

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

HARBOR SPECIALTY INSURANCE COMPANY
(CLARENDON INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

Filed Date: 7/6/01

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I. INTRODUCTION

Harbor Specialty Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination January 1997 through December 1999. The examination began August 6, 2000, and ended November 4, 2000. The last examination of this insurer by the Florida Department was completed in 1996.

The purpose of this target examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, as reflected in the report.

The prior examination findings resulted in errors of the Use of Unfiled Rates, Use of Unlicensed Agents and Adjusters, Failure to Affix the Fraud Statement and Failure to Obtain Character and Credit Reports.

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.

As a result of the findings this examination, \$ 2,778.53 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees. Additional overcharges are due to Florida consumers when the re-adjustment of all total loss vehicle claims during the scope of this examination is completed.

II. PRE-EXAM REVIEW OF COMPANY'S 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. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Harbor Specialty Insurance Company has independently filed rules/rates in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

Harbor Specialty Insurance Company has independently filed forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Services Office 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>
1997	\$19,577,409	31,286
1998	\$23,150,191	38,588
1999	\$25,792,001	39,075

3. Exam Findings

Fifty (50) policy files were examined.

One (1) error was found.

Errors affecting premium resulted in one (1) overcharges totaling \$ 12.00.

The error is described as follows:

1. One (1) error was due to failure to apply the 10% airbag credit. This error resulted in an overcharge totaling \$12.00, which has been refunded by the Company. This constitutes a violation of Section 627.0653, Florida Statutes.

B. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings:

Harbor Specialty Insurance Company is a subscriber of Insurance Services Office (ISO) and as such ISO is authorized to file rule/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:

Harbor Specialty Insurance Company is a subscriber of Insurance Services Office (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/bond counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1997	Harbor Specialty began homeowner's business as a FRPCJUA take-out took place in 1998, therefore, there is no data to report for	
1998	\$22,221,533	48,529
1999	\$36,112,042	67,649

3. Exam Findings:

One Hundred (100) policies and underwriting files were examined.

Six (6) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$687.00 and two (2) undercharges totaling \$181.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to use the correct construction classification. One of these errors resulted in an overcharge totaling \$320.00, which have been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
2. Three (3) errors were due to the use of incorrect territories. These errors resulted in overcharges totaling \$367.00, which have been refunded by the Company. This constitutes a violation of Section 627.062, Florida Statutes.
3. One (1) error was due to the use of an incorrect protection class. This constitutes a violation of Section 627.062, Florida Statutes.

C. WORKERS' COMPENSATION

1. Application of Rules, Rates and Forms

a. General Comments

Harbor Specialty Insurance Company is a National Council on Compensation Insurance (NCCI) company and as such uses this organization's rules, rates and forms. The NCCI acts as statistical agent for this line of business.

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>
1997	\$ 300,466	104
1998	\$ 6,749,468	2,171
1999	\$18,393,536	4,452

b. Error Percentages

One Hundred (100) policies and audits were examined.

Twelve (12) errors were found.

Errors affecting premium resulted in (8) overcharges totaling \$681.65 and (1) undercharges totaling \$317.00.

The errors are broken down as follows:

1. Eleven (11) errors were due to failure to perform timely audits. Eight of these errors resulted in overcharges from interest due totaling \$681.65, which have been refunded by the Company. This constitutes a violation of Section 627.191, Florida Statutes.
2. One (1) error occurred when an incorrect 10% Managed Care Credit was allowed. This error resulted in an undercharge totaling \$317.00. This constitutes a violation of Section 627.191, Florida Statutes.

2. Unit Statistical Review

a. Audit Comparison

Thirteen (13) premium statistical cards were examined.

No errors were found.

b. Claim Comparison

Forty (40) claim statistical cards were examined.

No errors were found.

IV. AGENTS/MGA REVIEW

Thirty (30) applications/policies written during the scope of examination were examined.

No errors were found.

V. CANCELLATIONS/NONRENEWALS REVIEW

Thirty-six (36) cancelled/nonrenewed policies were examined.

No errors were found.

VI. CLAIMS REVIEW

Seventy (70) claims were examined.

Nine (10) errors were found.

Eight (8) errors resulted in underpayments totaling \$1,397.88 and no errors resulted in overpayments. No refunds were made on underpayments because the Company did not agree with the Department findings.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

1. One error was due to the use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to failure to pay or offer to pay sales tax. There was no documentation in the file evidencing the tax was offered. This constitutes a violation of Rule 4-166.026(6) Florida Administrative Code.
by the company to determine if the vehicle is replaced or not.
3. Eight (8) errors were due to unfair claim settlement practices. When establishing the ACV on total losses, a fee is being deducted from the ACV for conditioning or dealer preparation. This constitutes a violation of Rule 4-166.027(5)(6), Florida Administrative Code. The Company disagrees with these findings. The Company is directed to review all total losses during the scope of this examination and make refunds to the claimants. This review is to be completed within 90 days from the execution of the Consent Order for this examination. See Pending Issues Section.

VII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit II.

VIII. PENDING ISSUES

The following issues were pending at the conclusion of the examination:

1. The Company was instructed to review all total losses during the scope of this examination and refund fee deducted from the ACV of the loss for conditioning and dealer preparation. Exhibit III. This is to be completed within 90 days of the execution of the Consent Order for this examination.

IX. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
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CLAIM HANDLING PROCEDURES	I
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COMPLAINT PROCEDURES	II
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CLAIMS REVIEW REQUEST	III
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