 files, the Company failed to attach the required Missouri Property and Casualty Guaranty Association Endorsement WC 24 06 06 B, Missouri Notification of Additional Mesothelioma Benefits Endorsement WC 24 03 02 and Missouri Exclusion of Additional Mesothelioma Benefits Endorsement WC 24 03 03.

Reference: §§287.955.4 and .5, RSMo, and NCCI Forms Manual

3. NAIC Chapter 20 Underwriting and Rating Standard 7: Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policies from data supplied by the Company to determine if records complied with state record retention requirements.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	6
Error Ratio	7.14%

Finding 1: In four files, the Company did not provide a copy of the completed schedule rate worksheet to support the schedule credit for the policy period resulting in undercharges.

Reference: §§287.937, 374.205(2), RSMo, and 20 CSR 100-8.040(3)(A)

Finding 2: In one file, the Company did not maintain a copy of the NCCI Experience Modification worksheet to support the .95 modification resulting in undercharges.

Reference: §§287.937, 374.205(2), RSMo, and 20 CSR 100-8.040(3)(A)

4. NAIC Chapter 21 Underwriting and Rating Standard 2: Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policies from data supplied by the Company to determine if schedule rating credits or debits were based on actual changes in risk and whether the evidence was contained in the file of the insurer at the time the debit or credit was applied.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	10
Error Ratio	11.90%

The following errors were found in this review.

Finding 1: In two files, the Company increased the schedule rating credit to 25% with no documentation regarding any change in the risk, resulting in undercharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

Finding 2: In one file, the Company decreased the schedule rating credit by 4% when there was no change in the risk from the previous policy, resulting in overcharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

Finding 3: In one file, the Company decreased the schedule rating credit by 10% when there was no change in the risk from the previous period, resulting in overcharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

Finding 4: In one file, the Company decreased the schedule rating credit by 20% when there was no change in the risk from the previous period, resulting in overcharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

Finding 5: In four files, the Company applied a credit with no documentation in the file regarding any change in the risk, resulting in undercharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

Finding 6: In one file, the Company applied a 25% credit with no documentation in the file regarding any change in risk, resulting in undercharges.

Reference: §§287.950.1, 287.955.6(4)(d), (2014), 287.955.6(2)(d), (2016), RSMo, and 20 CSR 500-4.100(7)(D)

5. NAIC Chapter 21 Underwriting and Rating Standard 5: Verification of experience modification factors.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policy files from data supplied by the Company files to determine if the files contained NCCI documentation of the experience modification factor and if the correct factor was applied to the policy.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	2
Error Ratio	2.38%

The following errors were found in this review.

Finding 1: In two files, the Company applied an experience modification with no supporting documentation for the modification, resulting in undercharges.

Reference: §287.955.1, RSMo, and NCCI Basic Manual (2001 MO) – Missouri Rule 2.E.

6. NAIC Chapter 21 Underwriting and Rating Standard 8: Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near the end, or following a claim.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policy files from data supplied by the Company files to determine if classification codes were added to the policy at audit.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	1
Error Ratio	1.19%

The following error was found in this review.

Finding 1: In one file, the Company failed to adhere to the uniform classification system and misclassified the insured's operation as a restaurant 9082 instead of nightclub code 9084.

Reference: §287.955, RSMo, and NCCI Basic Manual (2001 MO) Part 1, Rules 1.B. and 2.B.

B. Active Small Deductible Workers' Compensation Policies

1. NAIC Chapter 21 Underwriting and Rating Standard 11: All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

To test for this standard, examiners requested and reviewed a census of four active small deductible workers' compensation policies from data supplied by the Company to determine if policies contained required forms.

Field Size	4
Sample Size	4
Type of Sample	Census
Number of Files in Error	1
Error Ratio	25.00%

The following error was found in this review.

Finding 1: In one file, the Company failed to complete and attach the required Missouri Benefits Deductible Endorsement WC 24 06 03 to the small deductible policies reviewed. Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1) and NCCI Forms Manual, WC 24 06 03 (Ed.10-95)

C. Active PEO Workers' Compensation Policies

To test for this standard, examiners requested and reviewed a census of two active PEO workers' compensation policies from data supplied by the Company to determine if the forms making the policy were filed with the Director and were used as filed.

Field Size	2
Sample Size	2
Type of Sample	Census
Number of files in Error	0
Error Ratio	0.00%

No errors were found in this review.

D. Late Audit Policies

1. NAIC Chapter 20 Underwriting and Rating Standard 1-The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.

To test for this standard, examiners requested and reviewed a random sample of 50 late audit workers' compensation policy files from data supplied by the Company files to determine if the premiums charged agreed with the Company's rate filings and NCCI rules.

The following errors were found in this review.

Field Size	62
Sample Size	50
Type of Sample	Random
Number of files in Error	10
Error Ratio	20.00%

Finding 1: In five files, the Company incorrectly applied the multiplier of 150% to the estimated payroll and failed to calculate the ANC in accordance to the NCCI rule.

Reference: §287.955.5, RSMo, and NCCI Rule 3-A-13 a. and b.

Finding 2: In five files, the Company used an unfiled rate at audit to determine the ANC.

Reference: §287.955.5, RSMo, and NCCI Rule 3-A-13 a. and b.

2. NAIC Chapter 20 Underwriting and Rating Standard 5: All forms, including policies, contracts, riders, amendments, endorsement forms and certificates are filed with the insurance department, if applicable.

To test for this standard, examiners requested and reviewed a random sample of 50 late audit workers' compensation policy files from data supplied by the Company files to determine if the forms making the policy were filed with the Director and were used as filed. The following errors were found in this review.

Field Size	62
Sample Size	50
Type of Sample	Random
Number of Files in Error	10
Error Ratio	20.00%

Finding 1: In three files, the Company failed to attach the required Missouri Amendatory Endorsement WC240604B form.

Reference: §§287.955.4 and .5, 287.310.1 RSMo, 20 CSR 500-6.100 (1) and NCCI Forms Manual

Finding 2: In seven files, the Company used but failed to obtain approval for the form Missouri Amendatory Endorsement WC240604 after the form was withdrawn 9/1/2013.

Reference: §287.310.1, RSMo, and 20 CSR 500-6.100(1)

E. Policies Shifted Between Affiliated Companies Policies

Examiners requested and reviewed a census of 13 policies that were written by affiliated insurers for subsequent policy terms or moved to Security National Insurance Company in the current term from an affiliated insurer to determine if risks were moved between affiliated insurers due to an actual change in risk or to circumvent rate decreases and schedule rating constraints.

Field Size	13
Sample Size	13
Type of Sample	Census
Number of files in Error	0
Error Ratio	0.00%

The examiners found no errors in this review.

II. PRODUCER LICENSING

The producer licensing portion of the examination reviews a regulated entity's compliance with Missouri producer licensing laws and regulations.

A. Active Guarantee Cost Workers' Compensation Policies

1. NAIC Chapter 20 Producer Licensing Standard 1: Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

To test for this standard, examiners requested and reviewed a random sample of 84 active guarantee cost workers' compensation policies from data supplied by the Company to determine if any policies were sold by producers that were not properly appointed by the Company.

Field Size	366
Sample Size	84
Type of Sample	Random
Number of Files in Error	47
Error Ratio	55.95%

The following errors were found in this review.

Finding 1: In 47 files, policies were written by producers that were either not listed on the Company's producer registry or the appointment date was more than thirty days after the policy's effective date.

Reference: §§375.014, 375.022(2), RSMo, and 20 CSR 700-1.020

III. POLICYHOLDER SERVICE

The policyholder service portion of the examination reviews the Company's compliance with Missouri statutes and regulations regarding notice/billing, delays/no response, and premium refund and coverage questions.

A. Late Audit Policies

1. NAIC Chapter 20 Policyholder Service Standard 1: Premium notices and billing notices are sent out with an adequate amount of advance notice.

To test for this standard, examiners requested and reviewed a random sample of 50 late audit workers' compensation policies from data supplied by the Company to determine to determine if audits were completed and billed within 120 days of policy expiration or cancellation reviewing for a permissive reason for the delay.

Field Size	62
Sample Size	50
Type of Sample	Random
Number of Files in Error	20
Error Ratio	40.00%

The following errors were found in this review

Finding 1: In nine files, the Company failed to complete and bill audits or return premium within 120 days of policy expiration or cancellation and failed to provide evidence the audits were late due to a mutual agreement between the Company and the insured or due to the insured's failure to respond to reasonable and timely audit requests.

Reference: §§287.955.1 and .3 RSMo., 287.310.1, RSMo, and 20 CSR 500-6.500(2)(A)

Finding 2: In nine files, the Company did not notify the insured of the amount of the ANC that would be applied to the policy if the insureds were uncooperative in the audit process. The Company's requests for information state the policy may be subject to a potential surcharge, but does not provide the specific amount of the ANC in accordance with NCCI rules.

Reference: §287.955.5, RSMo, and NCCI Basic Manual Rule 3.A.1.13

Finding 3: In two files, the Company failed to return the premium to the insured within 120 days of policy expiration date or cancellation date, resulting in overcharges.

Reference: §§287.955.1 and .3, 287.310, and 374.191, RSMo, and 20 CSR 500-6.500(2)(A)

IV. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri statutes and regulations require companies to respond to criticisms and formal requests within 10 calendar days. In the event an extension of time was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the subsequent time frame. If the response was not received within the allotted time, the response was not considered timely.

A. Criticism Time Study

Number of Calendar Days to Respond	Number of Criticisms	Percentage of Total
0 to 10 days	25	70.00%
Over 10 days and beyond extension due date	5	14.00%
Over 10 days with no extension	6	16.00%
Totals	36	100.00%

Finding 1: The Company was late in responding to 11 criticisms.

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040(6)

B. Formal Request Time Study

Number of Calendar Days to Respond	Number of Requests	Percentage of Total
0 to 10 days	22	88.00%
Over 10 days and beyond extension due date	2	8.00%
Over 10 days with no extension	1	4.00%
Totals	25	100.00%

Finding 1: The Company was late in responding to three requests.

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040(6)

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Security National Insurance Company (NAIC #19879), Examination Number 317131. This examination was conducted by Shelly Herzing, Dale Hobart, Darren Jordan and Tad Herin. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated December 15, 2020. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

11-02-2021

Date



Stewart Freilich
Chief Market Conduct Examiner