

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT EXAMINATION
FINAL REPORT**

OF

USF&G SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 15, 2004

NAIC COMPANY CODE: 10182



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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 USF&G Specialty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was August 1, 2004 through November 26, 2004. The examination began December 7, 2004 and ended December 15, 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 claim office, located at 1060 Maitland Center Commons Blvd., Suite 310, Maitland, Florida.

In reviewing materials for the draft report provide 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 November 26, 2004:

Hurricane	Total Claims	Claims Open	Claims Closed	% Closed	Total Paid
Charley	2,705	179	2,526	93%	\$22,698,823
Frances	8,390	692	7,698	92%	\$56,898,464
Ivan	665	174	491	74%	\$2,537,341
Jeanne	4,946	1,979	2,967	60%	\$10,629,539
Totals	16,706	3,024	13,682	82%	\$92,764,167

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	948	896	576	106
Frances	1,316	4,021	2,361	0
Ivan	110	345	36	0
Jeanne	1,139	1,828	0	0

Days Open				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	26	5	11	137
Frances	71	64	557	0
Ivan	40	55	79	0
Jeanne	494	1,485	0	0

Company Responses to Hurricanes

A review of claims handling processes indicates a progressive commitment of significant resources and controls to respond to the increased volume of claims throughout the 2004 hurricane season.

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

- Increased the number of claims managers reviewing claims.
- Increased the number of office support staff in all areas of claims processing.
- Sent property re-inspectors to Maitland to review claim files.
- Assigned general adjusters to handle large claims.
- Leased additional space in Maitland to accommodate claims staff brought in to process claims.
- Established a local Call Inquiry Center to handle calls pertaining to pending claims.
- Established a Payment Unit in Maitland to handle this function locally.
- Implemented a Property Resolution unit to review and reassign re-opened claim files.
- Modified its computer system to add additional data fields to assist in tracking the status of claims.
- Activated an automated diary system to review claim files.

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	24						24
Charley		37					37
Frances			83				83
Ivan				147			147
Jeanne					198		198
Current						160	160

Claims Acknowledgement

The Company was requested to provide data on a sample list of 100 claims. 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	21	6	1	0
Frances	23	11	0	0
Ivan	16	6	0	0
Jeanne	12	4	0	0

Seventy-two (72) out of 100 claim files were acknowledged within fourteen (14) days as required by Rule 69O-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.
2	CHARLEY	8/17/2004	3	6	0	8/26/2004	9
3	CHARLEY	8/17/2004	8	11	0	9/9/2004	23
4	CHARLEY	8/14/2004	4	19	0	9/9/2004	26
5	CHARLEY	8/17/2004	3	20	0	9/9/2004	23
6	CHARLEY	8/14/2004	9	21	0	9/29/2004	46
7	CHARLEY	8/17/2004	5	30	0	9/22/2004	36
8	CHARLEY	8/17/2004	2	0	1	9/14/2004	28
9	CHARLEY	8/17/2004	20	2	1	9/13/2004	27
10	CHARLEY	8/17/2004	3	3	1	9/1/2004	15
11	CHARLEY	8/17/2004	4	3	1	8/26/2004	9

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.
12	CHARLEY	8/14/2004	1	4	1	8/23/2004	9
13	CHARLEY	8/14/2004	3	6	1	8/27/2004	13
14	CHARLEY	8/17/2004	9	11	1	9/8/2004	22
15	CHARLEY	8/17/2004	4	16	1	9/9/2004	23
16	CHARLEY	8/14/2004	3	19	1	9/8/2004	25
17	CHARLEY	8/14/2004	4	30	1	9/20/2004	37
18	CHARLEY	8/14/2004	4	2	2	8/25/2004	11
19	CHARLEY	8/17/2004	34	9	2	10/4/2004	48
20	CHARLEY	8/17/2004	5	57	2	11/19/2004	94
21	CHARLEY	8/17/2004	15	12	3	9/17/2004	31
22	CHARLEY	8/17/2004	10	9	5	9/10/2004	24
23	CHARLEY	8/14/2004	8	43	7	11/5/2004	83
24	CHARLEY	8/17/2004	26	7	11	11/12/2004	87
25	CHARLEY	8/17/2004	8	15	17	9/29/2004	43
26	CHARLEY	8/17/2004	7	23	26	11/8/2004	83
27	CHARLEY	8/14/2004	1	2	39	9/28/2004	45
28	CHARLEY	8/17/2004	8	0	56	10/21/2004	65
29	FRANCES	9/8/2004	4	0	0	9/20/2004	12
30	FRANCES	9/8/2004	8	1	0	9/22/2004	14
31	FRANCES	9/8/2004	17	9	0	10/12/2004	34
32	FRANCES	9/12/2004	7	12	0	10/11/2004	29
33	FRANCES	9/7/2004	6	32	0	10/21/2004	44
34	FRANCES	9/8/2004	3	48	0	11/4/2004	57
35	FRANCES	9/8/2004	*	*	0	11/3/2004	56
36	FRANCES	9/9/2004	11	4	1	10/10/2004	31
37	FRANCES	9/8/2004	5	11	1	10/23/2004	45
38	FRANCES	9/8/2004	15	38	1	11/20/2004	73
39	FRANCES	9/9/2004	2	1	2	9/20/2004	11
40	FRANCES	9/12/2004	18	1	2	10/11/2004	29
41	FRANCES	9/7/2004	10	26	2	10/19/2004	42
42	FRANCES	9/12/2004	8	6	3	9/29/2004	17
43	FRANCES	9/7/2004	3	0	4	9/22/2004	15
44	FRANCES	9/8/2004	1	0	4	9/21/2004	13
45	FRANCES	9/7/2004	4	17	4	10/11/2004	34
46	FRANCES	9/8/2004	28	17	4	11/17/2004	70
47	FRANCES	9/13/2004	30	5	5	11/5/2004	53
48	FRANCES	9/8/2004	12	28	5	11/8/2004	61
49	FRANCES	11/3/2004	1	0	6	11/13/2004	10
50	FRANCES	9/13/2004	6	0	6	9/29/2004	16
51	FRANCES	9/20/2004	43	5	8	11/18/2004	59
52	FRANCES	9/11/2004	20	8	8	10/23/2004	42

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.
53	FRANCES	9/7/2004	10	11	9	10/17/2004	40
54	FRANCES	9/8/2004	6	21	10	10/18/2004	40
55	FRANCES	9/8/2004	12	26	11	11/16/2004	69
56	FRANCES	9/15/2004	2	12	13	11/10/2004	56
57	FRANCES	9/7/2004	4	49	13	11/17/2004	71
58	FRANCES	11/11/2004	11	0	17	11/29/2004	18
59	FRANCES	9/11/2004	23	6	23	10/30/2004	49
60	FRANCES	9/20/2004	15	0	25	11/2/2004	43
61	FRANCES	9/9/2004	12	13	25	11/18/2004	70
62	FRANCES	9/8/2004	2	2	52	11/8/2004	61
63	IVAN	10/2/2004	8	13	1	11/1/2004	30
64	IVAN	10/17/2004	2	16	1	11/7/2004	21
65	IVAN	10/2/2004	4	42	1	12/1/2004	60
66	IVAN	9/20/2004	7	7	3	10/29/2004	39
67	IVAN	10/2/2004	8	31	3	11/29/2004	58
68	IVAN	9/29/2004	4	25	4	11/12/2004	44
69	IVAN	10/17/2004	4	0	5	10/28/2004	11
70	IVAN	9/29/2004	9	16	5	11/9/2004	41
71	IVAN	9/28/2004	4	21	5	11/9/2004	42
72	IVAN	9/20/2004	1	13	6	11/1/2004	42
73	IVAN	10/4/2004	3	16	7	11/5/2004	32
74	IVAN	9/28/2004	12	16	7	11/14/2004	47
75	IVAN	9/19/2004	4	11	9	10/24/2004	35
76	IVAN	10/19/2004	3	0	12	11/4/2004	16
77	IVAN	9/18/2004	3	14	12	10/27/2004	39
78	IVAN	9/17/2004	6	17	12	11/16/2004	60
79	IVAN	9/29/2004	18	0	15	11/12/2004	44
80	IVAN	10/2/2004	10	6	15	11/4/2004	33
81	IVAN	9/18/2004	8	0	18	11/7/2004	50
82	IVAN	9/23/2004	11	26	20	11/28/2004	66
83	IVAN	10/22/2004	2	0	25	11/20/2004	29
84	IVAN	9/20/2004	6	0	63	12/2/2004	73
85	JEANNE	10/1/2004	9	1	0	10/19/2004	18
86	JEANNE	9/27/2004	17	7	0	10/28/2004	31
87	JEANNE	10/1/2004	*	*	0	*	*
88	JEANNE	10/6/2004	25	0	1	11/5/2004	30
89	JEANNE	9/27/2004	1	1	1	10/4/2004	7
90	JEANNE	9/27/2004	9	11	1	10/21/2004	24
91	JEANNE	10/1/2004	21	26	2	11/30/2004	60
92	JEANNE	9/27/2004	2	11	3	11/6/2004	40
93	JEANNE	9/28/2004	17	25	4	11/22/2004	55

Claim File	CAT ID	Date Reported	Days between Date Assigned & Date Inspected	Days between 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.
94	JEANNE	9/27/2004	*	*	5	11/1/2004	35
95	JEANNE	9/27/2004	16	23	7	11/19/2004	53
96	JEANNE	9/27/2004	1	4	10	10/27/2004	30
97	JEANNE	10/5/2004	15	12	11	11/18/2004	44
98	JEANNE	9/27/2004	18	3	15	11/15/2004	49
99	JEANNE	9/27/2004	22	0	16	11/11/2004	45
100	JEANNE	9/27/2004	10	30	21	12/1/2004	65

* Data not available

Hurricane Claims Complaints

As of November 26, 2004, the Company received 1,088 complaints related to hurricane claims. The following table shows a breakdown of complaints by hurricane:

Hurricane	Total Complaints	% Of Total Claims
Charley	346	12.79%
Frances	614	7.32%
Ivan	30	4.51%
Jeanne	98	1.98%
Totals	1088	6.51%

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.

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.