FINANCIAL SERVICES COMMISSION

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

TARGET MARKET CONDUCT EXAMINATION FINAL REPORT

OF

HARBOR SPECIALTY INSURANCE COMPANY

AS OF

NOVEMBER 30, 2004

NAIC COMPANY CODE: 21806

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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 Harbor Specialty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was August 10, 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 managing general agent's (MGA) office, Tower Hill Insurance Group (THIG), located at 7201 NW 11th Place, Gainesville, Florida.

In reviewing materials for the draft report provided to the Office, the examiner relied primarily on records maintained by the MGA. 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 REVIEW

Company Responses to Hurricanes

In response to the increased volume of consumer calls from four hurricanes in a six-week period, THIG adjusted their claims handling process by implementing or initiating the following actions:

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

- Hired new claims examiners for processing claims and payments.
- Initially changed office hours to staff the office 24 hours a day, 7 days a week.
- Later, hired an independent call management agency to process calls after hours.
- Deployed marketing & claims personnel to agent's offices in damaged areas to assist with losses and make advanced payments.
- Established a designated contact person for the Department of Financial Services to call regarding hurricane claims and another to call regarding E-storm complaints.
- Set up remote claims offices in two areas damaged by hurricanes, Punta Gorda and Barefoot Bay.

- Established an office in Kentucky to function as an additional call center and claims processing center.
- Established a phone queue to process new losses apart from complaint calls.
- Mailed letters to each claimant reporting a new claim explaining the claims adjustment process.
- Developed a call-out procedure in which staff answered non-technical inquiries in the initial call, answered technical inquiries by researching the issue and calling the claimant back with an answer and conducted review of open claims and proactively called claimants whose claims were pending.
- Developed a vendor liaison program in which a contact person was established for insureds and independent adjusting firms. Also, THIG placed staff in the offices of independent adjusting firms to assist in claims processing.
- Established an immediate response unit to inspect, report and close claims promptly. The unit was also used to conduct re-inspections.
- Created an internal tactical unit consisting of internal and field claims staff personnel whose purpose was to resolve issues involving the amount of payment to be made on a claim.
- Hired 18 firms for emergency mitigation and dry out.
- Modified hold back procedures to eliminate hold back for insureds who had a contract with a licensed contractor and waived hold back requirements for claims that had less than $10,000 in damages.

Adjusters

The number of adjusters and staff allocated to handle claims increased after each hurricane. The following tables show a breakdown of available adjusters after each hurricane and these figures apply to all companies represented by the MGA. These figures are not cumulative, they represent the number of adjusters available after each hurricane at several points of time. For example, ISAC had eighty-five (85) adjusters after Hurricane Charley and 105 after Hurricane Frances. This represented an increase of twenty (20) for a total of 105 adjusters available to handle claims from both hurricanes for all companies represented by the MGA.

NUMBER OF ADJUSTERS								
Independent Adjusting Firms								
Hurricane	ISAC	IMS	Mathias	CNC	NCA	AmCat*	Sakansky*	Totals
Charley	85	167	95	0	0	0	0	347
Frances	105	240	123	20	20	0	0	508
Ivan	125	240	123	45	28	0	0	561
Jeanne	147	331	200	45	36	25	25	809

* Added on October 13, 2004

Hurricane	In House Independent Adjusters Lexington (No field adjusting)	In House Independent Adjusters Gainesville (No field Adjusting)	In House Company Adjusters (No field adjusting)	Totals	Claims Customer Service Reps. (non-adjusters)
Charley	0	12	76	88	225
Frances	0	22	76	98	225
Ivan	19	4	76	99	225
Jeanne	32	12	76	120	235

Hurricane	Total Adjusters	% Increase
Charley	435	-
Frances	606	39%
Ivan	660	52%
Jeanne	929	114%

After the creation of the Lexington office, some staff from Gainesville were relocated to the new location. In-house adjusters review estimates received from the independent firms for payment approvals.

The following table shows a breakdown of claims by hurricane as of November 9, 2004:

Hurricane	Total Claims	Claims Open	Claims Closed	% Closed	Total Paid
Charley	1,041	125	916	88%	$9,830,070
Frances	1,478	712	776	52%	$5,758,537
Ivan	454	256	198	44%	$1,453,745
Jeanne	937	711	226	24%	$1,400,938
Totals	3,910	1,804	2,106	54%	$18,443,290

	Triage Analysis (Average # of Days To Close Based on Loss Amount)			
Hurricane	Closed Without Pymt	< $10,000	>$10,000 and < $50,000	Over $50,000
Charley	37	42	46	52
Frances	36	39	46	47
Ivan	32	33	35	N/A
Jeanne	29	29	33	25

The following tables show a breakdown of the number of days to close 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	235	538	143	0
Frances	214	511	41	0
Ivan	76	122	0	0
Jeanne	121	105	0	0

Days Open				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	19	18	88	0
Frances	43	337	331	0
Ivan	59	197	0	0
Jeanne	184	527	0	0

From the total population of claims, acknowledgement of claims was tested with the following results:

Days to Acknowledge				
Hurricane	0 – 14	15 – 45	46 – 90	Over 90
Charley	1,040	1	0	0
Frances	1,457	21	0	0
Ivan	448	6	0	0
Jeanne	897	40	0	0

A total of 3,842 out of 3,910 claim files (98% of the total population) were acknowledged within fourteen (14) days as required by Rule 69O-166.024, Florida Administrative Code.

As of October 26, 2004, the Company received 64 complaints related to hurricane claims. The following table shows a breakdown of complaints by hurricane:

Hurricane	Total Complaints	% Of Total Claims
Charley	27	2.61%
Frances	30	2.04%
Ivan	4	0.93%
Jeanne	3	0.34%
Totals	64	1.68%

The main reasons for complaints were the following:

- Unable to contact the Company
- No contact by adjuster
- Inspection done, but the Company has not received adjuster's report
- Cancelled policies

Sample Findings

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

Twenty-five (25) claim/complaint files were reviewed. Fourteen (14) 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.

Actions taken by THIG 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.

CANCELLATION/NONRENEWAL REVIEW

The Company provided a listing of 229 policy cancellations scheduled to occur during the period May 1, 2004 through August 31, 2004. The Company also provided a listing of 14,336 policies scheduled to nonrenew during the period May 1, 2004 through October 31, 2004.

As a result of Emergency Orders 77677-04-CO and 78059-04-CO, the Company established the following procedures:

Cancellations:

A letter was mailed to insureds rescinding cancellation notices that were covered by the Emergency Order. Insureds were advised that coverage was extended through the period covered by the Emergency Order, at which time a new cancellation notice would be issued unless payment has been received.

Nonrenewals:

Two different letters were sent to insureds. The first letter covered insureds that were sent a nonrenewal notice to be effective after November 2004, which advised insureds that the nonrenewal notice was rescinded and that a renewal policy would be issued.

The second letter covered insureds that were sent a notice to be effective August, September or October. Insureds were advised that the nonrenewal notice was rescinded but if they wished to renew their policies, they needed to contact their agents. In addition, the Company sent to each agent a list of all affected insureds and agents were instructed to indicate whether the insured had obtained other insurance coverage or wanted a renewal policy to be issued. In the event that the agent did not provide the Company with the requested information, the policy was automatically renewed.

To verify compliance with Emergency Orders 77677-04-CO and 78059-04-CO, a review of policies scheduled for cancellation or nonrenewal was performed to detect any policy canceled during the period August 10 through November 30, 2004.

Sample Findings:

Twenty-five (25) cancellations/nonrenewals were reviewed.

No errors were found.

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.