

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT EXAMINATION
FINAL REPORT**

OF

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY

AS OF

November 30, 2004

NAIC COMPANY CODE: 10953



TABLE OF CONTENTS

PURPOSE AND SCOPE OF EXAMINATION 1
HURRICANE CLAIMS REVIEW 1
POLICY CANCELLATIONS AND NONRENEWALS REVIEW 5
EXAMINATION DRAFT REPORT SUBMISSION 5
EXAMINATION FINAL REPORT 5

PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of Cypress Property & Casualty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was August 8, 2004 through November 9, 2004. The examination began September 29, 2004 and ended November 30, 2004.

The purpose of this examination was to gather and evaluate data specific to the Company's response to hurricane claims, verify compliance with emergency orders addressing cancellations/nonrenewals and to verify compliance with Florida Statutes and Florida Administrative Code. The Company records were examined at its home office located at 13901 Sutton Park Drive, Suite 310, Jacksonville, Florida.

In reviewing materials for the draft report provided to the Office, the examiner relied primarily on records maintained by the Company. Some audits normally done using sampling techniques were performed instead by the use of electronic means for sorting, filtering and calculating the total population of review areas during the scope of the examination. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

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.

HURRICANE CLAIMS REVIEW

Company Responses to Hurricanes

A review of claims handling processes indicates that the Company responded quickly to the volume of claims resulting from the four hurricanes.

In addition to an increase in adjusters, which is discussed below, the Company:

- Redirected claims telephone lines from the Tampa office of Crawford and Company to a toll free Atlanta office so that first reports of claims could be taken 24 hours per day, seven days per week.
- Added additional staff to the Tampa claims office to assist with claims processing and to assist with claims inquiries.
- Added additional telephone lines.
- Hired additional contractors to do emergency mitigation, board-ups and water extraction.
- Set up a remote claims office in Ft. Pierce to assist in claims processing.
- Added additional toll free fax lines for receipt of claims reports.
- Used home office staff to take first reports of claims and to augment claims support.
- Used mobile unit to assist insureds in Ft. Pierce and Pensacola.
- Hired temporary staff to call insureds to advise status of their claim.

Adjusters

The examination focused on the Company's claim handling practices including, but not limited to, claim acknowledgement, communications, adjuster inspections and timely payments.

The number of adjusters and staff allocated to handle claims increased after each hurricane. The following table shows a breakdown of the available staff after each hurricane:

Hurricane	Total Adjusters (Cumulative)	% Increase
Charley	29	-
Frances	41	29%
Ivan	75	153%
Jeanne	101	248%

The following chart provides statistics on the number of claims inspected and how timely the Company was inspecting properties on claims reported as of November 9, 2004:

Hurricane	Claims Reported	Claims Inspected	Claims Outstanding	% of Claims Inspected	Average # of Days to Perform Inspection	Average # of Days Outstanding on Claims Not Yet Inspected
Charley	2,437	1,807	630	74.1%	18	81
Frances	6,811	2,326	4,485	34.2%	19	53
Ivan	4,162	2,486	1,676	59.7%	18	39
Jeanne	1,309	302	1,007	23.1%	17	44

Note: The count for claims reported varies slightly from this schedule to other schedules included in this report due to the inclusion or exclusion of reopened claims.

Based on the data provided by the Company, 47% of all reported claims as of November 9, 2004 were inspected in an average of 18 days. It is noted, the data file included numerous claims without inspection dates. The Company stated these claims have been handled manually and the data has not yet been entered into the system.

The Company provided the following information pertaining to hurricane related claims received from August 13, 2004 through November 9, 2004:

Hurricane	Total Claims	Claims Open	Claims Closed	Percentage Closed	Total Paid
Charley	2,325	330	1,995	86%	\$18,778,350
Frances	6,753	3,633	3,120	46%	\$34,733,141
Ivan	4,154	2,911	1,243	30%	\$9,907,692
Jeanne	1,307	1,042	265	20%	\$1,765,673
Totals	14,539	7,916	6,623	46%	\$65,184,856

Note: The count for claims reported varies slightly from this schedule to other schedules included in this report due to the inclusion or exclusion of reopened claims.

Hurricane	Triage Analysis (Average # of Days To Close Based on Loss Amount)			
	Closed Without Pymt	< \$10,000	>\$10,000 and < \$50,000	Over \$50,000
Charley	35	37	46	65
Frances	37	39	44	50
Ivan	37	36	39	37
Jeanne	29	31	34	N/A

N/A = Not Applicable

The Company stated it used triage, the prioritization of claims based on severity, in handling the hurricane claims reported. The use of triage was not disputed, as the average for claims closed without payment was not substantially lower than claims closed with payment.

Hurricane	Days To Close			
	0 – 30	31 – 60	61 – 90	Over 90
Charley	773	910	312	0
Frances	585	2,479	56	0
Ivan	269	974	0	0
Jeanne	107	158	0	0

Hurricane	Days Open			
	0 – 30	31 – 60	61 – 90	Over 90
Charley	67	33	230	0
Frances	1,080	1,913	640	0
Ivan	839	2,072	0	0
Jeanne	85	957	0	0

The Company provided data for the completion of the following time study of acknowledging hurricane related claims as of November 9, 2004:

Hurricane	Days To Acknowledge			
	0 – 14	15 – 45	46 – 90	Over 90
Charley	1,544	289	567	38
Frances	2,313	1,208	3,290	0
Ivan	1,926	1,370	864	4
Jeanne	250	587	472	0

Note: The count for claims reported varies slightly from this schedule to other schedules included in this report due to the inclusion or exclusion of reopened claims.

Findings:

A total of 6,033 out of 14,722 claim files (41% of the total population) were acknowledged within fourteen (14) days as required by Rule 69O-166.024, Florida Administrative Code.

The following schedules provide statistics on policyholder complaints received on the Company for its handling of hurricane related claims as of November 9, 2004:

Hurricane	Total Complaints	Percentage To Claims
Charley	167	7.18%
Frances	248	3.67%
Ivan	91	2.19%
Jeanne	23	1.76%
Totals	529	3.64%

The main reasons for complaints were the following:

- Unable to report claim to Company
- Inspection not performed timely
- Claim payment not made timely
- Not satisfied with claim estimate

Sample Findings:

Fifty (50) claim/complaint files were reviewed. Twenty-five (25) files indicated the complaint file supported the consumer’s complaint that adjusters were not responding timely or consumers had not heard from the Company after inspection of the property. One (1) claim file was paid at an amount that was less than the adjuster’s calculation.

Actions taken by the Company in response to hurricane complaints associated with Hurricane Charley demonstrated a significant decrease in complaints associated with subsequent hurricanes. As indicated above, the number of complaints filed for each hurricane following Charley decreased.

POLICY CANCELLATIONS AND NONRENEWALS REVIEW

The Company writes only homeowners insurance. The Company provided a listing of 5,571 policy cancellations scheduled to occur during the period May 1, 2004 through December 31, 2004. The Company also provided a listing of 3,749 policies scheduled to nonrenew during the period May 1, 2004 through May 31, 2005. There were 2,983 policies on this list scheduled to nonrenew during the period May 1, 2004 through December 31, 2004.

As a result of the Emergency Orders, the Company issued reinstatement notices on canceled policies that were covered by the Emergency Orders. Additionally, the Company was not issuing notices of cancellation and nonrenewal during the period covered by the Emergency Orders.

To verify compliance with Emergency Orders 77677-04-CO and 78059-04-CO, two tests were performed. The first test involved reviewing a sample of twenty-five (25) policies scheduled for cancellation or nonrenewal to detect any policy inappropriately canceled with effective dates during the period August 10, 2004 through November 30, 2004. The second test involved reviewing a sample of ten (10) policies scheduled to receive nonrenewal notices during the period August 10, 2004 through November 30, 2004.

Sample Findings:

Twenty-five (25) policies scheduled for cancellation and/or nonrenewal were reviewed. One (1) file was canceled during the period covered by the Emergency Order 78059-04-CO.

Ten (10) policies scheduled to receive nonrenewal notices during the period covered by the Emergency Orders were reviewed and no errors were noted.

EXAMINATION DRAFT REPORT SUBMISSION

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged.

The undersigned examiner conducted the examination and prepared the draft report.

Respectfully submitted,

Todd Fatzinger, CIE, FLMI
Examination Resources, LLC

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.