

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

HARBOR SPECIALTY INSURANCE COMPANY
(CLARENDON INSURANCE GROUP)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

FILED DATE: 7/23/02

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I. INTRODUCTION

Harbor Specialty 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 26, 2001 and ended September 15, 2001. The last property and casualty market conduct examination of this insurer by the Florida Department of Insurance was concluded in November 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 agents licensing is being handle in accordance with Florida Statutes.

During this examination, records reviewed included policies and agent/MGA licensing, for the period of January 2000 through August 2001, 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

Harbor Specialty Insurance Company was acquired by Clarendon National Group on September 8, 1995 and redomesticated from Georgia to New Jersey on November 9, 1995.

On or about November 7, 1997, the Company submitted, to the Florida Department of Insurance, a proposal to depopulate the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA). This plan was approved and 90,544 mobile homeowners, dwelling fire and homeowners policies were assumed from the FRPCJUA.

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's behalf, including subrogation and salvage recoveries. An Anti-Fraud Plan has been filed with the Department as required by Section 626.9891, Florida Statutes. 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 different managing general agents through out the State of Florida. Tower Hill Insurance Group is one of the managing general agents that is the focus of this examination. They write programs that focus on specific market segments that are not written by the standard market. The Company writes primarily homeowners, workers' compensation and personal automobile coverage.

IV. REVIEW OF POLICIES

A. 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 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

Harbor Specialty Insurance Company is a subscriber 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	\$23,367,883	28,320
*2001	\$ 9,154,135	26,152

*As of August 31, 2001

3. Exam Findings

One hundred (100) policy files were examined.

Two (2) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Two (2) errors were due to failure to follow the filed rating plan, rating schedule or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The risks were not eligible, because of the location, to exclude windstorm and hail coverage.

During the course of review of this product line, it was verified that deductibles were handle as required by Florida Statutes.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Fourteen (14) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Ten (10) errors were due to use of an incorrect application (accord application) used by brokering non-appointed agents. This constitutes a violation of Section 626.752, Florida Statutes. Exhibit I.
2. Four (4) errors were due to use of applications without legible agents' 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.

VI. EXHIBITS

SUBJECT _____ EXHIBIT NUMBER

AGENT/AGENCY REVIEW

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