

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT EXAMINATION
FINAL REPORT**

OF

FEDERATED NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 14, 2004

NAIC COMPANY CODE: 27980



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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 Federated National Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was August 1, 2004 through December 3, 2004. The examination began December 2, 2004 and ended December 14, 2004.

The purpose of this examination was to gather and evaluate data specific to the Company's response to hurricane losses. The Company records were examined at its home office, located at 3661 W. Oakland Park Blvd., Suite 300, Lauderdale Lakes, Florida.

In reviewing materials for the draft report provided to the Office, the examiner relied on documents 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. Some audits normally performed using sampling techniques were performed instead by the use of electronic means for sorting, filtering and calculating the total population 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 STATISTICS

The Company was requested to provide a list of all hurricane claims and complete a spreadsheet provided by the Office. The examiner reviewed the spreadsheet for accuracy of the data and to determine if all tables were completed.

Open and Closed Claims Statistics

The following table shows a breakdown of claims by hurricane as of December 3, 2004:

Hurricane	Total Claims	Claims Open	Claims Closed	% Closed	Total Paid
Charley	2,394	454	1,940	81%	\$33,728,962
Frances	3,075	1,409	1,666	54%	\$17,312,997
Ivan	1,075	798	277	26%	\$3,398,256
Jeanne	1,614	1,149	465	29%	\$3,081,516
Totals	8,158	3,810	4,348	53%	\$57,521,731

The following tables show a breakdown of the number of days to close for settled claims and the number of days open on claims still outstanding, by hurricane:

Days to Close				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	130	648	811	351
Frances	416	426	824	0
Ivan	7	91	179	0
Jeanne	217	225	23	0

Days Open				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	37	34	79	304
Frances	63	80	1,266	0
Ivan	40	131	627	0
Jeanne	116	562	471	0

Company Responses to Hurricanes

A review of claims handling processes indicates increased resources and claims monitoring/coordinating methods were implemented to respond to the volume of hurricane claims received as a result of the 2004 hurricane season.

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

- Increased the number of claims customer service staff.
- Contracted with a call center, First Notice, to take first reports of claims 24 hours per day, 7 days per week.
- Contracted with Alacrity to make emergency repairs.
- Reassigned staff from Property Underwriting to function as information coordinators between inside adjusters, independent adjusters and the Customer Service Department.
- Created a new team to coordinate with the Department of Financial Services and the Office of Insurance Regulation to address claims complaints and mediations.

Adjusters

The Company contracted with independent adjusting firms to handle the majority of hurricane claims. The following figures were provided by the Company and represent the number of available adjusters for the Company at different periods of time.

NUMBER OF ADJUSTERS							
Hurricane	8/1/04	8/13/04	9/3/04	9/13/04	9/24/04	12/2/04	Totals
Pre-Charley	129						129
Charley		172					172
Frances			175				175
Ivan				181			181
Jeanne					181		181
Current						187	187

Claims Acknowledgement

The Company was requested to provide data on a sample list of 100 claims. The date of acknowledgement was missing in three files. The following table shows the results for the claims included in the sample:

Days to Acknowledge				
Hurricane	0 – 14	15 – 45	46 – 90	Over 90
Charley	45	8	1	0
Frances	19	12	1	0
Ivan	9	0	0	0
Jeanne	1	1	0	0

Seventy-four (74) out of 97 claim files were acknowledged within fourteen (14) days as required by Rule 690-166.024, Florida Administrative Code.

Adjuster Assignments and Inspections

The Company was requested to provide data on a sample of 100 claims. The following chart documents the results for the claims included in the sample:

Claim File	CAT ID	DATE REPORTED	Days between Date Assigned & Date Inspected	Days between Inspection Date & Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
1	CHARLEY	8/20/2004	2	3	0	8/31/2004	11
2	CHARLEY	8/19/2004	3	6	1	9/3/2004	15
3	CHARLEY	8/16/2004	5	17	1	9/12/2004	27
4	CHARLEY	8/14/2004	4	20	1	9/10/2004	27
5	CHARLEY	8/22/2004	7	24	1	9/24/2004	33
6	CHARLEY	8/15/2004	11	29	1	9/30/2004	46
7	CHARLEY	8/17/2004	13	1	2	9/6/2004	20
8	CHARLEY	8/17/2004	12	2	2	9/6/2004	20
9	CHARLEY	8/19/2004	3	8	2	9/2/2004	14
10	CHARLEY	8/20/2004	10	35	2	10/6/2004	47
11	CHARLEY	8/18/2004	7	66	2	11/3/2004	77
12	CHARLEY	8/16/2004	11	2	3	9/6/2004	21
13	CHARLEY	8/16/2004	13	6	3	9/30/2004	45
14	CHARLEY	8/20/2004	11	7	3	9/30/2004	41
15	CHARLEY	8/24/2004	2	40	3	10/21/2004	58
16	CHARLEY	8/16/2004	25	63	3	11/19/2004	95
17	CHARLEY	8/18/2004	30	2	4	9/30/2004	43

Claim File	CAT ID	DATE REPORTED	Days between Date Assigned & Date Inspected	Days between Inspection Date & Inspection Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
18	CHARLEY	8/20/2004	74	2	4	11/9/2004	81
19	CHARLEY	8/14/2004	6	14	4	9/8/2004	25
20	CHARLEY	8/17/2004	31	21	4	10/25/2004	69
21	CHARLEY	8/18/2004	11	24	4	10/12/2004	55
22	CHARLEY	8/15/2004	18	31	4	10/12/2004	58
23	CHARLEY	8/16/2004	25	34	4	10/22/2004	67
24	CHARLEY	9/15/2004	18	4	5	10/20/2004	35
25	CHARLEY	10/5/2004	0	15	5	11/2/2004	28
26	CHARLEY	9/7/2004	17	21	5	11/10/2004	64
27	CHARLEY	8/17/2004	11	24	5	9/29/2004	43
28	CHARLEY	8/20/2004	34	1	6	10/5/2004	46
29	CHARLEY	10/26/2004	14	3	6	11/19/2004	24
30	CHARLEY	8/17/2004	32	15	6	10/18/2004	62
31	CHARLEY	8/23/2004	20	0	7	9/20/2004	28
32	CHARLEY	8/18/2004	18	2	7	9/21/2004	34
33	CHARLEY	8/23/2004	5	15	7	9/22/2004	30
34	CHARLEY	9/21/2004	13	38	7	11/18/2004	58
35	CHARLEY	8/25/2004	5	0	8	9/8/2004	14
36	CHARLEY	9/6/2004	14	0	10	10/1/2004	25
37	CHARLEY	9/16/2004	15	7	11	10/26/2004	40
38	CHARLEY	8/15/2004	5	36	11	10/11/2004	57
39	CHARLEY	8/16/2004	16	39	11	10/22/2004	67
40	CHARLEY	8/14/2004	11	1	12	9/22/2004	39
41	CHARLEY	8/23/2004	7	1	14	9/14/2004	22
42	CHARLEY	8/31/2004	9	0	15	10/2/2004	32
43	CHARLEY	8/16/2004	9	12	15	9/22/2004	37
44	CHARLEY	8/14/2004	7	23	16	10/1/2004	48
45	CHARLEY	8/19/2004	10	5	18	9/30/2004	42
46	CHARLEY	8/22/2004	18	19	18	10/16/2004	55
47	CHARLEY	8/31/2004	28	2	19	10/19/2004	49
48	CHARLEY	8/17/2004	9	40	23	10/29/2004	73
49	CHARLEY	8/15/2004	10	44	26	11/3/2004	80
50	CHARLEY	8/26/2004	17	16	27	10/25/2004	60
51	CHARLEY	8/15/2004	4	17	32	10/8/2004	54
52	CHARLEY	8/15/2004	7	1	39	10/6/2004	52
53	CHARLEY	8/16/2004	39	2	39	11/6/2004	82
54	CHARLEY	8/17/2004	4	12	76	11/18/2004	93
55	FRANCES	9/16/2004	*	0	0	*	*
56	FRANCES	9/7/2004	*	0	0	*	*
57	FRANCES	10/7/2004	0	0	1	10/8/2004	1
58	FRANCES	9/11/2004	46	12	1	11/9/2004	59

Claim File	CAT ID	DATE REPORTED	Days between Date Assigned & Date Inspected	Days between Inspection Date & Inspection Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
59	FRANCES	9/16/2004	14	15	1	11/5/2004	50
60	FRANCES	10/1/2004	4	1	2	10/12/2004	11
61	FRANCES	9/10/2004	2	8	2	11/3/2004	54
62	FRANCES	9/9/2004	42	9	2	11/6/2004	58
63	FRANCES	10/4/2004	25	10	2	11/10/2004	37
64	FRANCES	9/14/2004	40	10	2	11/6/2004	53
65	FRANCES	9/20/2004	28	22	2	11/12/2004	53
66	FRANCES	9/8/2004	11	45	2	11/6/2004	59
67	FRANCES	9/10/2004	8	31	3	11/4/2004	55
68	FRANCES	9/14/2004	13	7	4	10/14/2004	30
69	FRANCES	9/28/2004	3	8	4	10/14/2004	16
70	FRANCES	9/7/2004	38	23	4	11/11/2004	65
71	FRANCES	9/8/2004	12	24	4	11/3/2004	56
72	FRANCES	9/10/2004	*	*	4	10/14/2004	34
73	FRANCES	9/11/2004	3	0	5	9/21/2004	10
74	FRANCES	9/7/2004	2	5	5	11/10/2004	64
75	FRANCES	9/17/2004	4	10	5	10/25/2004	38
76	FRANCES	9/7/2004	47	9	6	11/16/2004	70
77	FRANCES	9/16/2004	33	31	6	11/29/2004	74
78	FRANCES	9/16/2004	6	12	7	11/16/2004	61
79	FRANCES	9/16/2004	0	3	8	10/25/2004	39
80	FRANCES	9/10/2004	41	11	8	11/16/2004	67
81	FRANCES	9/8/2004	30	34	8	11/19/2004	72
82	FRANCES	10/11/2004	2	14	9	11/5/2004	25
83	FRANCES	9/9/2004	7	5	10	10/1/2004	22
84	FRANCES	9/14/2004	22	13	10	10/29/2004	45
85	FRANCES	9/14/2004	18	6	11	10/28/2004	44
86	FRANCES	9/13/2004	14	8	13	10/29/2004	46
87	FRANCES	9/15/2004	6	9	14	11/4/2004	50
88	FRANCES	9/7/2004	23	11	15	11/11/2004	65
89	IVAN	10/9/2004	9	14	2	11/8/2004	30
90	IVAN	9/24/2004	20	0	4	10/22/2004	28
91	IVAN	9/22/2004	20	4	5	10/22/2004	30
92	IVAN	9/17/2004	12	37	7	11/15/2004	59
93	IVAN	9/28/2004	15	0	8	10/22/2004	24
94	IVAN	9/22/2004	39	11	10	11/22/2004	61
95	IVAN	9/28/2004	10	0	13	10/22/2004	24
96	IVAN	9/18/2004	15	11	13	10/29/2004	41
97	IVAN	9/21/2004	21	18	15	11/15/2004	55
98	JEANNE	10/1/2004	31	9	5	11/16/2004	46
99	JEANNE	10/9/2004	6	6	6	11/1/2004	23

Claim File	CAT ID	DATE REPORTED	Days between Date Assigned & Date Inspected	Days between Inspection Date & Inspection Report Date	Days between Inspection Report Date & Date Co. Received Report	Date Inspection Report was received by the Company	Days between Date of Loss & Date Report Rcvd. By Co.
100	JEANNE	*	*	0	*	9/25/2004	*

* Data not available

Hurricane Claims Complaints

As of December 3, 2004, the Company received 1,111 complaints related to hurricane claims. The following table shows a breakdown of complaints by hurricane:

Hurricane	Total Complaints	% Of Total Claims
Charley	501	20.93%
Frances	374	12.16%
Ivan	139	12.93%
Jeanne	97	6.01%
Totals	1,111	13.62%

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. Todd Fatzinger, Examination Supervisor, was involved in the examination management, consultation, supervision and work paper review.

Respectfully submitted,

Examination Resources, LLC
Victor M. Negron, AIE, FLMI
Examiner

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.