

REPORT ON THE LIMITED SCOPE EXAMINATION
OF
AEQUICAP INSURANCE COMPANY
FORT LAUDERDALE, FLORIDA

OF THE
Commercial Automobile Liability,
Workers Compensation Claims

As of June 30, 2009

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	2
GENERAL	2
DATA	2
ORGANIZATIONAL CHART	3
PER EXAMINATION.....	4
SUMMARY OF FINDINGS	6
SUBSEQUENT EVENTS.....	6
CONCLUSION	7

Tallahassee, Florida

November 13, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination of the Commercial Automobile Liability, Workers' Compensation Loss and Defense, Containment, Expense Reserves and Claims as of June 30, 2009, of:

**AEQUICAP INSURANCE COMPANY
3000 WEST CYPRESS CREEK ROAD
FORT LAUDERDALE, FLORIDA 33309**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This was a limited scope examination of AequiCap Insurance Company, (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

The field work commenced on August 31, 2009, and concluded as of November 13, 2009. The limited scope examination covered commercial automobile claims and workers' compensation loss reserves, loss adjustment expenses and claims as of June 30, 2009 and included material events subsequent to June 30, 2009, and issues noted during the course of the examination within the limited scope of the examination. Claims settlement practices were also reviewed.

The examiner verified that the numbers of complaints submitted by Insured/Claimants to the Division of Consumer Services during the current and prior years were in fact resolved satisfactorily. It was noted that many of the cases were settled before or shortly after the date the Office contacted the Company to investigate the complaint.

HISTORY

General

The Company was incorporated in Florida on November 13, 1985, and commenced business on December 6, 1985, as AequiCap Insurance Company.

The Company primarily wrote Workers Compensation and Commercial Auto Liability in the State of Florida. Approximately 91% of gross premium was written in Florida in 2009. The Company also wrote auto insurance in several other states including Georgia (5.1%), Oklahoma (0.1%), and South Carolina (3.8%).

Claims were handled by AequiCap Claims Services, Inc. an affiliated company.

DATA

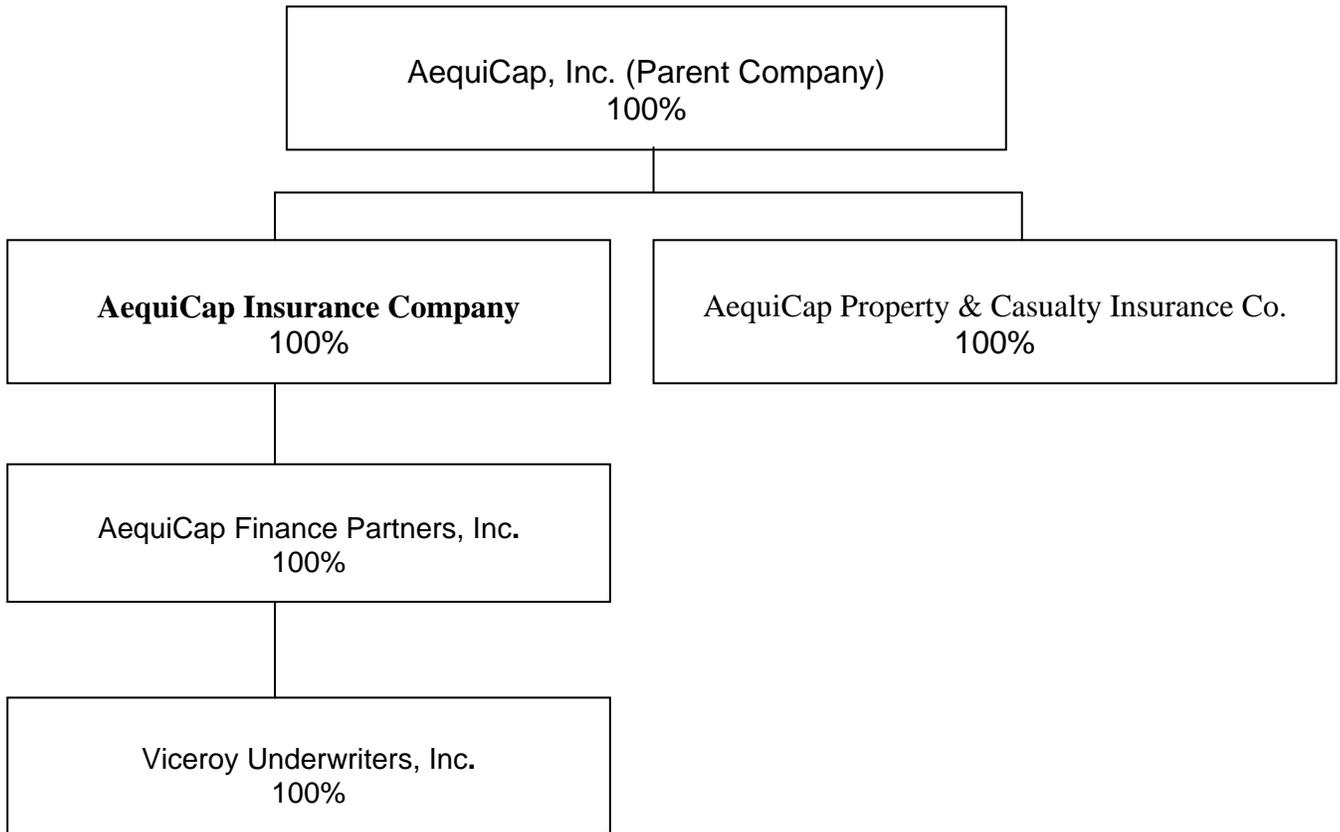
The Company provided the following data and information for the analysis of claims payments and reserves development:

- Paid and incurred loss data for open and closed claims reported for the period January 2008 through June 30, 2009.
- Miscellaneous information obtained from discussions with the Company.

A simplified organizational chart as of June 30, 2009, reflecting the holding company system is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies.

**AequiCap Insurance Company
ORGANIZATIONAL CHART**

JUNE 30, 2009



PER EXAMINATION

Examination of the monthly bank reconciliation of Commercial Automobile Liability claims and Workers Compensation claims revealed large numbers of checks outstanding from the years 2007, 2008 and 2009.

Claims Bank Account for Workers Compensation:

<u>Amount \$</u>	<u># Cases</u>	<u>Year</u>
19,703.78	44	2007
89,076.32	54	2008
92,133.36	193	2009
<u>200,913.46</u>	<u>291</u>	

Claims Bank Account for Commercial Automobile:

<u>Amount \$</u>	<u># Cases</u>	<u>Year</u>
47,401.66	66	2007
96,908.85	94	2008
262,454.23	256	2009
<u>406,764.74</u>	<u>416</u>	

A request for explanation was made on November 9, 2009 in the form of an exception memorandum. The Company's response did not suffice as a reasonable explanation.

Reserves

Based on analysis of the statistical sample of claims files we found that 27% of claims files sampled indicated a problem with claims reserving due to adjusting reserves immediately prior to making a claims payment or due to inadequate reserving. The Company had been notified previously of inadequate reserving procedures Consent Order 96722-08, filed August 22, 2008.

Subsequent Event: The Company refuted the examiner's finding and submitted evidence to justify their position on claims reserves.

Claims Files

A review of claims file documentation indicated that claims files contained details that were in disagreement with other information available at the company. Dates and other payment information in the claims files were incorrect. Review also disclosed that operational policy of the company allowed as much as 30 working days to issue a claims check after supporting documentation for settlement had been received. This was a violation of Chapter 627.4265, Florida Statutes, which required settlement within 20 calendar days of receipt of supporting documentation for settlement.

Subsequent event: The Company provided documentation to refute the examiner's analysis.

The Company had no written claims manual for commercial auto liability. A rough draft of a manual was presented to the examiner as a work in process. Interviews with the claims staff indicated that claims procedures in practice were in disagreement with procedures in the draft manual.

Subsequent Event: The Company provided a copy of the adopted claims manual.

SUMMARY OF FINDINGS

Current examination comments and corrective action

There are no finding resulting from this examination.

SUBSEQUENT EVENTS

Mr. Matthew Jones was elected as Company president subsequent to the examination.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AequiCap Insurance Company** as of June 30, 2009, consistent with the insurance laws of the State of Florida.

In addition to the undersigned Oswaldo Herrera, Financial Examiner/Analyst Supervisor, and Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor participated in the examination.

Respectfully submitted,

James Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation