

MARKET CONDUCT EXAMINATION REPORT

OF

SPINNAKER INSURANCE COMPANY

AS OF

December 31, 2020

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Melody Morrissette, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Spinnaker Insurance Company as of December 31, 2020, conducted at the Bureau's office in Richmond, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2023-00074 finalizing this Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 19th of December 2023.

A handwritten signature in cursive script, reading 'Melody Morrissette'.

Melody S. Morrissette

Examiner in Charge

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	3
COMPANY PROFILE.....	3
SCOPE OF THE EXAMINATION.....	7
STATISTICAL SUMMARY	8
PART ONE - THE EXAMINERS' OBSERVATIONS.....	10
RATING AND UNDERWRITING REVIEW.....	10
Homeowner New Business Policies.....	10
Homeowner Renewal Business Policies	12
TERMINATION REVIEW	13
Homeowner Policies	13
Company-Initiated Cancellations – Homeowner Policies.....	13
Notice Sent Prior to the 90 th Day of Coverage	13
Notice Sent After the 89 th Day of Coverage	13
All Other Cancellations – Homeowner Policies	13
Nonpayment of the Premium	13
Requested by the Insured	14
Rejected Applications – Homeowner Policies	14
Company-Initiated Non-renewals – Homeowner Policies	15
Tenant Policies	15
CLAIMS REVIEW	16
Homeowner Claims.....	16
FORMS REVIEW	20
Homeowner Policy Forms	20
Policy Forms Used During the Examination Period	20
Policy Forms Currently Used	20

POLICY ISSUANCE PROCESS REVIEW	21
Homeowner Policies	21
New Business Policies	21
Renewal Business Policies.....	22
STATUTORY NOTICES REVIEW	23
General Statutory Notices	24
Statutory Property Notices	24
Other Notices.....	25
LICENSING AND APPOINTMENT REVIEW	26
Agency.....	26
Agent	26
COMPLAINT-HANDLING PROCESS REVIEW	26
PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW.....	26
PART TWO – CORRECTIVE ACTION PLAN	27
General.....	27
Rating and Underwriting Review	27
Termination Review	28
Claims Review	29
Policy Issuance Process Review.....	30
Statutory Notices Review	31
Licensing and Appointment Review	32
PART THREE –NOTES	33
RECOMMENDATIONS	33
Rating and Underwriting.....	33
Termination.....	33
Claims.....	33
Policy Issuance Process	34

Statutory Notices..... 34
SUMMARY OF PREVIOUS EXAMINATION FINDINGS..... 34
ACKNOWLEDGEMENT..... 35

EXECUTIVE SUMMARY

The examination included a detailed review of homeowner line of business written in Virginia by Spinnaker Insurance Company for the period beginning January 1, 2020, and ending December 31, 2020. This review pertained to rating and underwriting, policy terminations, claims handling, forms, policy issuance, statutory notices, agent/agency licensing, and complaint-handling.

The examination was called as a result of the Market Conduct Annual Statement (MCAS) and market analysis. This is the first Market Conduct Examination the Virginia Bureau of Insurance (Bureau) has performed on the company.

The examination revealed violations that were significant. There were 823 total violations in this Report. The bulk of these were the 488 violations found in the rating area. There were 71 terminations violations and 126 claims violations, which included seven general business practices (GBP). There were no violations found in the forms and complaints handling areas.

There were 40 policy issuance violations, 75 violations in the area of licensing and appointments, and 23 notice violations.

The Corrective Action Plan (CAP) for rating and underwriting requested that the company specify accurate information on the declarations page, properly represent discounts and coverage limits on the declarations page, file all rates and supplementary rate information, use the rules and rates filed with the Bureau, and provide the Credit Adverse Action notice.

The CAP for terminations requested that the company properly represent the reason coverage ceased, calculate earned premium correctly, obtain and retain valid proof of mailing cancellation notices, obtain written requests of cancellation from insureds, provide convenient access to files and documents requested for the examination, provide the Notice of Information Collection and Disclosure notices to applicants, and provide the

Adverse Underwriting Decision (AUD) notice to applicants when coverage is declined.

The claims CAP requested that the company properly document claim files to reconstruct pertinent dates and events, disclose all applicable coverages to insureds, send written denials to insureds, offer a fair and reasonable amount to insureds, properly represent replacement cost provisions, adopt reasonable standards for the prompt investigation of claims, provide a statement of the coverage with all payments to the insured.

The CAP for policy issuance requested that the company provide the important Information Regarding Your Insurance notice, provide convenient access to files and documents requested for the examination, specify required information about the company in the policy, provide the Replacement Cost Provisions notice, offer coverage for damage caused by water that backs up through sewers and drains, provide the Ordinance and Law notice, provide the Flood Exclusion notice, provide the Earthquake Exclusion notice.

In the area of notices, the company was requested to correct/develop the following notices: Important Information Regarding Your Insurance, long form Information Collection and Disclosure Practices, Financial Information Collection and Disclosure Practices, Adverse Underwriting Decision, Water and Sewer Backup, Ordinance and Law, Insurance Credit Score Disclosure, Credit Adverse Action, Flood Exclusion, and Earthquake Exclusion.

The CAP for licensing and appointments requested the company only pay trade names filed with the Bureau and appoint agencies and agents within 30 days of the application.

Finally, the CAP requested that the company make restitution of \$4,813.10 to 39 consumers.

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the homeowner line of business written by Spinnaker Insurance Company at the office of the State Corporation Commission Bureau of Insurance in Richmond, Virginia.

The examination commenced September 20, 2021 and concluded September 19, 2022. Austin Acheson, Brandon Ayers, NuDasha Fludd, William Felvey, James King, Dan Koch, Melody Morrissette, Latitia Orange, and Gloria Warriner, examiners of the Bureau of Insurance, and Andrea Baytop, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on June 24, 2021 and was assigned the Action Number of VA-HENRYP-1. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

COMPANY PROFILE*

Spinnaker Insurance Company was formed as American General Indemnity Company July 28, 1986 to write credit life, guaranteed asset protection, collateral protection, and involuntary unemployment insurance. In 2006, Company exited credit business and entered into a 100% indemnity agreement with AEGON. Company went into runoff in 2009.

In 2012, Company was sold to White Mountain Solutions Holding Company (“White Mountain”) and changed its name from American General Indemnity Company to Woodridge Insurance Company. Company continued in runoff and no new business was written.

* Source: Profile provided by Company

Sojourner Holding Company LLC (“Sojourner”) acquired Company on September 24, 2015 pursuant to a Stock Purchase Agreement with White Mountains. Company changed its name from Woodridge Insurance Company to Spinnaker Insurance Company on January 27, 2016. Under Sojourner, Company started writing admitted insurance products through Program Administrators, focusing almost exclusively on short-tail business with an emphasis on homeowners, renters, and small commercial business.

Today, Company is a wholly owned, indirect subsidiary of Hippo Enterprises Inc. (“Hippo”). Hippo acquired Company pursuant to a Stock Purchase Agreement with Sojourner. Company’s home state regulator, Illinois Department of Insurance, approved the Form A relating to the Hippo acquisition on August 3, 2020 and Company became a part of the Hippo group of companies as of August 30, 2020. Company continues to write business through Program Administrators focusing on short-tail business.

The table below indicates when the company was licensed in Virginia and the line of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on March 31, 1993.

GROUP CODE: 5010	SIC
NAIC Company Number	24376
LICENSED IN VIRGINIA	3/31/1993
LINES OF INSURANCE	
Accident and Sickness	X
Aircraft Liability	X
Aircraft Physical Damage	X
Animal	X
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	X
Burglary and Theft	X
Commercial Multi-Peril	X
Credit	X
Farmowners Multi-Peril	X
Fidelity	
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	
Water Damage	X
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2021 for the line of insurance included in this examination.* This business was developed through licensed producers.

SPINNAKER INSURANCE COMPANY	PREMIUM VOLUME	MARKET SHARE
Homeowner Multiple Peril	\$5,659,223	0.20%

* Source: The 2021 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's homeowner line of business written in Virginia for the period beginning January 1, 2020 and ending December 31, 2020. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine whether the company's operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Notes. Part One outlines all the violations of Virginia insurance laws that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued in Virginia. The Other Law Violations portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the Corrective Action Plan identifies the violations that are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the company's practices that require some action by the company. This section also summarizes the violations for which the company was cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population
Sample Requested**

AREA	SIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
Homeowner						
New Business	<u>9453</u> 75	<u>9453</u> 75	75	0	50	67%
Renewal Business	<u>3568</u> 25	<u>3568</u> 25	25	0	24	96%
Co-Initiated Cancellations	<u>1</u> 1	<u>1</u> 1	1	0	1	100%
All Other Cancellations ¹	<u>162</u> 24	<u>162</u> 24	22	0	13	59%
Nonrenewals	<u>0</u> 0	<u>0</u> 0	0	0	0	0%
Rejected Applications ²	<u>474</u> 20	<u>474</u> 20	19	0	19	100%
Tenant Terminations ³	<u>4451</u> 30	<u>4451</u> 30	26	0	3	12%
Claims						
Homeowner	<u>289</u> 82	<u>289</u> 82	82	0	60	73%

Footnote ¹	One file was a cancel rewrite and was not reviewed. One file was a flat cancel and not reviewed.
Footnote ²	One file was an incomplete application where no rejection occurred and therefore was not reviewed.
Footnote ³	Four files were expirations and not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all the observations the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Homeowner New Business Policies

The Bureau reviewed 75 new business policy files. During this review, the examiners found overcharges totaling \$2,307 and undercharges totaling \$1,494. The net amount that should be refunded to insureds is \$2,307 plus six percent (6%) simple interest.

- (1) The examiners found 82 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.
 - a. In one instance, the company failed to state the Early Quote discount on the declarations page.
 - b. In 81 instances, the company listed forms on the declarations page that were not applicable to the policy.
- (2) The examiners found 126 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company failed to properly display discounts and coverage limits on the declarations page.
- (3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD) when the company issued the policy with a higher premium based upon information that differed from that which the insured furnished on the application.

- (4) The examiners found one violation of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the inspection report.
- (5) The examiners found 43 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (6) The examiners found 148 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and rates on file with the Bureau of Insurance.
- a. In five instances, the company failed to use the correct discounts and/or surcharges.
 - b. In eight instances, the company failed to use the correct territory.
 - c. In five instances, the company failed to use the correct tier eligibility criteria.
 - d. In 41 instances, the company failed to use the correct base and/or final rates.
 - e. In seven instances, the company failed to use the correct construction type.
 - f. In 15 instances, the company failed to use the correct public protection class.
 - g. In nine instances, the company failed to correctly interpolate the premium for the risk.
 - h. In 31 instances, the company failed to follow the filed rounding rule.
 - i. In 24 instances, the company failed to follow rules on file with the Bureau.
 - j. In one instance, the company failed to use proper credit score information when rating the policy.
 - k. In two instances, the company charged the insured for Mortgage Payment Protection premium when there was no mortgagee on the policy.

- (7) The examiners found 18 violations of § 38.2-2126 A 2 of the Code of Virginia. The company failed to provide the Credit Adverse Action notice to the insured.
- (8) The examiners found one violation of § 38.2-2126 E of the Code of Virginia. The company used credit information that was obtained more than 90 days from the new business policy effective date.

Homeowner Renewal Business Policies

The Bureau reviewed 25 renewal business policies. During this review, the examiners found no overcharges and no undercharges.

The examiners found 68 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy.

- a. In 67 instances, the company failed to list forms on the declarations page that were applicable to the policy.
- b. In one instance, the company listed forms on the declarations page that were not applicable to the policy.

TERMINATION REVIEW**Homeowner Policies**

The Bureau requested cancellation files in several categories for owner-occupied dwellings due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Homeowner Policies**NOTICE SENT PRIOR TO THE 90TH DAY OF COVERAGE**

The examiners reviewed one homeowner cancellation that was initiated by the company where the company sent the notice prior to the 90th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

NOTICE SENT AFTER THE 89TH DAY OF COVERAGE

The company did not provide any homeowner cancellations mailed after the 89th day of coverage of a new policy or mailed at any time for a renewal policy during the examination period.

All Other Cancellations – Homeowner Policies**NONPAYMENT OF THE PREMIUM**

The examiners reviewed 13 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and undercharges totaling \$41.96.

- (1) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found six violations of § 38.2-2113 C of the Code of Virginia. The company failed to retain proof of mailing the cancellation notice to the insured and the lienholder.

REQUESTED BY THE INSURED

The examiners reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found six violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request to cancel a policy insuring an owner-occupied dwelling.

Rejected Applications – Homeowner Policies

The examiners reviewed 19 homeowners insurance applications for which the company declined to issue a policy.

- (1) The examiners found 16 violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices to the applicant.
- (2) The examiners found 18 violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with written notice of an AUD.
- (3) The examiners found 17 violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination
 - a. In 14 instances, the company failed to provide a copy of the application.

- b. In three instances., the company failed to provide accurate population data files.

Company-Initiated Non-renewals – Homeowner Policies

The company did not provide any homeowner non-renewals that were initiated by the company during the examination period.

Tenant Policies

The examiners reviewed 26 terminations of tenant policies from the company. During this review, the examiners found overcharges totaling \$11.12 and no undercharges. The net amount that should be refunded to insureds is \$11.12 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The cancellation notice incorrectly stated the insured requested cancellation of the policy when the policy expired.
- (2) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to use the cancellation date requested by the insured.

CLAIMS REVIEW**Homeowner Claims**

The examiners reviewed 82 homeowner claims for the period of January 1, 2020 through December 31, 2020. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$1,667.86 and underpayments totaling \$1,834.00. The net amount that should be paid to claimants is \$1,834.00 plus six percent (6%) simple interest.

- (1) The examiners found 22 violations of 14 VAC 5-400-30 C. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 20 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to the insured.
 - a. In four instances, the company failed to disclose to an insured the benefits under the Additional Living Expense (ALE) coverage of the policy.
 - b. In one instance, the company failed to disclose to an insured the replacement cost benefits under the building coverage of the policy.
 - c. In 14 instances, the company failed to disclose to an insured the replacement cost benefits under the personal property coverage of the policy.
 - d. In one instance, the company failed to disclose to an insured the special limits of liability under the personal property coverage of the policy.

These findings occurred with such frequency as to indicate a general business

- practice.
- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 15 working days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.
 - (4) The examiners found two violations of 14 VAC 5-400-50 D. The company failed to provide reasonable assistance to an insured.
 - (5) The examiners found four violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
 - (6) The examiners found six violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing and/or failed to keep a copy of the written denial in the claim file.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (8) The examiners found six violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
 - a. In two instances, the company failed to properly pay the claim under the insured's ALE coverage.

- b. In two instances, the company failed to properly pay the claim under the insured's Additional coverage.
- c. In two instances, the company failed to properly pay the claim under the insured's Personal Property Replacement Cost coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found six violations of § 38.2-510 A 1 of the Code of Virginia.
 - a. In five instances, the company misrepresented pertinent facts or insurance policy provisions.
 - b. In one instance, the company misrepresented pertinent facts relating to the replacement cost provisions.

These findings occurred with such frequency as to indicate a general business practice.

- (10) The examiners found one violation of § 38.2-510 A 2 of the Code of Virginia. The company failed to acknowledge and act reasonably promptly to communications.

- (11) The examiners found nine violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under policies.

These findings occurred with such frequency as to indicate a general business practice.

- (12) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

- (13) The examiners found 23 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (14) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to pay in accordance with the policy provisions.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 22 violations of § 52-40 of the Code of Virginia. The company failed to include the fraud statement on claim forms required by the company as a condition of payment.

FORMS REVIEW

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for the line of business listed below, the Bureau requested copies from the company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process Review section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

Homeowner Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The company provided copies of 68 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

POLICY ISSUANCE PROCESS REVIEW

To obtain sample policies to review the company's policy issuance process for the line of business examined, the examiners requested new and renewal business policy mailings that were sent after the company received the Examination Data Call. The company was instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the company enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Homeowner Policies

The company provided nine new business policies sent on the following dates: May 1, 2, 3, 27, June 7, 10, 15, and 18, 2021. In addition, the company provided eight renewal business policies sent on the following dates: April 26, 27, 30, May 4, 5, 13, and 28, 2021.

NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.
- (2) The examiners found three violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide a copy of the application.

- (3) The examiners found three violations of § 38.2-2103 of the Code of Virginia. The company failed to include a statement on the policy that provides information about the insurer as required by the statute.
- (4) The examiners found three violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Provisions notice.
- (5) The examiners found three violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.
- (6) The examiners found one violation of § 38.2-2124 of the Code of Virginia. The company failed to provide the written offer of Ordinance and Law coverage.
- (7) The examiners found three violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the Flood Exclusion notice advising the insured that the policy does not include loss due to flood.
- (8) The examiners found three violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the Earthquake Exclusion notice advising the insured that the policy does not include loss due to earthquake.

RENEWAL BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice.
- (2) The examiners found three violations of § 38.2-2103 of the Code of Virginia. The company failed to include a statement on the policy that provides information about the insurer as required by the statute.
- (3) The examiners found four violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.

- (4) The examiners found two violations of § 38.2-2124 of the Code of Virginia. The company failed to provide the written offer of Ordinance and Law coverage.
- (5) The examiners found three violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the Flood Exclusion notice advising the insured that the policy does not include loss due to flood.
- (6) The examiners found three violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the Earthquake Exclusion notice advising the insured that the policy does not include loss due to earthquake.

STATUTORY NOTICES REVIEW

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period, the Bureau requested copies from the company. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the company but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

- (1) The examiners found one violation of § 38.2-305 B of the Code of Virginia. The company's Important Information Regarding Your Insurance notice did not include all the information required by this statute.
- (2) The examiners found three violations of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not include all the information required by this statute.
- (3) The examiners found three violations of § 38.2-604.1 B of the Code of Virginia. The company's Notice of Financial Information Collection and Disclosure Practices did not include all the information required by this statute.
- (4) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company's Adverse Underwriting Decision (AUD) notice did not include all the information required by the statute.

Statutory Property Notices

- (1) The examiners found three violations of § 38.2-2120 of the Code of Virginia. The company failed to develop a notice that offers the option of purchasing coverage for damage caused by water that backs up through sewers and drains.
- (2) The examiners found three violations of § 38.2-2124 of the Code of Virginia. The company's Ordinance or Law notice did not comply with the statute.
- (3) The examiners found two violations of § 38.2-2125 of the Code of Virginia.
 - a. In one instance, the company failed to develop a Flood Exclusion notice.
 - b. In one instance, the company's Flood Exclusion notice did not include all the information required by the statute.

- (4) The examiners found four violations of § 38.2-2126 A 1 of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all the information required by the statute.
- (5) The examiners found one violation of § 38.2-2126 A 2 of the Code of Virginia. The company's Credit Score Adverse Action notice did not include all the information required by the statute.
- (6) The examiners found two violations of § 38.2-2129 of the Code of Virginia.
 - a. In one instance, the company's Earthquake Exclusion notice did not include all the information required by statute.
 - b. In one instance, the company failed to develop the Earthquake Exclusion notice.

Other Notices

The company provided copies of 18 other notices including applications that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business homeowner policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agency

- (1) The examiners found six violations of § 38.2-1812 E of the Code of Virginia. The company paid commissions to a trade name that was not filed with the Bureau.
- (2) The examiners found 49 violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint the agency within 30 days of the date of application.

Agent

The examiners found 20 violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint the agent within 30 days of the date of application.

COMPLAINT-HANDLING PROCESS REVIEW

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The company provided its written information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

This section identifies the violations of Virginia insurance statutes and regulations that are subject to a monetary penalty. This determination is based upon the guidelines provided by the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling practices. Any error ratio above this threshold for violations of the unfair claim settlement practices statutes and regulations is considered a general business practice and subject to a monetary penalty. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero-tolerance standard.

General

Spinnaker Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to the Report.

Rating and Underwriting Review

Spinnaker Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by only listing forms applicable to the policy on the declarations page.

- (5) Properly represent the benefits, coverage, advantages, and conditions of the policy by listing the accurate discounts and coverage limits on the declarations page.
- (6) File all rates and supplementary rate information with the Bureau.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, territory, tier eligibility, base and/or final rates, construction type, public protection class, interpolation, rounding rule, rating rules; and charging Mortgage Protection premium only when applicable.
- (8) Provide the Credit Adverse Action notice as required by § 38.2-2126 A 2 of the Code of Virginia.

Termination Review

Spinnaker Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Provide the Notice of Information Collection and Disclosure Practices to applicants.
- (5) Provide the applicant a written AUD notice when coverage is declined.
- (6) Properly represent the benefits, coverages, advantages, and conditions of the policy.

- (7) Provide convenient access to the files, documents, and records relating to the examination.
- (8) Calculate earned premium in accordance with filed rules and policy provisions.
- (9) Obtain valid proof of mailing the cancellation notice to the insured.
- (10) Retain proof of mailing the cancellation notice to the insured.
- (11) Obtain a written request when the insured requests cancellation of the policy as required by the insurance policy.

Claims Review

Spinnaker Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been disclosed to the insured. Particular attention should be given to ALE coverage and replacement cost benefits under Dwelling and Personal Property coverages.
- (6) Make all denials in writing and keep a copy of the written denial in the claim file.
- (7) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy

- provisions.
- (8) Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.
 - (9) Adopt and implement reasonable standards for the prompt investigation of claims.
 - (10) Include a correct statement of coverage under which payments are made with all claim payments made to insureds.

Policy Issuance Process Review

Spinnaker Insurance Company shall:

- (1) Provide the Important Information Regarding Your Insurance notice with new and renewal policies.
- (2) Provide convenient access to the files, documents, and records relating to the examination.
- (3) Specify on the policy if the insurer is a stock, mutual company, reciprocal insurer, or other form of insurer.
- (4) Provide the Replacement Cost notice as required by the Code of Virginia.
- (5) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (6) Provide the Ordinance and Law Coverage notice as required by the Code of Virginia.
- (7) Provide the Flood Exclusion notice as required by the Code of Virginia.
- (8) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

Statutory Notices Review

Spinnaker Insurance Company shall:

- (1) Amend the Important Information Regarding Your Insurance notice to comply with § 38.2-305 B of the Code of Virginia.
- (2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the language in the AUD notice to be substantially similar to the prototype set forth in Administrative Letter 2015-07.
- (5) Develop a Water and Sewer Backup notice to comply with § 38.2-2120 of the Code of Virginia.
- (6) Amend the Ordinance and Law notice to comply with § 38.2-2124 of the Code of Virginia.
- (7) Develop a Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (8) Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2126 A 1 of the Code of Virginia.
- (9) Amend the Credit Adverse Action notice to comply with § 38.2-2126 A 2 of the Code of Virginia.
- (10) Develop an Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.

Licensing and Appointment Review

Spinnaker Insurance Company shall:

- (1) Pay commissions only to trade names filed with the Bureau.
- (2) Appoint agencies within 30 days of the application.
- (3) Appoint agents within 30 days of the application.

PART THREE –NOTES

This section provides additional details regarding current, potential and past compliance issues the examiners identified.

RECOMMENDATIONS

Throughout the examination process, the examiners have commented on changes the company should make to promote compliance. The examiners also found violations that did not appear to rise to the level of a business practice. The company should carefully scrutinize these issues and correct the causes before these items become business practices.

We recommend that the company take the following actions:

Rating and Underwriting

- Ensure that the company accurately represents which losses increase the insured's premium or results in an AUD notice.
- Correct the edition dates on pages 1 and 2 of the document AUDN.
- Correct the name of form HO 23 72 on the declarations page.

Termination

- The cancellation notice should be titled "Notice of Cancellation" and include the "Right to Review" language.
- The company should update its Rule titled "Payment Plan" to revise the "Installment Charge (per installment)" label since the company only charges the fee when the installment payment is accepted.

Claims

- Provide reasonable assistance to an insured.
- Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- Pay the claim in accordance with the filed policy provisions.
- Include the fraud language on all claim forms required by the company as

a condition for payment.

Policy Issuance Process

- List only forms and endorsements under the Forms and Endorsements section of the declarations page.
- Update the process for offering the Ordinance and Law coverage on tenant policies to comply with the minimum standards regulations.

Statutory Notices

- Remove the term “Refusal to Renew” on the Additional Information Regarding the Reasons for Refund to Renew notice.
- Correct the misspelling of the word “attorney” in the company’s Notice of Cancellations, located in the “Review by the Commissioner of Insurance.
- Revise the company’s Notice of Cancellation to ensure terminations in the first 90 days do not have the right to review by the Commissioner of Insurance.
- Remove the AUD language from cancellation notices sent for nonpayment of premium.
- Revise the “Agreement to Conduct Electronic Transactions” notice which contains fraud language on the company’s website that applies to California Law. This is inapplicable to the notices used in the Commonwealth of Virginia.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Bureau has examined the company.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in cursive script, appearing to read "Melody Morrisette".

Melody Morrisette
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
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STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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November 21, 2022

VIA E-MAIL DELIVERY

Peter Maloney
General Counsel
Spinnaker Insurance Company
P. O. Box 909
Austin, TX 78767
pmaloney@spinnakerins.com

RE: Market Conduct Examination
Spinnaker Insurance Company, NAIC 24376
Examination Period: January 1, 2020 - December 31, 2020

Dear Mr. Maloney:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of Spinnaker Insurance Company for the period of January 1, 2020 through December 31, 2020. The preliminary examination report (Report) has been drafted for the company's review.

Attached with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn, or revised since September 19, 2022. Also attached are several technical reports that will provide specific file references for the violations listed in the Report.

Due to the number of Virginia insurance law violations cited, I would urge you to closely review the Report. Please provide a written response. The company does not need to respond to any particular item with which it agrees. If the company disagrees with a violation or wishes to further comment on a violation, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position. When the company responds, please do not include any personal identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The company should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the company must provide a corrective action plan that addresses all the issues identified in the examination, again using the same headings and numberings as are used in Part Two of the Report.

Thirdly, if the company has comments it wishes to make regarding Part Three of the Report, please use the same headings for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

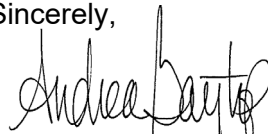
Finally, we have attached an Excel file that the company must complete and return to the Bureau with its response. This Restitution spreadsheet lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by January 20, 2023.

After the Bureau has received and reviewed the company's' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by January 20, 2023.

Sincerely,



Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Cell: (804) 592-0245
Office: (804) 371-9547
andrea.baytop@scc.virginia.gov

Attachments



Spinnaker Insurance Company

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Main: (888) 221-7742

Fax: (908) 274-1989

February 3, 2023

Via Email and Upload (andrea.baytop@scc.virginia.gov)

Ms. Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219

Re: Market Conduct Examination
Spinnaker Insurance Company NAIC 24376 (“Spinnaker”)
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Baytop:

We are in receipt of the Bureau’s letter and Preliminary Report dated November 21, 2022. We respectfully submit this letter response to indicate areas of disagreement and provide action plans on areas of agreement. Thank you once again for the Bureau’s courtesy in granting us an extension to today’s date on this response.

As requested in the Bureau’s November 21 letter, this response follows the Preliminary Report and is similarly divided into: Part One - The Examiners Observations; Part Two – Corrective Action Plan; and Part Three – Notes and Recommendations. As requested, only those items in Part One and Part Three with which Spinnaker disagrees include a substantive response. Every item in Part Two includes Spinnaker’s related corrective action plan (“CAP”). All exhibits to this response have been uploaded to the Bureau’s Box site.

As used herein, (i) “MSI” refers to the Renters program written through Spinnaker’s Program Administrator, Millennial Specialty Insurance, (ii) “Alacrity” refers to Alacrity Solutions, our third-party administrator (TPA) on the MSI Program, and (iii) “Hippo” refers to the Homeowner program written through Spinnaker’s Program Administrator, Hippo Insurance Services. As described further below, those three companies will have first line responsibility in executing the CAP and be subject to a second line confirmatory audit through our Program Audit function.

PART ONE – THE EXAMINERS’ OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Spinnaker agreed with most observations in this section of the Preliminary Report. However, Spinnaker disagreed with portions of observation #6 in the Homeowners New Business Policies subsection and observation #2 in the Homeowners Renewal Business Policies subsection, as follows:

Homeowner New Business Policies

(6) The examiners found 153 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and rates on file with the Bureau of Insurance.

a. In ten instances, the company failed to use the correct discounts and/or surcharges.

Hippo Homeowners Program Rebuttal:

Please review in Box the attachment Part One Rate & UW HO New Business (6a) rebuttal for the following Items. We agree with the findings in six of the ten instances. We disagree with the findings in the following four instances:

- 1. RHO037 – 1908076814. Observation: The Company failed to apply a Multiple Policy discount to the policy. The company's system indicated that an Auto policy was linked to the insured.**

Rebuttal: “Auto Renewal” indicates whether or not the policy is set up for automatic renewal, not that there is an affiliated automobile policy. If there were an Automobile Policy, that information would be contained in a different section of the underwriting system. There was no Automobile policy linked to the insured, and thus no discount was applied, so the policies were rated correctly.

- 2. RHO029 – 113684518. Observation: The Company failed to apply a factor of .95 for the Home Buyer Discount when rating the policy.**

Rebuttal: As the home purchase date was over a year ago, the insured did not qualify for the Home Buyer Discount. There was no discount applied and the policy was rated correctly.

- 3. RHO061 – 1081669062. Observation: The company gave the insured the "Preferred Affinity Discount" when there was no evidence that they should have received such discount. This resulted in an undercharge of \$110.**

Rebuttal: The policy received an Affinity Discount because they came through one of our approved Affinity Partners. The discount was applied correctly and there is no rating error.

- 4. RHO053 – 1525445598. Observation: The Company failed to apply the correct Fire Protective Devices Discount factor. The policy file indicated that the Smart Home devices were "professionally monitored." The Company rated the policy as 'Self Monitored.'**

Observation: The Company failed to apply the correct Theft Protective Devices Discount factor. The policy file indicated that the Smart Home devices were "professionally monitored." The Company rated the policy as "Self-Monitored."

Rebuttal: Correct discounts were given. At application, the insured reported that they had Fire & Theft Devices - Professionally Monitored. With their self-reported professionally monitored devices, they would have received a .82 on P1 for the Fire Prevention Rating Step & a .90 on P3 for the Theft Prevention Rating Step. Additionally, the insured then opted into our Smart Home Verified program. The factors for this program .794 on P1 for the Fire Prevention Rating Step. & .844 on P3 in the Theft Prevention Rating Step. They received these factors as they were the bigger discount. However, they did not opt into our Smart Home Verified provider's professional monitoring, so they did not receive an additional level of discount. The discounts were applied correctly, and the policy was rated properly.

d. The company failed to use the correct base and/or final rates.

- Hippo Homeowners Program Rebuttal:

Expense Fee - Please see in Box the attachment Part One Rate & UW HO New Business (6d) demonstrating that the expense fee was correctly charged. All other similar findings were previously withdrawn, and Hippo maintains that this one should also have been withdrawn.

Homeowner Renewal Business Policies

(2) The examiners found 16 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and rates on file with the Bureau of Insurance. The company failed to use the correct discounts and/or surcharges.

- MSI Renters Program Rebuttal:

As referenced in our original response, per the filed and approved rating manual, only claims that occurred during the prior three years are used for rating in prospective policy years. None of the policies referenced in the Review Sheets for this finding relate to policies with claims experience during the prior three years. Screenshots from the policy administration system have been previously provided illustrating that the policies selected are claims free for the prior three years. The screen shots are provided hereto for convenience, see in Box the attachment Part One Rate & UW HO Renewal (2).

TERMINATION REVIEW

Spinnaker agreed with most observations in this section of the Preliminary Report. However, Spinnaker disagreed with observation #2 and #3 in the Tenant Policies subsection as follows:

Tenant Policies

(2) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.

- MSI Renters Program Rebuttal:

We disagree with the interpretation of the Underwriting Manual. However, the Company will file with the Bureau a revised Underwriting Manual that sets out more clearly that Installment Fees are not considered Unearned Premium, and that Installment Fees will be computed on a pro rata basis if the insurance policy is cancelled or reduced. A redlined copy of the changes to the Underwriting Manual is provided, see in Box the attachment Part One Termination Tenant Policies (2).

(3) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy.

a. In one instance, the company failed to use the cancellation date requested by the insured.

- MSI Renters Program Rebuttal:

The refund was calculated based on the cancellation date agreed to by the Agent of Record. If the Company had been contacted, the Company could have further backdated the cancellation. However, without admitting liability or fault, Company has provided restitution to the customer.

b. In two instances, the company failed to mail the cancellation notice to the insured a minimum number of days in advance of the cancellation effective date.

- MSI Renters Program Rebuttal:

With respect to Review Sheet TermRTRT-132790634, a letter and "Notice of Cancellation, Refusal to Renew or Change in Policy Premium/Coverage" (the "Notice") was sent to the policyholder. The Notice indicates the "Effective Date of Notice: 10/29/2020" and the "Date of Mailing: 9/16/2020." Copies of the letter and Notice are provided in Box, see attachment Part One Termination Tenant Policies (3b), previously provided to the Bureau.

With respect to Review Sheet TermRTRT1676579034, a Notice was sent to the policyholder. The Notice indicates the "Effective Date of Notice: 5/8/2020" and the "Date

of Mailing: 4/11/2020." Copies of the letter and Notice are provided in Box, see attachment Part One Termination Tenant Policies (3b), previously provided to the Bureau.

c. In two instances, the company failed to obtain valid proof of the mailing the cancellation notice to the insured.

- MSI Renters Program Rebuttal:

With respect to Review Sheet TermRTRT1536381523, see in Box the attachment Part One Termination Tenant Policies (3c), which is a screen shot of the Microsoft Excel Spreadsheet labeled "Policy Cancellation Emails 2021_10_22 v2" which lists the policy number, type of email sent, email address, date and time sent, and the email subject.

With respect to Review Sheet TermRTRT1673440351, this was not a cancellation due to non-payment. Rather, the policyholder requested cancellation as a result of obtaining other insurance. A voice recording of the call requesting and confirming cancellation is provided. It should be noted that prior to cancellation due to policyholder request, the policyholder was sent notice of cancellation due to non-payment but these notices were rescinded, or the policy was reinstated upon payment by the policyholder. The voice recording and notices are provided in Box, see attachment Part One Termination Tenant Policies (3c).

CLAIMS REVIEW

Spinnaker had no disagreements with the observations in this section of the report.

FORMS REVIEW

There were no observations or violations found in this section of the report.

POLICY ISSUANCE PROCESS REVIEW

Spinnaker agreed with most observations in this section of the Preliminary Report. However, Spinnaker disagreed with observation #6 in the New Business Policies subsection and observation #3 in the Renewal Business Policies subsection, as follows:

New Business Policies

(6) The examiners found five violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.

- MSI Renters Program Rebuttal:

Coverage was available to the consumer if elected upon purchase of the insurance. However, without admitting liability or fault, the Company has developed the attached notice Part One Policy Issuance New Business (6) - Water Backup calling attention to the availability of Water Back Up Coverage. Implemented January 2023.

Renewal Business Policies

(3) The examiners found five violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.

- MSI Renters Program Rebuttal:

Coverage was available to the consumer if elected upon purchase of the insurance. However, without admitting liability or fault, the Company has developed the attached notice Part One Policy Issuance New Business (6) - Water Backup calling attention to the availability of Water Back Up Coverage. Implemented January 2023.

STATUTORY NOTICES REVIEW

Spinnaker agreed with most observations in this section of the Preliminary Report. However, Spinnaker disagreed with observation #4 in the General Statutory Notices subsection, as follows:

General Statutory Notices

(4) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company's Adverse Underwriting Decision (AUD) notice did not include all the information required by the statute.

- MSI Renters Program Rebuttal:

The Company does not make any adverse underwriting decisions on this program and therefore the notice will never need to be sent. However, without admitting liability or fault, the Company has created such notices, see in Box the attachment Part One Statutory Notices - General Stat Notices (4).

LICENSING AND APPOINTMENT REVIEW

Spinnaker had no disagreements with the observations.

COMPLAINT HANDLING PROCESS REVIEW

No violations were found.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

No violations were found.

PART TWO – CORRECTIVE ACTION PLAN

As requested in the Preliminary Report, find below Spinnaker’s Corrective Action Plan (CAP). As indicated above, the Spinnaker program administrators and TPA that were subject to the examination were Hippo, MSI, and Alacrity. Those companies will have first line responsibility in executing the CAP. Their corrective actions will then be subject to review and confirmation by Spinnaker’s second line Program Audit function beginning in the second quarter of 2023.

Rating and Underwriting Review

(1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds’ accounts the amount of the overcharge as of the date the error first occurred.

- Hippo Homeowners Program Corrective Action Plan:
To correct the errors that caused the overcharges and undercharges, we re-designed our rate tables in our system to allow the actuarial/pricing team to directly upload them into the system as opposed to needing to be recreated as a separate file. This allows the exact same rate tables used in filings to be used in our programming. Additionally, we added more testing to the process which will allow a significantly higher number of policies to be checked in the system against our expected pricing rating files.
- MSI Renters Program Corrective Action Plan:
N/A

(2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured’s accounts.

- Hippo Homeowners Program Corrective Action Plan:
The insureds’ accounts have been refunded and/or credited including six percent (6%) simple interest.
- MSI Renters Program Corrective Action Plan:
N/A

(3) Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the Company acknowledges that it has refunded or credited the overcharges listed in the file.

- See in Box the attachment Part Two Rate & UW (3) – Restitution.

(4) Specify accurate information in the policy by only listing forms applicable to the policy on the declarations page.

- Hippo Homeowners Program Corrective Action Plan:
The system programming was corrected to address all issues identified by the Bureau. Completed December 2022.
- MSI Renters Program Corrective Action Plan:
Systems have been evaluated and fixed to ensure all applicable forms are listed on the declarations page. Implemented in 2022. Complete.

(5) Properly represent the benefits, coverage, advantages and conditions of the policy by listing the accurate discounts and coverage limits on the declarations page.

- Hippo Homeowners Program Corrective Action Plan:
The system programming was corrected to address all issues identified by the Bureau. Completed December 2022.
- MSI Renters Program Corrective Action Plan:
N/A

(6) File all rates and supplementary rate information with the Bureau.

- Hippo Homeowners Program Corrective Action Plan:
Hippo submitted a filing on 1/20/23 under SERFF# HIPO-133461016 to update the Loss History Codes.
- MSI Renters Program Corrective Action Plan:
N/A

(7) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, territory, tier eligibility, base and/or final rates, construction type, public protection class, interpolation, rounding rule, rating rules; and charging Mortgage Protection premium only when applicable.

- Hippo Homeowners Program Corrective Action Plan:
The underwriting system was corrected in January 2023 to ensure that we are correctly charging for losses. We added additional fields to capture information related to a loss to be certain that we are applying surcharges correctly. There will also be additional fields exposed to Hippo's underwriting management system, POD to validate the correct treatment was applied to the loss.
- MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One.

(8) Provide the Credit Adverse Action notice as required by 38.2-2126 A 2 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
Hippo implemented the revised credit notice and rules in January 2023.
- MSI Renters Program Corrective Action Plan:
N/A

Termination Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.**
 - Hippo Homeowners Program Corrective Action Plan:
N/A
 - MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's accounts.**
 - Hippo Homeowners Program Corrective Action Plan:
N/A
 - MSI Renters Program Corrective Action Plan:
The insureds' account has been credited including six percent (6%) simple interest.
- (3) Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the Company acknowledges that it has refunded or credited the overcharges listed in the file.**
 - See in Box the attachment Part Two Termination (3) – Restitution.
- (4) Provide the Notice of Information Collection and Disclosure Practices to applicants.**
 - Hippo Homeowners Program Corrective Action Plan:
Hippo is undertaking a bind flow project to be completed by Q2 2023 which will update the notifications provided to insureds.
 - MSI Renters Program Corrective Action Plan:
N/A

- (5) **Provide the applicant a written AUD notice when coverage is declined.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo is undertaking a bind flow project to be completed Q2 2023 which will update the notifications provided to insureds.
 - MSI Renters Program Corrective Action Plan:
N/A
- (6) **Properly represent the benefits, coverages, advantages, and conditions of the policy.**
- Hippo Homeowners Program Corrective Action Plan:
N/A
 - MSI Renters Program Corrective Action Plan:
The cancellation notice incorrectly stated that the insured requested cancellation of the policy when the policy expired. The Company is currently building out system enhancements that will "expire" a policy rather than show as cancelled for non-payment of premium. We expect this to be completed in Summer 2023.
- (7) **Provide convenient access to files, documents, and records relating to the examination.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo is undertaking a bind flow project to be completed Q2 2023 to allow for maintenance of a record of the application and declination reason for rejected applicants.
 - MSI Renters Program Corrective Action Plan:
N/A
- (8) **Calculate earned premium in accordance with the filed rules and policy provisions.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo submitted a filing on January 20, 2023, under SERFF# HIPO-133461016 clarifying the inspection criteria raised in the examination.
 - MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One.
- (9) **Obtain valid proof of mailing the cancelation notice to the insured.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo upgraded its service with its mailing vendor in December 2022. All proofs of mailing will be stored in a more comprehensive and searchable manner.

- MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One.

(10) Retain proof of mailing the cancellation notice to the insured.

- Hippo Homeowners Program Corrective Action Plan:
Hippo has upgraded its service with its mailing vendor in December 2022. All proofs of mailing will be stored in a more comprehensive and searchable manner.
- MSI Renters Program Corrective Action Plan:
N/A

(11) Obtain a written request when the insured requests cancellation of the policy as required by the insurance policy.

- Hippo Homeowners Program Corrective Action Plan:
Hippo submitted a form filing on January 20, 2023 under SERFF# HIPO-133513917 to update the cancellation provision to match the current practice.
- MSI Renters Program Corrective Action Plan:
N/A

Claims Review

(1) Correct the errors that caused the underpayments and overpayments and the amount of the underpayment to the insureds and claimants.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services created claims handling best practices that include the standards for gathering information to verify all damages, properly evaluate and accurately issue payment on claims. These guidelines were distributed to adjusters on January 6, 2023, and training was held on January 9, 2023. The guidelines will be a part of new employee on-boarding training going forward. Adherence to the guidelines will be measured through target audits completed by team leads and the Quality Assurance department.
- Alacrity Program Corrective Action Plan:
Alacrity has engaged a QA reviewer to conduct thorough file reviews on each examiner to pinpoint areas of improvement. Alacrity has also implemented additional training courses on a monthly basis to prevent future concerns. If any amount is underpaid or overpaid during internal review, it will be addressed with the adjuster and we will correct the payment to the payable party, with interest if required. This was implemented on December 1, 2022.

- (2) **Include six percent (6%) simple interest in the amount refunded and/or credited to the insured's accounts.**
- Hippo Homeowners Program Corrective Action Plan:
The insureds' accounts have been refunded and/or credited including six percent (6%) simple interest.
 - Alacrity Renters Program Corrective Action Plan:
The insureds' accounts have been refunded and/or credited including six percent (6%) simple interest.
- (3) **Complete the enclosed Restitution file and submit it to the Bureau. By returning the completed file to the Bureau, the Company acknowledges that it has paid the underpayments listed in the file.**
- See in Box the attachment Part Two Claims (3) – Restitution.
- (4) **Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed claims handling best practices guidelines that include the minimum standards for claim file documentation. The guidelines were distributed to adjusters and training was held on January 9, 2023. The guidelines will be a part of new employee on-boarding training going forward. Adherence to the guidelines will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (4).
 - Alacrity Renters Program Corrective Action Plan:
We have engaged a QA reviewer to conduct thorough file reviews on each examiner to pinpoint areas of improvement. We have implemented additional training courses on a monthly basis. This was implemented on December 1, 2022.
- (5) **Document the claim file that all applicable coverages have been disclosed to the insured. Particular attention should be given to ALE coverage and replacement costs benefits under Dwelling and Personal Property coverages.**
- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed template letters to be used by all adjusters that include all requirements under Virginia law, including disclosure of benefits under ALE coverage. The use of these template letters will be rolled out and training to the adjusters will be provided on February 16, 2023. Currently, the template letters are available to adjusters on a shared drive, while Hippo considers the possibility of automating their usage. Adherence to the use of the template letters will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (5).

- Alacrity Renters Program Corrective Action Plan:
We have implemented new file notes which remind examiners to answer all coverage questions and explain coverages in detail. This was implemented on January 1, 2022. This issue has improved over the past year.

(6) Make all denials in writing and keep a copy of the written denial in the claim file.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed template letters to be used by all adjusters that include all requirements under Virginia law, including claim denials. The use of these template letters will be rolled out and training to the adjusters will be provided on February 16, 2023. Currently, the template letters are available to adjusters on a shared drive while Hippo considers the possibility of automating their usage. Adherence to the use of the template letters will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (6).
- Alacrity Renters Program Corrective Action Plan:
We have engaged a QA reviewer to conduct thorough file reviews on each examiner to pinpoint areas of improvement. We have implemented additional training courses on a monthly basis. This was implemented on December 1, 2022.

(7) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay in accordance with the insured's policy provisions.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed claims handling best practices that include the standards for paying claims under Additional Coverage. These guidelines were distributed to adjusters and training was held on January 9, 2023. These guidelines will be a part of new employee on-boarding training going forward. Adherence to the guidelines will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (7).
- Alacrity Renters Program Corrective Action Plan:
We have engaged a QA reviewer to conduct thorough file reviews on each examiner to pinpoint areas of improvement. We have implemented additional training courses on a monthly basis. This was implemented on December 1, 2022.

(8) Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed claims handling best practices that include the standards for explaining replacement cost. These guidelines were distributed to adjusters and training was held on January 9, 2023. These guidelines will be a part

of new employee on-boarding training going forward. Adherence to the guidelines will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (8).

- Alacrity Renters Program Corrective Action Plan:
We have implemented new file notes which reminds examiners to explain coverages including endorsements in detail. This was implemented on January 1, 2022. This issue has improved over the past year.

(9) Adopt and implement reasonable standards for the prompt investigation of claims.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed claims handling best practices that include the standards for prompt investigation. These guidelines were distributed to adjusters and training was held on January 9, 2023. These guidelines will be a part of new employee on-boarding training going forward. Adherence to the guidelines will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (9).
- Alacrity Renters Program Corrective Action Plan:
We have implemented QA review process and daily data reporting to assist management in monitoring claim compliance. This was implemented on December 1, 2022. The daily reporting was implemented on January 1, 2022.

(10) Include a correct statement of coverage under which payments are made with all claim payments to insureds.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services developed template letters to be used by all adjusters that include all requirements under Virginia law, including statements setting forth the correct coverage under which payments are made. The use of these template letters will be rolled out and training to the adjusters will be provided on February 16, 2023. Currently, the template letters are available to adjusters on a shared drive while Hippo considers the possibility of automating their usage. Adherence to the use of the template letters will be measured through target audits completed by team leads and the QA department. See in Box the attachment Part Two Claims (10).
- Alacrity Renters Program Corrective Action Plan:
We implemented new settlement letters which define the coverages and amounts for each payment. This was implemented on January 1, 2022. This issue has improved over the past year.

Policy Issuance Process Review

(1) Provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
N/A
- MSI Renters Program Corrective Action Plan:
The Company has created an Important Information Regarding Your Insurance Notice, which is now included with the policy documents. Implemented January 2023. See in Box the attachment Part Two Policy Issuance (1) - Important Notice

(2) Provide convenient access to the files, documents, and records relating to the examination.

- Hippo Homeowners Program Corrective Action Plan:
Hippo is undertaking a bind flow project to be completed Q2 2023 to allow for maintenance of a record of the application and declination reason for rejected applicants.
- MSI Renters Program Corrective Action Plan:
N/A

(3) Specify on the policy if the insurer is a stock, mutual company, reciprocal insurer, or other form of insurer.

- Hippo Homeowners Program Corrective Action Plan:
N/A
- MSI Renters Program Corrective Action Plan:
The policy Declarations Page has been revised to include that the company is a stock company. Implemented January 2023. See in Box the attachment Part Two Policy Issuance (3) – Stock.

(4) Provide the Replacement Cost notice as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
N/A

(5) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One.

(6) Provide the Ordinance and Law Coverage notice as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
N/A

(7) Provide the Flood Exclusion notice as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
N/A
- MSI Renters Program Corrective Action Plan:
The Company has created and implemented in January 2023 a Flood Exclusion Notice, which the Company is now including with the policy documents. See in Box the attachment Part Two Policy Issuance (7) - Flood Exclusion.

(8) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
N/A
- MSI Renters Program Corrective Action Plan:
The Company has created and implemented in January 2023 an Earthquake Exclusion Notice, which the Company is now including with the policy documents. See in Box the attachment Part Two Policy Issuance (8) – Earthquake.

Statutory Notices Review

(1) Amend the Important Information Regarding Your Insurance notice to comply with 38.2-305 B of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
N/A
 - MSI Renters Program Corrective Action Plan:
The Important Information Regarding Your Insurance notice has been created and implemented in January 2023. See in Box the attachment Part Two Statutory Notices (1) - Important Notice.
- (2) **Amend the long form Notice of Information Collection and Disclosure Practices to company with 38.2-604 B of the Code of Virginia.**
- Hippo Homeowners Program Corrective Action Plan:
The notice was amended to comply with 38.2-604 B of the Code of Virginia and released into production for all new and renewal policies in October 2022.
 - MSI Renters Program Corrective Action Plan:
The Company created and implemented in January 2023 a document entitled "What Does Millennial Specialty Insurance, LLC (MSI) Do With Your Personal Information?". See in Box the attachment Part Two Statutory Notices (2) - Information Collection.
- (3) **Amend the Notice of Financial Information Collection and Disclosure Practices to comply with 38.2-604.1 B of the Code of Virginia.**
- Hippo Homeowners Program Corrective Action Plan:
The notice was amended to comply with 38.2-601.1 B of the Code of Virginia and released into production for all new and renewal policies in October 2022.
 - MSI Renters Program Corrective Action Plan:
The Company created and implemented in January 2023 a document entitled "What Does Millennial Specialty Insurance, LLC (MSI) Do With Your Personal Information?". See in Box the attachment Part Two Statutory Notices (3) - Information Collection.
- (4) **Amend the language in the AUD notice to be substantially similar to the prototype set forth in Administrative Letter 2015-07.**
- Hippo Homeowners Program Corrective Action Plan:
N/A
 - MSI Renters Program Corrective Action Plan:
Disagree, see rebuttal in Part One

(5) Develop a Water and Sewer Backup notice to comply with 38.2-2120 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
The Company developed and implemented in January 2023 a notice which the Company is now including with the policy calling attention to the availability of Water Back Up Coverage. See in Box the attachment Part Two Statutory Notices (5) - Water Backup

(6) Amend the Ordinance and Law notice to comply with 38.2-2124 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was amended to comply with 38.2-2124 of the Code of Virginia and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
N/A

(7) Develop a Flood Exclusion notice to comply with 38.2-2125 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
The Company has created and implemented in January 2023 a Flood Exclusion Notice which the Company is now including with the policy documents. See in Box the attachment Part Two Statutory Notices (7) - Flood

(8) Amend the Insurance Score Disclosure notice to comply with 38.2-2126 A 1 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was amended to comply with 38.2-2126 A of the Code of Virginia and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
N/A

(9) Amend the Credit Adverse Action notice to comply with 38.2-2126 A 2 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was amended to comply with 38.2-2126 A 2 of the Code of Virginia and released into production in January 2023.
- MSI Renters Program Corrective Action Plan:
N/A

(10) Develop an Earthquake Exclusion notice to comply with 38.2-2129 of the Code of Virginia.

- Hippo Homeowners Program Corrective Action Plan:
The notice was developed and released into production for all new and renewal policies in October 2022.
- MSI Renters Program Corrective Action Plan:
The Company has created and implemented in January 2023 an Earthquake Exclusion Notice which the Company is now including with the policy documents. See in Box the attachment Part Two Statutory Notices (10) – Earthquake.

Licensing and Appointment Review

(1) Pay commission only to trade name filed with the Bureau.

- Hippo Homeowners Program Corrective Action Plan:
Information provided in the initial data spreadsheets contained inaccurate information regarding who the agent of record was on certain policies. Hippo has begun a project to review how agent of record data is captured so that future data requests will provide accurate agent of record information.
- MSI Renters Program Corrective Action Plan:
N/A

(2) Appoint agencies within 30 days of the application.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services revised its appointment processes to ensure that agencies writing business were appointed within 30 days of placing the first policy through Hippo. Specifically, in June 2021, Hippo initiated a process whereby the Licensing Department receives a weekly report of business placed. The Licensing team performs a check to see if the agencies on the report are already appointed or need

to be appointed. Agencies that do not have a current appointment are then appointed within 3 days of the report.

- MSI Renters Program Corrective Action Plan:
N/A

(3) Appoint agents within 30 days of the application.

- Hippo Homeowners Program Corrective Action Plan:
Hippo Insurance Services revised its appointment processes to ensure that agents writing business were appointed within 30 days of placing the first policy through Hippo. Specifically, in June 2021, Hippo initiated a process whereby the Licensing Department receives a weekly report of business placed. The Licensing team performs a check to see if the agents on the report are already appointed or need to be appointed. Agents that do not have a current appointment are then appointed within 3 days of the report.
- MSI Renters Program Corrective Action Plan:
N/A

PART THREE – NOTES AND RECOMMENDATIONS

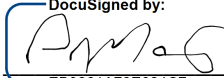
Spinnaker appreciates the recommendations made at Part Three of the Bureau's Preliminary Report and will include them in the Spinnaker's audit plan for Hippo, MSI and Alacrity in the second quarter 2023, in which Spinnaker will also be reviewing execution of the CAP.

CONCLUSION

Spinnaker would like to thank the Bureau for its many courtesies during the examination. As indicated above, we have developed actions plans on areas of agreement and can discuss those and the remaining items of disagreement in our next meeting. We are available to meet virtually or in person at your convenience.

Very truly yours,

SPINNAKER INSURANCE COMPANY

By:  _____
DocuSigned by:
EB9261A78E624C7...
Peter Maloney
General Counsel

cc. Dafna Kendal
Nancy Self
Acksons Namuonglo

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
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May 5, 2023

VIA E-MAIL DELIVERY

Peter Maloney
General Counsel
Spinnaker Insurance Company
One Pluckemin Way, Suite 102
Bedminster, NJ 07921
pmaloney@spinnakerins.com

RE: Market Conduct Examination
Spinnaker Insurance Company, NAIC # 24376
Examination Period: January 1, 2020 - December 31, 2020

Dear Mr. Maloney:

The Bureau of Insurance (Bureau) has reviewed the February 3, 2023 response to the Preliminary Market Conduct Report (Report) of the above-referenced company. The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings, there are outstanding items that require attention, or items have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Homeowner New Business Rating and Underwriting

(6a) After further review, the violation for RHO029 has been withdrawn from the Report. Contrary to the Company's response, this violation pertained to the Multiple Policy Discount. The Company provided documentation in its attachment that demonstrated a private passenger auto policy was not linked to the insured. The violation associated with the Home Buyer Discount was already withdrawn on July 29, 2022.

After further review, the violations for RHO037 and RHO053 have been withdrawn from the Report. The Company sufficiently explained why the discounts were applied or not applied to the policies based on the policy file.

After further review, one of the two violations for RHO061 has been withdrawn from the Report. The Company provided evidence that it applied the affinity discount correctly. The loss free discount violation remains. The remaining violation has resulted in an overcharge of \$13.

- (6d) After further review, the violation for RHO035 has been withdrawn from the Report. The Company provided sufficient documentation reflecting the proper Expense Fee was charged.

Homeowner Renewal Business Rating and Underwriting

- (2) After further review, the violations for RHO076, RHO078, RHO080, RHO082, RHO084, RHO086, RHO088, RHO090, RHO092, RHO093, RHO094, RHO095, RHO096, RHO097, RHO098, and RHO099 have been withdrawn from the Report. The Company provided screenshots showing the insureds did not have any prior claims. Since all violations have been withdrawn from this item, the Report has been renumbered to reflect this change.

Tenant Policies Termination Review

- (2) After further review, the violation for THO059 has been withdrawn from the Report. However, this violation pertained to the Company not charging the installment fee, rather than pro-rating the installment fee. The Company's filed Rule titled "Cancellation of Policies" should remain the same and the proposed changes are not acceptable. The Bureau has made a separate recommendation to address this issue.

The violation for THO046 remains in the Report. This violation was not due to the installment fees as indicated in the Company's response. This violation was a result of the Company not using the correct cancellation date of March 27, 2020. The Company incorrectly cancelled this policy on April 21, 2020, 25 days after the requested cancellation date, which resulted in an overcharge of premium. The Company stated in its response to Item (3a) below that restitution has been made.

- (3a) The violation for THO046 remains in the Report. The Company should honor the cancellation date requested by the insured.

- (3b) After further review, the violation for THO053 has been withdrawn from the Report. The Company provided evidence to support the notice was emailed on April 11, 2020 with an effective date of cancellation of May 8, 2020.

After further review, THO068 has been withdrawn from the Report. The Company provided evidence to support the notice was emailed on September 16, 2020 with an October 29, 2020 cancellation effective date.

Since these were the only two violations in this item, the Report has been renumbered to reflect this change.

- (3c) After further review, the violation for THO053 has been withdrawn from the Report. The Company has provided a screen print of the query as evidence for proof of sending the notice to the insured.

The violation for THO068 remains in the Report. The Bureau acknowledges that the policy ultimately cancelled due to the insured's request. However, the examination reviews all cancellations processed by the Company, regardless of the disposition. For reconsideration, the Company should provide proof that the nonpayment cancellation notice was emailed to the insured with a cancellation effective date of October 29, 2020

Homeowner New Business Policy Issuance Review

- (6) These violations remain in the Report. The water backup notice provided by the Company is not acceptable, as it limits the available coverage up to \$5,000. However, the Company must offer coverage up to the full Coverage C policy limits.

Homeowner Renewal Business Policy Issuance Review

- (3) These violations remain in the Report. The water backup notice provided by the Company is not acceptable, as it limits the available coverage up to \$5,000. However, the Company must offer coverage up to the full Coverage C policy limits.

General Statutory Notices Review

- (4) This violation remains in the Report. The Bureau acknowledges that the Company created an Adverse Underwriting Decision (AUD) notice to use in case the Company makes a decision as defined under § 38.2-602 of the Code of Virginia.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (1) Please provide the date these changes to the system were completed.
- (3) The undercharge for RHO061 has been revised to an overcharge and is now reflected on the Revised Restitution spreadsheet.
The Company should make the outstanding restitution as indicated in the Revised Restitution Spreadsheet enclosed.
- (8) Please provide the Credit Adverse Action notice for review as well as the SERFF filing numbers for any revised rule.

Termination Review

- (8) It is not clear how the filing submitted by the Company addressed the issues cited in this item under the Hippo program. The violation for THO008 pertains to the Company failing to charge the reinstatement and late fees. The violations for THO009 and THO011 pertain to the Company not properly calculating the

unearned premium, which may have resulted from the Company failing to fully earn the inspection fee. Rule 5.A of the SERFF filing # HIPO-133461016 states that the Company considers fees fully earned once the policy is effective. With such a rule, the Company should have charged the aforementioned fees. Please be aware that the “policy fee” is considered premium and cannot be fully earned upon policy cancellation.

The Company paid restitution to the insured for the THO046 Tenant policy as requested in Part One.

- (11) The examiner is unable to retrieve filing number HIPO-133513917 in SERFF, which the Company indicated was filed on January 20, 2023. Please verify the filing number and provide a copy of the filing submitted to update the cancellation provision to match the Company’s current practice.

Claims Review

- (3) The Company should contact the named insured and confirm that they had any additional out-of-pocket expense for the tree claim for CHO015. Although the Company’s restitution spreadsheet indicates a refund check in the amount of \$318.00 was refunded back to the insured, there is no evidence that the insured was contacted. The Company was advised that the \$300.00 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.

The Company should contact the named insured and confirm that they had any additional out-of-pocket Additional Living Expense (ALE) for CHO066. Although the Company’s restitution spreadsheet indicates a refund check in the amount of \$1,058.94 was refunded back to the insured, there is no evidence that the insured was contacted. The Company was advised that the \$999.00 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.

- (4) The Bureau has concerns that the Company’s new claims handling best practices guidelines outlining Additional Living Expenses coverage includes instances where the insured would not have increased expenses. Please explain the instances where the insured would typically have increased costs for mortgage payments, trash pickup, gardening, dry cleaning, entertainment and property taxes.
- (5) The Company’s attachment Part Two Claims (5) did not appear to include any template letters to disclose applicable coverages to insureds. Please provide a copy of any such letters, especially the ALE template letter(s) referenced on page 11 of the Company’s Hippo Claims Handling Best Practices document.
- (6) The Company has developed template letters for coverage denials and has indicated that the company is contemplating automating their usage. Please define automate.
- (8) The Company’s settlement letters do not provide the proper language for Replacement Cost recovery. The insured has six months to assert a claim for the difference between the ACV and the Replacement Cost. These six months

are the later of the last date that the insured received an ACV payment or the date of entry of a final order of a court of competent jurisdiction.

Policy Issuance Review

- (2) Please confirm that the Company's response pertains to both owner-occupied dwelling and tenant policies, since both types of policies were cited for failure to provide documentation requested for the examination.
- (4) Please provide a copy of the Replacement Cost notice used since October 2022 for owner-occupied dwelling policies.
- (5) Although the Company disagreed with the violations, the Company provided the Water Back-Up and Sump Discharge or Overflow Advisory Notice to Policyholders, WBU Notice 09 22, as used with tenant policies. Additional details explaining why the notice is not compliant are provided in the Statutory Notices Review Item (5) below.
- (7) The Bureau acknowledges that the Company is now providing Flood Coverage Advisory Notice to Policyholders, FLD Notice 09 22 with tenant policies. The issue with the language in this notice is addressed in Statutory Notices Item (7) below.

Statutory Notices Review

- (2) Please provide a copy of the Notice of Information Collection and Disclosure Practices used since October 2022 for owner-occupied dwelling policies.

The Company needs to revise notice, MSI PN 02 22, to comply with § 38.2-604 B of the Code of Virginia. First, the notice states that it pertains only to "Millennial Specialty Insurance LLC (MSI)". For Spinnaker Insurance Company to comply with this statute, it must be stated as a party in the existing notice or create its own notice. This notice also needs to be revised to comply with § 38.2-604 B 3 of the Code of Virginia. This notice fails to disclose that the Company will share information for actuarial or research report purposes. Lastly, the notice also fails to disclose the full rights as provided under § 38.2-604 B 4 of the Code of Virginia. In particular, the notice fails to disclose that the applicant or policyholder can amend, correct, or delete recorded personal information in dispute.
- (3) Please provide a copy of the Notice of Financial Information Collection and Disclosure Practices used since October 2022 for owner-occupied dwelling policies.

The Company is also using notice, MSI PN 02 22, to comply with § 38.2-604.1 B of the Code of Virginia. However, this notice fails to comply with § 38.2-604.1 B 8, in that it fails to disclose the types of financial information about former policyholders that may be disclosed.
- (4) Although the Company disagreed with the violation, the Bureau acknowledges that the Company provided an AUD notice that will be accepted as part of its Corrective Action Plan.

- (5) Please provide the Water Backup notice used with owner-occupied policies since October 2022.

The Company's notice, Water Back-Up and Sump Discharge or Overflow Advisory Notice to Policyholders, WBU Notice 09 22, should disclose that the water backup of sewers or drains coverage insures against loss caused or resulting from water which backs up through sewers or drains. Furthermore, the Company inaccurately stated that the maximum limit of liability for this coverage was \$5,000. Upon review, the Company is filed for a minimum limit of liability of \$5,000 for this coverage. This statement must be revised to accurately reflect the \$5,000 is not the maximum limit of liability for this coverage.

- (6) Please provide the Ordinance or Law notice used with owner-occupied policies since October 2022.

- (7) Please provide the Flood Exclusion notice used with owner-occupied policies since October 2022.

The Company should revise the notice, Flood Coverage Advisory Notice to Policyholders, FLD Notice 09 22, to disclose that information regarding flood insurance is available from the insurer and the National Flood Insurance Program, in addition to the insurance agent.

- (8) Please provide the Credit Score Disclosure notice used with owner-occupied policies since October 2022.

- (9) Please provide the Credit Adverse Action notice used with owner-occupied policies since January 2023, if it is not (E)GU-7007 (Ed. 8-18).

The Company provided "Notice Regarding the Use of a Consumer Report", (E)GU-7007 (Ed. 8-18) but did not reference this notice in its response. Please note this notice does not comply with § 38.2-2126 A 2 of the Code of Virginia since it fails to list the primary factor(s) that triggered the credit adverse action notice.

- (10) Please provide the Earthquake Exclusion notice used with owner-occupied policies since October 2022.

PART THREE – RECOMMENDATIONS

Termination

- The Company should update its Rule titled "Payment Plan" to revise the title of the column labeled "Installment Charge (per installment)". The Company stated its intent was to only charge an installment fee if the insured's premium payment cleared. The revised rule should reflect that intention. One possible revision is "Installment Charge (Per Accepted Payment)."

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised version of the Report, technical reports and Restitution spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review.

The Company should provide a written response to the outstanding items identified above. When responding to Part Two, please resubmit the entire corrective action plan with any necessary revisions, additions, clarifications or deletions.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by May 22, 2023.

Sincerely,



Andrea Baytop
Manager
Market Conduct Section
Property and Casualty Division
(804) 592-0245
andrea.baytop@scc.virginia.gov

ADB/pgh
Attachments



Spinnaker Insurance Company

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May 26, 2023

Via Email and Upload (andrea.baytop@scc.virginia.gov)

Ms. Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219

Re: Market Conduct Examination
Spinnaker Insurance Company NAIC 24376 (“Spinnaker”)
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Baytop:

We are in receipt of the Bureau’s response letter and Revised Report dated May 5, 2023. This response follows the outline of the Report. The Bureau’s comments are in italics below.

PART ONE – THE EXAMINERS’ OBSERVATIONS

Homeowner New Business Rating and Underwriting

(6a) *After further review, one of the two violations for RHO061 has been withdrawn from the Report. The Company provided evidence that it applied the affinity discount correctly. The loss free discount violation remains. The remaining violation has resulted in an overcharge of \$13.*

Hippo Program Response

Please see in Box the attachment **Part One - HO New Business Rating and Underwriting (6a) – Restitution** evidencing the refund of the overcharged amount.

Tenant Policies Termination Review

- (2) *The violation for THO046 remains in the Report. This violation was not due to the installment fees as indicated in the Company's response. This violation was a result of the Company not using the correct cancellation date of March 27, 2020. The Company incorrectly cancelled this policy on April 21, 2020, 25 days after the requested cancellation date, which resulted in an overcharge of premium. The Company stated in its response to Item (3a) below that restitution has been made.*

MSI Program Response

As previously indicated (see prior response attachment Part Two Termination (3) – Restitution), the Company has honored the March 27, 2020 cancellation date and provided restitution to the insured. Going forward, Company will monitor carefully requests from insureds for back-dated cancellations.

- (3a) *The violation for THO046 remains in the Report. The Company should honor the cancellation date requested by the insured.*

MSI Program Response

The Company has honored the cancellation date and provided restitution to the insured. Please see in Box the attachment **Part One - Tenant Policies Termination Review (3a) - THO046**, which evidences the cancellation and premium refund, and contains: (1) Cancellation Notice (File: 14655277-PolicyDocument-RequestCancel); and (2) Refund Letter (File: 14656505-PolicyDocument-None).

- (3c) *The violation for THO068 remains in the Report. The Bureau acknowledges that the policy was ultimately cancelled due to the insured's request. However, the examination reviews all cancellations processed by the Company, regardless of the disposition. For reconsideration, the Company should provide proof that the nonpayment cancellation notice was emailed to the insured with a cancellation effective date of October 29, 2020.*

MSI Program Response

Please see in Box the attachment **Part One - Tenant Policies Termination Review (3c) - THO068**. Company has attached the following files to provide proof of emailing of the nonpayment cancellation notice to the insured with an effective date of October 29, 2020: (1) Cancellation Notices (File:678442-PolicyDocument-onPayPendingCancel; (2) Data Query for Cancellation Email (File: Policy Cancel Emails 80986935); and (3) Screen Shot of Data Query for Cancellation email (File: Policy 80986935 Email SS).

Homeowner New Business Policy Issuance Review

- (6) *These violations remain in the Report. The water backup notice provided by the Company is not acceptable, as it limits the available coverage up to \$5,000. However, the Company must offer coverage up to the full Coverage C policy limits.*

MSI Program Response

We respectfully disagree. The relevant statute provides: "Any insurer who issues or delivers a new or renewal homeowner's policy in this Commonwealth shall offer as an option a provision insuring against loss or resulting from water which backs up through sewers or drains." Va. Code Ann. S. 38.2-2120. The statute does not require the coverage be offered or provided with certain limits. The Water Back-Up and Sump Discharge Notice to Policyholders, WBU Notice 09 22, previously provided to the Department satisfies the statutory requirement to offer optional coverage for loss resulting from water which backs up through sewers or drains.

Homeowner Renewal Business Policy Issuance Review

- (3) *These violations remain in the Report. The water backup notice provided by the Company is not acceptable, as it limits the available coverage up to \$5,000. However, the Company must offer coverage up to the full Coverage C policy limits.*

MSI Program Response

We respectfully disagree. The relevant statute provides: "Any insurer who issues or delivers a new or renewal homeowner's policy in this Commonwealth shall offer as an option a provision insuring against loss or resulting from water which backs up through sewers or drains." Va. Code Ann. S. 38.2-2120. The statute does not require the coverage be offered or provided with certain limits. The Water Back-Up and Sump Discharge Notice to Policyholders, WBU Notice 09 22, previously provided to the Department satisfies the statutory requirement to offer optional coverage for loss resulting from water which backs up through sewers or drains.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (1) *Please provide the date these changes to the system were completed.*

Hippo Program Response

The changes will be complete in the next system release which is scheduled for June 2, 2023.

- (3) *The undercharge for RHO061 has been revised to an overcharge and is now reflected on the Revised Restitution spreadsheet. The Company should make the outstanding restitution as indicated in the Revised Restitution Spreadsheet enclosed.*

Hippo Program Response

Please see in Box the attachment **Part Two - Rating and Underwriting Review (3) – Restitution**, which evidences the refund of the overcharged amount.

- (8) *Please provide the Credit Adverse Action notice for review as well as the SERFF filing numbers for any revised rule.*

Hippo Program Response

Please see in Box the attachment **Part Two - Rating and Underwriting Review (8) (AUDN)-(11 2022)**, which is the adverse action notice. There was not a SERFF rule filing, as no rule revisions were necessary.

Termination Review

- (8) *It is not clear how the filing submitted by the Company addressed the issues cited in this item under the Hippo program. The violation for THO008 pertains to the Company failing to charge the reinstatement and late fees. The violations for THO009 and THO011 pertain to the Company not properly calculating the unearned premium, which may have resulted from the Company failing to fully earn the inspection fee. Rule 5.A of the SERFF filing # HIPO-133461016 states that the Company considers fees fully earned once the policy is effective. With such a rule, the Company should have charged the aforementioned fees. Please be aware that the “policy fee” is considered premium and cannot be fully earned upon policy cancellation.*

Hippo Program Response

Hippo will revise its rule manual to remove the fully earned wording by June 30, 2023.

- (11) *The examiner is unable to retrieve filing number HIPO-133513917 in SERFF, which the Company indicated was filed on January 20, 2023. Please verify the filing number and provide a copy of the filing submitted to update the cancellation provision to match the Company’s current practice.*

Hippo Program Response

We apologize for providing the incorrect filing reference. You can find the change in Box the attachment **Part Two - Termination Review (11) HIPO-133614683 Form Filing Eff 12312023.**

Claims Review

- (3) *The Company should contact the named insured and confirm that they had any additional out-of-pocket expense for the tree claim for CHO015. Although the Company’s restitution spreadsheet indicates a refund check in the amount of \$318.00 was refunded back to the insured, there is no evidence that the insured was contacted. The Company was advised that the \$300.00 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.*

Hippo Program Response

Hippo made contact with the insured on 5/18/23 and discussed additional out-of-pocket expenses. As a result of that conversation, a payment in the amount of \$500 was made

to the insured the same day. Please see in Box attachment **Part Two -Claims Review (3) Payment CHO015**, showing the check submission.

The Company should contact the named insured and confirm that they had any additional out-of-pocket Additional Living Expense (ALE) for CHO066. Although the Company's restitution spreadsheet indicates a refund check in the amount of \$1,058.94 was refunded back to the insured, there is no evidence that the insured was contacted. The Company was advised that the \$999.00 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.

MSI Program Response

On 12/13/2022, the claims adjuster made a contact attempt to reach the insured to discuss the ALE matter and verify the mailing address. A letter was also mailed in an attempt to receive a return call. On 12/14/2022, the claims adjuster made a second attempt, and left a detailed voicemail requesting a call back. On 12/14/22, the claims adjuster received a call from insured, inquired on any incurred expenses, and verified the mailing address for the additional check. On 12/14/22, the claims adjuster created the settlement letter and issued a check in the amount of \$1,058.94 to the insured. (\$999.00 + 6% interest = \$1,058.94). Please see in Box the attachment **Part Two - Claims Review (3) - CHO066**.

- (4) *The Bureau has concerns that the Company's new claims handling best practices guidelines outlining Additional Living Expenses coverage includes instances where the insured would not have increased expenses. Please explain the instances where the insured would typically have increased costs for mortgage payments, trash pickup, gardening, dry cleaning, entertainment and property taxes.*

Hippo Program Response

The following bullets illustrate increased costs for the items discussed above:

- Mortgage Payment: refers to the Mortgage Protection Payment endorsement, triggered in specific ALE circumstances.
- Trash pickup and gardening (landscaping, etc.): long term rentals may include fees for the same. Should fees be assessed in the rental package, they would be reviewed for reimbursement.
- Dry cleaning (laundry) expenses may be incurred if the customer is displaced from their residence, without access to clothes washer/ dryer, or if a laundry facility is available but requires Payment for use.
- Please see in Box the attachment **Part Two - Claims Review (4) - Updated Claims Best Practices 05.2023**

- (5) *The Company's attachment Part Two Claims (5) did not appear to include any template letters to disclose applicable coverages to insureds. Please provide a copy of any such letters, especially the ALE template letter(s) referenced on page 11 of the Company's Hippo Claims Handling Best Practices document.*

Hippo Program Response

Please see in Box the attachments **Part Two - Claims Review (5) - ALE Letter** and **Part Two - Claims Review (5) - Large Loss Letter**.

- (6) *The Company has developed template letters for coverage denials and has indicated that the company is contemplating automating their usage. Please define automate.*

Hippo Program Response

Today, the template letters are available to all adjusters on a shared drive. The templates are provided with fill-in-the-blank information that adjusters must populate manually. Hippo is looking into automating the template letters such that the adjusters do not have to manually populate the information needed to complete the letters, but instead the information is populated directly from the claim system. Until such automation can be put in place, the adjusters will continue to manually populate the letters. Correct use of the letters will be measured through target audits by team leads and the QA department.

- (8) *The Company's settlement letters do not provide the proper language for Replacement Cost recovery. The insured has six months to assert a claim for the difference between the ACV and the Replacement Cost. These six months are the later of the last date that the insured received an ACV payment or the date of entry of a final order of a court of competent jurisdiction.*

Hippo Program Response

The settlement letters have been revised to include replacement cost recovery language. Please see in Box the attachment **Part Two - Claims Review (8) Settlement Letters**.

Policy Issuance Review

- (4) *Please provide a copy of the Replacement Cost notice used since October 2022 for owner-occupied dwelling policies.*

Hippo Program Response

Please see in Box the attachment **Part Two - Policy Issuance Review (4) - (VARCN)-(10 2022)-(va replacement cost notice)**.

- (5) *Although the Company disagreed with the violations, the Company provided the Water Back-Up and Sump Discharge or Overflow Advisory Notice to Policyholders, WBU Notice 09 22, as used with tenant policies. Additional details explaining why the notice is not compliant are provided in the Statutory Notices Review Item (5) below.*

MSI Program Response

We respectfully disagree. The relevant statute provides: "Any insurer who issues or delivers a new or renewal homeowner's policy in this Commonwealth shall offer as an option a provision insuring against loss or resulting from water which backs up through sewers or drains." Va. Code Ann. S. 38.2-2120. The statute does not require the coverage be offered or provided with certain limits. The Water Back-Up and Sump

Discharge Notice to Policyholders, WBU Notice 09 22, previously provided to the Department satisfies the statutory requirement to offer optional coverage for loss resulting from water which backs up through sewers or drains.

Statutory Notices Review

- (2) *Please provide a copy of the Notice of Information Collection and Disclosure Practices used since October 2022 for owner-occupied dwelling policies.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (2) - (HPO-3)-(06 2022)-(hippo privacy statement)**.

The Company needs to revise notice, MSI PN 02 22, to comply with § 38.2-604 B of the Code of Virginia. First, the notice states that it pertains only to “Millennial Specialty Insurance LLC (MSI)”. For Spinnaker Insurance Company to comply with this statute, it must be stated as a party in the existing notice or create its own notice. This notice also needs to be revised to comply with § 38.2-604 B 3 of the Code of Virginia. This notice fails to disclose that the Company will share information for actuarial or research report purposes. Lastly, the notice also fails to disclose the full rights as provided under § 38.2-604 B 4 of the Code of Virginia. In particular, the notice fails to disclose that the applicant or policyholder can amend, correct, or delete recorded personal information in dispute.

MSI Program Response

MSI is revising MSI's notice as requested and will submit to Department when finalized.

- (3) *Please provide a copy of the Notice of Financial Information Collection and Disclosure Practices used since October 2022 for owner-occupied dwelling policies.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (3) - (HPO-3)-(06 2022)-(hippo privacy statement)**.

The Company is also using notice, MSI PN 02 22, to comply with § 38.2-604.1 B of the Code of Virginia. However, this notice fails to comply with § 38.2-604.1 B 8, in that it fails to disclose the types of financial information about former policyholders that may be disclosed.

MSI Program Response

MSI is revising MSI's notice as requested and will submit to Department when finalized.

- (5) *Please provide the Water Backup notice used with owner-occupied policies since October 2022.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (5) - (VAWBN)-(10 2022)-(va water backup notice)**.

The Company's notice, Water Back-Up and Sump Discharge or Overflow Advisory Notice to Policyholders, WBU Notice 09 22, should disclose that the water backup of sewers or drains coverage insures against loss caused or resulting from water which backs up through sewers or drains. Furthermore, the Company inaccurately stated that the maximum limit of liability for this coverage was \$5,000. Upon review, the Company is filed for a minimum limit of liability of \$5,000 for this coverage. This statement must be revised to accurately reflect the \$5,000 is not the maximum limit of liability for this coverage.

MSI Program Response

We respectfully disagree. The relevant statute provides: "Any insurer who issues or delivers a new or renewal homeowner's policy in this Commonwealth shall offer as an option a provision insuring against loss or resulting from water which backs up through sewers or drains." Va. Code Ann. S. 38.2-2120. The statute does not require the coverage be offered or provided with certain limits. The Water Back-Up and Sump Discharge Notice to Policyholders, WBU Notice 09 22, previously provided to the Department, satisfies the statutory requirement to offer optional coverage for loss resulting from water which backs up through sewers or drains. Further, the company's form and rate filings provide for only one limit for water back up coverage, which is \$5,000. The filing does not contemplate a range of limits. Accordingly, the notice is accurate as written offering such coverage with a single limit of \$5,000.

- (6) *Please provide the Ordinance or Law notice used with owner-occupied policies since October 2022.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (6) - (VALAO)-(10 2022)-(va ordinance law notice)**.

- (7) *Please provide the Flood Exclusion notice used with owner-occupied policies since October 2022.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (7) - (VAFLN)-(10 2022)-(va flood notice)**.

The Company should revise the notice, Flood Coverage Advisory Notice to Policyholders, FLD Notice 09 22, to disclose that information regarding flood insurance is available from the insurer and the National Flood Insurance Program, in addition to the insurance agent.

MSI Program Response

The Company has further revised the notice to state that information regarding flood insurance is available from the insurer, National Flood Insurance Program, and Agent. Please see in Box the attachment **Part Two - Statutory Notices Review (7) - MSI FLD Notice 09 22 - Flood Exclusion Notice.**

- (8) *Please provide the Credit Score Disclosure notice used with owner-occupied policies since October 2022.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (8) - (HPO-6)-(06 2022)(fair credit report act).**

- (9) *Please provide the Credit Adverse Action notice used with owner-occupied policies since January 2023, if it is not (E)GU-7007 (Ed. 8-18).*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (9) - (AUDN)-(11 2022)-(adverse action notice)** which is Hippo's proprietary form.

The Company provided "Notice Regarding the Use of a Consumer Report", (E)GU-7007 (Ed. 8-18) but did not reference this notice in its response. Please note this notice does not comply with § 38.2-2126 A 2 of the Code of Virginia since it fails to list the primary factor(s) that triggered the credit adverse action notice.

MSI Program Response

MSI provided the "Notice of Regarding the use of a Consumer Report", (E)GU-7007 (Ed. 8-18), to the Department in error. The Company does not review consumer reports, including credit reports, in its underwriting. Therefore, MSI does not use this notice and is not required to provide such notice to consumers.

- (10) *Please provide the Earthquake Exclusion notice used with owner-occupied policies since October 2022.*

Hippo Program Response

Please see in Box the attachment **Part Two - Statutory Notices Review (10) - (VAEQN)-(10 2022)-(va earthquake notice).**

PART THREE – RECOMMENDATIONS

Termination

- *The Company should update its Rule titled “Payment Plan” to revise the title of the column labeled “Installment Charge (per installment)”. The Company stated its intent was to only charge an installment fee if the insured’s premium payment cleared. The revised rule should reflect that intention. One possible revision is “Installment Charge (Per Accepted Payment).”*


MSI Program Response

Company has further revised its rule titled Payment Plan to address the Department's concern. Please see in Box the attachment **Part Three - Termination - VA Tenant Rules Manual - 6.1.23.**

Please let me know if a call to discuss the water backup coverage issue is in order or if you have any questions or need additional information.

Very truly yours,

SPINNAKER INSURANCE COMPANY

By:  _____
Pete Maloney
General Counsel

cc. Dafna Kendal
Nancy Self
Ackson Namuonglo
Scott Sorkin

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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July 14, 2023

E-MAIL DELIVERY

Peter Maloney
General Counsel
Spinnaker Insurance Company
One Pluckemin Way, Suite 102
Bedminster, NJ 07921
pmaloney@spinnakerins.com

RE: Market Conduct Examination
Spinnaker Insurance Company, NAIC # 24376
Examination Period: January 1, 2020 – December 31, 2020

Dear Mr. Maloney:

The Bureau of Insurance (Bureau) has reviewed the May 26, 2023 response to the Preliminary Market Conduct Report (Report) of the above-referenced Company. The Bureau's following response only addresses the Company's disagreements, changes made to the Report, and outstanding items that require the Company's attention. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Tenant Policies Termination Review

- (3b) After further review, the violation for THO068 has been withdrawn from the Report. The Company provided evidence to support the notice was e-mailed on September 16, 2020 with an October 29, 2020 cancellation effective date. The Company provided its response under item (3c) that no longer existed in the Revised Report.

New Business Policy Issuance Review

- (5) After further review, the violations for MHO001 and MHO003 have been withdrawn from the Report. The tenant policies were already insured with the highest water backup coverage limit offered by the Company. The Company provided its response under item (6) of its letter.

The violations for MHO005, MHO007 and MHO009 remain in the Report. Owner-occupied policies must be offered water backup limits up to the Coverage A limit. The statute requires every homeowner policy to be offered the coverage. There are no exceptions to providing the offer unless the policy is already insured up to the highest limit available. Please note the new minimum standards under 14 VAC 5-342-40 G.

Renewal Business Policy Issuance Review

- (3) After further review, the violation for MHO011 has been withdrawn from the Report. The tenant policy was already insured with the highest water backup coverage limit offered by the Company.

The violation for MHO010 remains in the Report. The Company did not provide evidence in its initial submission that the notice was provided to the insured when the policy did not afford the water backup coverage.

The violations for MHO013, MHO015 and MHO017 remain in the Report. Owner-occupied policies must be offered water backup limits up to the Coverage A limit. The statute requires every homeowner policy to be offered the coverage. There are no exceptions to providing the offer unless the policy is already insured up to the highest limit available. Please note the new minimum standards under 14 VAC 5-342-40 G.

PART TWO – CORRECTIVE ACTION PLAN

Termination Review

- (8) The Company's currently filed manual does not address the violation for THO008. The Company did not charge the reinstatement and late fees and the filed manual does not indicate instances when fees should be waived. The Company should be consistent when charging or not charging fees to insureds. In addition, the Company's process should be reflected in its rules and rates manual filed with the Bureau.

The violations for THO009 and THO011 pertain to the Company not properly calculating the unearned premium, which may have resulted from the Company not fully earning the inspection fee. The Bureau is not requesting the Company to remove the fully earned wording in its filed manual. It does not appear that the Company made a filing as of June 30, 2023, as indicated in its response. The Company should be consistent when fully earning or prorating fees upon cancellation. In addition, the Company's process should be reflected in its rules and rates manual filed with the Bureau.

- (11) The Company has provided the correct SERFF filing number as HIPO-133614683, which revises the cancellation provision to match the Company's current practice.

Policy Issuance Process Review

- (4) The Company's Replacement Cost notice should state if the policy has a minimum coverage requirement and explain the penalty when the requirement is not met. However, the Company's notice does not address this information. Instead the notice explains how the policy would respond if the amount of damages exceeded the Coverage A limit when the coinsurance requirement is met. Please note, the notice incorrectly states the Replacement Cost coverage would only pay \$99,000 when the policy should afford the full coverage limit of \$100,000.
- (5) This item no longer applies to tenant policies insured with the highest water backup limit available. The Bureau recommends that the Company amend its rate filing to specify the limit(s) offered on tenant policies for an additional premium.

Statutory Notices Review

- (2) The Company's Hippo Privacy Policy June 1, 2022 notice does not comply with § 38.2-604 B of the Code of Virginia. The notice does not comply with subsection B3 by failing to state disclosures are made for actuarial or research studies, third-parties must adhere to the Code of Virginia, and the opt-out remains effective until revoked by insured. The notice does not comply with subsection B4 by failing to state the insured has the right to request amendment of their personal information and request a statement is placed in their file for others accessing their file. Since § 38.2-609 of the Code of Virginia uses correct, amend and delete as specific individual terms, these three words are not interchangeable or considered synonyms. The notice does not comply with subsection B5 regarding insurance support organizations retaining and disclosing information to others.

Please provide the estimated implementation date for the Company's MSI tenant long form Notice of Information Collection and Disclosure Practices.

- (3) The Company's Hippo Privacy Policy notice should be amended to state "Federal and state laws" where "Federal law" appears starting on page 21. The notice also omits the "What happens when I limit sharing for an account I hold jointly with someone else" section on page 22. The Company should reference Administrative Letter 2012-04 to review the model versions. On page 21 the notice states the Company does not share information with nonaffiliated third parties, however, this conflicts with the notice's statement on page 8 that disclosures are made to nonaffiliates for nonfinancial products.

Please provide the estimated implementation date for the Company's MSI tenant Notice of Financial Information Collection and Disclosure Practices.

- (5) The Bureau recommends that the Company amend its rate filing to specify the water backup limit(s) offered on tenant policies for an additional premium.

- (9) The AUDN notice does not comply with the statute for a Credit Adverse Action notice. The notice fails to state the adverse action was based in whole or part upon credit information and did not specify the primary factors or characteristics that were used or advise how to request such information.
- (10) The Earthquake exclusion notice does not comply with subsections (i) and (ii) of the statute. The notice does not state the words in quotes or state information is available from the insurer.

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised version of the Report, technical reports and Restitution spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by July 28, 2023.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by July 28, 2023.

Sincerely,



Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Cell: (804) 592-0245
Office: (804) 371-9547
andrea.baytop@scc.virginia.gov

ADB/pgh
Attachments



Spinnaker Insurance Company

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Main: (888) 221-7742
Fax: (908) 274-1989

July 28, 2023

Via Email and Upload (Andrea.Baytop@scc.virginia.gov)

Ms. Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Commonwealth of Virginia
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23210

Re: Market Conduct Examination
Spinnaker Insurance Company (NAIC 24376)

Dear Ms. Baytop:

We are in receipt of the Bureau's response letter and Revised Report dated July 14, 2023. This letter follows the outline of the Report. The Bureau's comments are in italics below.

PART ONE – EXAMINERS' OBSERVATIONS

Tenant Policies Termination Review

(3b) After further review, the violation for THO068 has been withdrawn from the Report. The Company provided evidence to support the notice was e-mailed on September 16, 2020 with an October 29, 2020 cancellation effective date. The Company provided its response under item (3c) that no longer existed in the Revised Report.

[MSI Program Response: Acknowledged](#)

New Business Policy Issuance Review

(5) After further review, the violations for MHO001 and MHO003 have been withdrawn from the Report. The tenant policies were already insured with the highest water backup coverage limit offered by the Company. The Company provided its response under item (6) of its letter.

[MSI Program Response: Acknowledged](#)

The violations for MHO005, MHO007 and MHO009 remain in the Report. Owner-occupied policies must be offered water backup limits up to the Coverage A limit. The statute requires every homeowner policy to be offered the coverage. There are no exceptions to providing the offer unless the policy is already insured up to the highest limit available. Please note the new minimum standards under 14 VAC 5-342-40 G.

[Hippo Program Response:](#) We understand and are complying with the new minimum standards. Currently, Hippo offers coverage for water that backs up through sewers or drains up to the

Spinnaker Insurance Company

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Main: (888) 221-7742

Fax: (908) 274-1989

dwelling limit of liability as an endorsement. Please see the rating factors in the attached [Part One – New Business Policy Issuance \(5\) HIPO-133461016 VA Rule Eff 03.24.2023 Water Backup Factor.pdf](#) (which was effective March 24, 2023) and the endorsement attached as [Part One – New Business Policy Issuance \(5\) HO208VA 01.2020.pdf](#) which is currently in use.

Additionally, please note Hippo’s current practice is that all new policyholders are offered this coverage and existing policyholders are sent an offer annually to purchase this coverage via the attached [Part One – New Business Policy Issuance \(5\) VAWBN \(10 2022\)-\(va water backup notice.pdf\)](#). When this issue came to our attention, we provided this notice to all policyholders who had not previously received it.

Renewal Business Policy Issuance Review

(3) After further review, the violation for MHO011 has been withdrawn from the Report. The tenant policy was already insured with the highest water backup coverage limit offered by the Company.

[MSI Program Response: Acknowledged](#)

The violation for MHO010 remains in the Report. The Company did not provide evidence in its initial submission that the notice was provided to the insured when the policy did not afford the water backup coverage.

[MSI Program Response: Beginning January 2023, WBU Notice 09 22 is provided to insureds.](#)

The violations for MHO013, MHO015 and MHO017 remain in the Report. Owner-occupied policies must be offered water backup limits up to the Coverage A limit. The statute requires every homeowner policy to be offered the coverage. There are no exceptions to providing the offer unless the policy is already insured up to the highest limit available. Please note the new minimum standards under 14 VAC 5-342-40 G.

[Hippo Program Response:](#) We understand and are complying with the new minimum standards. Currently, Hippo offers coverage for water that backs up through sewers or drains up to the dwelling limit of liability as an endorsement. Please see the rating factors in the attached [Part One – New Business Policy Issuance \(5\) HIPO-133461016 VA Rule Eff 03.24.2023 Water Backup Factor.pdf](#) (which was effective March 24, 2023) and the endorsement attached as [Part One – New Business Policy Issuance \(5\) HO208VA 01.2020.pdf](#) which is currently in use.

Additionally, please note Hippo’s current practice is that all new policyholders are offered this coverage and existing policyholders are sent an offer annually to purchase this coverage via the attached [Part One – New Business Policy Issuance \(5\) VAWBN \(10 2022\)-\(va water backup notice.pdf\)](#). When this issue came to our attention, we provided this notice to all policyholders who had not previously received it.

Spinnaker Insurance Company

1 Pluckemin Way, Suite 102

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PART TWO – CORRECTIVE ACTION PLAN**Termination Review**

(8) *The Company's currently filed manual does not address the violation for THO008. The Company did not charge the reinstatement and late fees and the filed manual does not indicate instances when fees should be waived. The Company should be consistent when charging or not charging fees to insureds. In addition, the Company's process should be reflected in its rules and rates manual filed with the Bureau.*

Hippo Program Response: Thank you for meeting with us on 7/20/2023 to clarify this matter. As discussed, Hippo has not been charging the reinstatement and late fees set out in the filed manual. To eliminate the inconsistency with the manual, we have removed the fees from the manual via SERFF HIPO-133461016, which was effective March 24, 2023.

The violations for THO009 and THO011 pertain to the Company not properly calculating the unearned premium, which may have resulted from the Company not fully earning the inspection fee. The Bureau is not requesting the Company to remove the fully earned wording in its filed manual. It does not appear that the Company made a filing as of June 30, 2023, as indicated in its response. The Company should be consistent when fully earning or prorating fees upon cancellation. In addition, the Company's process should be reflected in its rules and rates manual filed with the Bureau.

Hippo Program Response: Thank you for meeting with us on 7/20/2023 to clarify this matter. As discussed, in the past there were instances where the inspection fee was not showing as fully earned. We have corrected this matter in our system and it is now functioning as intended. In addition, we also revised the manual to provide that inspection fees are fully earned. The revision was made via SERFF HIPO-133461016, which was effective March 24, 2023. As discussed on the call, we are in the process of further updating the manual to provide that policy fees are not fully earned. The updated manual was filed this morning via SERFF HIPO-133753139.

(11) *The Company has provided the correct SERFF filing number as HIPO-133614683, which revises the cancellation provision to match the Company's current practice.*

Hippo Program Response: Acknowledged.

Policy Issuance Process Review

(4) *The Company's Replacement Cost notice should state if the policy has a minimum coverage requirement and explain the penalty when the requirement is not met. However, the Company's notice does not address this information. Instead the notice explains how the policy would respond if the amount of damages exceeded the Coverage A limit when the coinsurance requirement is met. Please note, the notice incorrectly states the Replacement Cost coverage would only pay \$99,000 when the policy should afford the full coverage limit of \$100,000.*

Hippo Program Response: We have revised the notice to address Replacement Cost Coverage and it now provides that Replacement Cost Coverage does not carry a requirement for minimum coverage standards as the policy does not include or require a coinsurance requirement. See attached [Part Two-Policy Issuance Process Review \(4\) \(VARCN-\(08 2023\)-\(va replacement cost notice\).pdf](#), which will be implemented in the next 60 days.

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(5) This item no longer applies to tenant policies insured with the highest water backup limit available. The Bureau recommends that the Company amend its rate filing to specify the limit(s) offered on tenant policies for an additional premium.

MSI Program Response: We will amend our rate filing to match the limits set forth in WBU Notice 09 22. We anticipate making this filing within the next 30 days.

Statutory Notices Review

(2) The Company's Hippo Privacy Policy June 1, 2022 notice does not comply with § 38.2-604 B of the Code of Virginia. The notice does not comply with subsection B3 by failing to state disclosures are made for actuarial or research studies, third-parties must adhere to the Code of Virginia, and the opt-out remains effective until revoked by insured. The notice does not comply with subsection B4 by failing to state the insured has the right to request amendment of their personal information and request a statement is placed in their file for others accessing their file. Since § 38.2-609 of the Code of Virginia uses correct, amend and delete as specific individual terms, these three words are not interchangeable or considered synonyms. The notice does not comply with subsection B5 regarding insurance support organizations retaining and disclosing information to others.

Hippo Program Response: Hippo is revising its Privacy Policy and will provide a copy to the Department when finalized. The new Policy will be implemented in the next 60 days.

Spinnaker Response: Please note that Spinnaker has its own Privacy Policy consistent with the Hippo Privacy Policy. The changes being made to the Hippo Privacy Policy will be made to the Spinnaker Privacy Policy. Each Program is required to provide Spinnaker's Privacy Policy on an annual basis to customers and, if the Program has their own Privacy Policy, it is provided in addition to the Spinnaker Privacy Policy. Spinnaker's revised Privacy Policy will be implemented in the next 60 days.

Please provide the estimated implementation date for the Company's MSI tenant long form Notice of Information Collection and Disclosure Practices.

MSI Program Response: Please see attached Part Two – Statutory Notice Review (2) MSI Long Form Privacy Notice-Final 6-6-23.docx which complies with Section 38.2-604B. This form will be implemented within 30 days.

(3) The Company's Hippo Privacy Policy notice should be amended to state "Federal and state laws" where "Federal law" appears starting on page 21. The notice also omits the "What happens when I limit sharing for an account I hold jointly with someone else" section on page 22. The Company should reference Administrative Letter 2012-04 to review the model versions. On page 21 the notice states the Company does not share information with nonaffiliated third parties, however, this conflicts with the notice's statement on page 8 that disclosures are made to nonaffiliates for nonfinancial products.

Hippo Program Response: Hippo is revising its Privacy Policy and will provide a copy to the Department when finalized. The new Policy will be implemented in the next 60 days.

Spinnaker Insurance Company

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Bedminster NJ 07921

Main: (888) 221-7742

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Please provide the estimated implementation date for the Company's MSI tenant Notice of Financial Information Collection and Disclosure Practices.

MSI Program Response: Please see attached **Part Two – Statutory Notice Review (2) MSI Long Form Privacy Notice-Final 6-6-23** which complies with Section 38.2-604B. This form will be implemented within 30 days.

(5) The Bureau recommends that the Company amend its rate filing to specify the water backup limit(s) offered on tenant policies for an additional premium.

MSI Program Response: We will amend our filing to match the limit set forth in WBU Notice 09 22. We anticipate making this filing within the next 30 days.

(9) The AUDN notice does not comply with the statute for a Credit Adverse Action notice. The notice fails to state the adverse action was based in whole or part upon credit information and did not specify the primary factors or characteristics that were used or advise how to request such information.

Hippo Program Response: We apologize that the Credit Adverse Action Notice was not provided in May. The notice provided in May is specific only to prior loss/claims discovered using third party consumer reports and is not our Credit Adverse Action Notice. Please see the attached **Part Two – Statutory Notice Review (9) audnc – 11 2022 – adverse action notice credit.docx** which is currently in use.

(10) The Earthquake exclusion notice does not comply with subsections (i) and (ii) of the statute. The notice does not state the words in quotes or state information is available from the insurer.

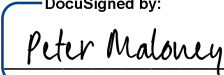
Hippo Program Response: Hippo updated its earthquake notice, please see the attached **Part Two – Statutory Notice Review (10) (VAEQN)-(08 2023)-(va earthquake notice).pdf** which will be implemented within the next 30 days.

MSI Program Response: We will update the Earthquake Exclusion notice to include reference to the “insurer” rather than “us” as noted, and this change will be implemented within the next 30 days.

Please let us know if you have any questions regarding the information provided herein.

Very truly yours,

SPINNAKER INSURANCE COMPANY

By: 
Pete Maloney
General Counsel

cc: Nancy Self, Dafna Kendal

Attachments

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
scc.virginia.gov

August 25, 2023

VIA E-MAIL

Peter Maloney
General Counsel
Spinnaker Insurance Company
One Pluckemin Way, Suite 102
Bedminster, NJ 07921
Austin, TX 78767

RE: Market Conduct Examination
Spinnaker Insurance Company, NAIC #24376
Examination Period: January 1, 2020 through December 31, 2020

Dear Mr. Maloney:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of July 28, 2023. Based upon the Bureau's review of the company's correspondence, we are now in a position to conclude this examination. Attached is the final Market Conduct Examination Report of Spinnaker Insurance Company (Report).

Based on the Bureau's review of the Report and the company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-305 B, 38.2-502 1, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 10, 38.2-604 A, 38.2-604 B, 38.2-604.1 B, 38.2-610 A, 38.2-1318 C, 38.2-1812 E, 38.2-1833, 38.2-1906 A, 38.2-1906 D, 38.2-2103, 38.2-2113 A, 38.2-2113 C, 38.2-2114 E, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126 A 2, 38.2-2126 E, and 38.2-2129 of the Code of Virginia; and 14 VAC 5-400-30 C, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a large initial 'A'.

Andrea Baytop, AMCM
Manager, Market Conduct Section
Property & Casualty Division
Cell: (804) 592-0245
Office: (804) 371-9547
andrea.baytop@scc.virginia.gov

ADB/pgh
Attachment

RECEIVED

SEP 29 2023



Spinnaker Insurance Company

1 Pluckemin Way, Suite 102
Bedminster NJ 07921
Main: (888) 221-7742
Fax: (908) 274-1989

September 27, 2023

Zuhairah Tillinghast
Deputy Commissioner
Property and Casualty
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

310008 OCT 3 23

Re: Market Conduct Examination Settlement Offer
Examination Period January 1, 2020 to December 31, 2020
Ecase/Docket Number: INS-2023-00074
Spinnaker Insurance Company NAIC 24376

Dear Ms. Tillinghast:

This will acknowledge receipt of Bureau of Insurance's letter dated August 25, 2023, concerning the above-referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-305 A, 38.2-305 B, 38.2-502 1, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 10, 38.2-604 A, 38.2-604 B, 38.2-604.1 B, 38.2-610 A, 38.2-1318 C, 38.2-1812 E, 38.2-1833, 38.2-1906 A, 38.2-1906 D, 38.2-2103, 38.2-2113 A, 38.2-2113 C, 38.2-2114 E, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126 A 1, 38.2-2126 A 2, and 38.2-2129 of the Code of Virginia; and 14 VAC 5-400-30 C, 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

In accordance with the Settlement Letter dated September 14, 2023, please note the following:

1. A check enclosed in the amount of \$75,900 has been paid to the Treasurer of Virginia.
2. Spinnaker will comply with the corrective action plans set out in its correspondence dated February 3, 2023, May 26, 2023, and July 28, 2023.
3. Spinnaker confirms that restitution was made to 39 consumers for \$4,813.10 in accordance with the company's correspondence of February 3 and May 26, 2023.
4. Spinnaker understands that it is entitled to a hearing on this matter and hereby waives its right to a hearing by making this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

We would like to thank the examiners and the Bureau for their courtesies during the examination.

Please let me know if you have any questions or need additional information regarding any of the information provided herein.

Very truly yours,

SPINNAKER INSURANCE COMPANY

DocuSigned by:
By: Peter T. Maloney
Peter Maloney
General Counsel and Corporate Secretary

Enclosure

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, DECEMBER 19, 2023

SCC - ALERGO OFFICE
DOCUMENT CONTROL CENTER

2023 DEC 19 P 1:51

20231219151

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2023-00074

SPINNAKER INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination conducted by the Bureau of Insurance ("Bureau"), the Bureau has alleged that Spinnaker Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, in certain instances violated § 38.2-305 A of the Code of Virginia ("Code") by failing to specify the required information in each insurance policy; §§ 38.2-305 B, 38.2-604 A, 38.2-2125, 38.2-2126 A 1, 38.2-2126 A 2, and 38.2-2129 of the Code by failing to provide the required notice or disclosure to insureds; § 38.2-502 1 of the Code by misrepresenting the benefits, advantages, conditions, or terms of any insurance policy; § 38.2-510 A 1 of the Code by misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue; § 38.2-510 A 3 of the Code by failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; § 38.2-510 A 10 of the Code by making claims payments to insureds or beneficiaries not accompanied by a statement setting forth the coverage under which payments were made; §§ 38.2-604 B and 38.2-604.1 B of the Code by failing to include all the required information in the notices; § 38.2-610 A of the Code by failing to provide the applicant, policyholder or individual proposed for coverage with the required written notices; § 38.2-1318 C of the Code by failing to provide convenient access to records, files, and

documents to Commission personnel during an examination; § 38.2-1812 E of the Code by paying commissions to a trade name which was not filed with the Bureau; § 38.2-1833 of the Code by failing to, within 30 calendar days of the date of execution of the first insurance application or policy submitted by a licensed but not yet appointed agent, either reject such application or policy or file with the Commission a notice of appointment in a form acceptable to the Commission; § 38.2-1906 A of the Code by failing to file with the Commission all rates and supplementary rate information for use in Virginia on or before the date they become effective; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies that were not in accordance with the rate and supplementary rate information filings that are in effect for the insurer; § 38.2-2103 of the Code by failing to prominently print the information required by the statute on every policy; § 38.2-2113 A 1 of the Code by failing to obtain valid proof of mailing of the company's notice to the insured for the cancellation of a policy; § 38.2-2113 C of the Code by failing to retain valid proof of mailing the company's notice to the insured and the lienholder for the cancellation of a policy; § 38.2-2114 E of the Code by failing to require written notice from the named insured in accordance with the terms of the policy that the insured wishes to cancel the policy; § 38.2-2118 of the Code by failing to include the required statement on insurance policies; §§ 38.2-2120 and 38.2-2124 of the Code by failing to offer optional coverage as required by the statutes; as well as 14 VAC 5-400-30 C of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.* of the Virginia Administrative Code ("Rules") by failing to maintain detailed documentation for each claim file in order to permit reconstruction of the insurer's activities relating to each claim; Rule 14 VAC 5-400-40 A by failing to fully disclose to a first party claimant all pertinent coverages of an insurance policy under which a claim is presented; Rule 14 VAC 5-400-70 A by failing to give a claimant a claim denial in writing and by failing to

maintain a copy of the denial in the claim file; and Rule 14 VAC 5-400-70 D by failing to offer to a first party claimant, in cases where there is no dispute as to coverage or liability, an amount that is fair and reasonable as shown by the investigation of the claim, within policy limits and in accordance with policy provisions.

The Commission is authorized by §§ 38.2-218, 38.2-219 and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of the right to a hearing in this matter whereupon the Defendant, without admitting or denying any violation of Virginia law, has made an offer of settlement to the Commission. Through its settlement offer, the Defendant has agreed to comply with the corrective action plan outlined in company correspondence dated February 3, 2023, May 26, 2023, and July 28, 2023; has confirmed that restitution was made to 39 consumers in the total amount of Four Thousand Eight Hundred Thirteen Dollars and Ten Cents (\$4,813.10); has tendered to the Treasurer of Virginia the amount of Seventy-five Thousand Nine Hundred Dollars (\$75,900); and has waived the right to a hearing.

The Bureau has recommended that the Commission accept the Defendant's settlement offer pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that the Defendant's settlement offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The Defendant's settlement offer is hereby accepted.
- (2) This case is dismissed.

Commissioner James C. Dimitri participated in this matter.

A COPY hereof shall be sent by the Clerk of the Commission by electronic mail to:

Peter T. Maloney, General Counsel, Spinnaker Insurance Company, One Pluckemin Way,
Suite 102, Bedminster, New Jersey 07921; and a copy shall be delivered to the Commission's
Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner
Zuhairah Tillinghast.