

# **FINANCIAL SERVICES COMMISSION**

**OFFICE OF INSURANCE REGULATION  
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION  
REPORT**

**OF**

**ARCH SPECIALTY INSURANCE COMPANY**

**AS OF**

**December 9, 2005**

**NAIC COMPANY CODE: 11150**



**TABLE OF CONTENTS**

<b>PURPOSE AND SCOPE OF EXAMINATION .....</b>	<b>1</b>
<b>COMPANY OPERATIONS .....</b>	<b>1</b>
<b>CLAIMS REVIEW .....</b>	<b>2</b>
<b>SUMMARY OF FINDINGS .....</b>	<b>3</b>
<b>EXAMINATION FINAL REPORT.....</b>	<b>3</b>

## PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of Arch Specialty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was June 1, 2004 through September 29, 2005. The examination began December 6, 2005 and ended December 9, 2005.

The purpose of this examination was to validate the completeness, accuracy and timeliness of reporting Professional Liability claims as required by Section 627.912, Florida Statutes.

In conducting the review, three tests were performed; Completeness, Accuracy and Timeliness. The Completeness test compares the total number of claims closed during the scope period that should have been reported to closed claims that were actually reported. The Accuracy test compares the information required to be reported to the Office to the information contained in the company's claim file. This test was only conducted on a sample of those claims closed during the scope period and actually reported. The Timeliness test compares the date the claim should have been reported to the Office to the date the claim was actually reported. This test was only conducted on those closed claims actually reported within the scope period. The Timeliness test may include closed claims reported during the scope period but actually closed prior to the scope period. However, because they were not closed during the scope period, such claims would not be included in either the Completeness or Accuracy test.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

## COMPANY OPERATIONS

Arch Specialty Insurance Company is a foreign property and casualty surplus lines insurer eligible to conduct business in the State of Florida. The Company provides professional liability insurance in the State of Florida.

Total Direct Premiums Written in Florida for Professional Liability are broken down as follows:

Year	Total Written Premium (Florida)
2004	\$4,728,973

The Company had seventeen (17) Professional Liability claims open as of April 1, 2004, which were subject to Section 627.912, Florida Statutes, and which will need to be reported upon closure as required by the Statute.

Three (3) claims were closed during the scope period and should have been reported pursuant to Section 627.912, Florida Statutes.

### CLAIMS REVIEW

#### Findings

##### Completeness Test

The Completeness test compares the total number of claims closed during the scope period that should have been reported to closed claims that were actually reported.

Of three (3) closed claims reviewed, three (3) or 100%, of the claims were not reported.

Three (3) errors were due to failure to report closed claims. Section 627.912, Florida Statutes, states that closed claims meeting specific reasons for closure must be reported to the Office. The Company did not report closed claims meeting the requirement.

**Corrective Action:** The Company should establish procedures to ensure that all closed claims meeting the reporting requirements of Section 627.912, Florida Statutes are reported.

##### Accuracy Test

The Accuracy test compares the information required to be reported to the Office to the information contained in the company's claim file. The Accuracy test can only be conducted on those claims closed during the scope period and actually reported. No errors were found.

##### Timeliness Test

The Timeliness test compares the date the claim should have been reported to the Office to the date the claim was actually reported. The Timeliness test can only be conducted on those closed claims actually reported within the scope period. No errors were found.

### SUMMARY OF FINDINGS

		Actually Reported	Errors
Total Population	3		
Completeness Test		0	3
Accuracy Test		0	0
Timeliness Test		0	0

## **EXAMINATION FINAL REPORT**

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.