

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

CLARENDON NATIONAL INSURANCE COMPANY
(CLARENDON INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: May 30, 2002

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I. INTRODUCTION

Clarendon National Insurance Company (Company) is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination. The scope of this examination was January 2000 through August 2001. The examination began August 2, 2001 and ended August 25, 2001. The last examination of this insurer, by the Florida Department of Insurance, was completed in March 2000.

The purpose of this target examination was to verify that deductibles for wind coverage on homeowners' policies are being issued correctly and to verify that agent licensing is being handled correctly.

During this examination, records reviewed included policies, agent/MGA licensing, as reflected in the report.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

On September 30, 1985, Cavalier Insurance Corporation was acquired by Clarendon America Insurance Company and was renamed Clarendon National Insurance Company. The Company offered reinsurance on a brokerage basis. Kansa, a Finnish reinsurance company acquired ownership of Clarendon National Insurance Company in 1988. The Company started writing various lines of coverage in selected states on a program basis through general agents. The Company was redomesticated from Maryland to New Jersey in 1995. Hannover Re purchased the Company January 1, 1999.

B. MANAGEMENT

For claims, the Company contracts with Claims Solution Services, Inc., an affiliated adjusting company to investigate possible fraudulent claims and adjust claims on the Company behalf including subrogation and salvage recoveries. An Anti-Fraud Plan has been filed with the Department as required. The Catastrophe Recovery Plan has also been filed.

The Company is in compliance with Emergency Rule 4-ER01, Florida Administrative Code, which requires the implementation of the Gramm-Leach-Bliley Act Privacy Provision.

C. OPERATIONS

The Company operates in Florida using licensed and appointed managing general agents throughout the State of Florida. They write programs that focus on specific market segments that are underserved by the standard market. The Company writes primarily homeowners, workers' compensation, personal automobile coverage, dwelling fire, commercial multi-peril, medical malpractice and commercial automobile coverage.

The Company markets homeowners business throughout the State through its MGA, Tower Hill Insurance Group, through the independent agency system.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Clarendon National Insurance Company is a subscriber of Insurance Service Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Clarendon National Insurance Company is a member of ISO and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

ISO acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
2000	\$79,240,812	94,133
2001	\$60,729,742	87,444

3. Exam Findings

One hundred (100) policy files were examined.

No errors were found, therefore, it appears that deductibles for wind coverage are being handled in accordance with Florida Statutes.

V. AGENTS/MGA REVIEW

Eleven (11) applications/policies written during the scope of examination were examined.

Eleven (11) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Eight (8) errors were due to Company use of unregistered brokering agents. This constitutes a violation of Section 626.752, Florida Statutes. Exhibit I.

2. Three (3) errors were due to use of applications without legible agent's signatures and license numbers. This constitutes a violation of Section 627.4085, Florida Statutes. Exhibit I.

Other than the issues noted above, it was verified that the Company is appointing all agents within an agency as required by Florida Statutes.

X. EXHIBITS

SUBJECT

EXHIBIT NUMBER

AGENT/AGENCY REVIEW

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