

# **FINANCIAL SERVICES COMMISSION**

**OFFICE OF INSURANCE REGULATION  
MARKET INVESTIGATIONS**

## **TARGET MARKET CONDUCT FINAL EXAMINATION REPORT**

**OF**

**MAG MUTUAL INSURANCE COMPANY**

**AS OF**

**November 4, 2005**

**NAIC COMPANY CODE: 42617**



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## **PURPOSE AND SCOPE OF EXAMINATION**

Under authorization of the Financial Services Commission, Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of MAG Mutual Insurance Company (Company) was performed by Kim Heyde, Market Examinations, LLC. The scope of this examination was June 1, 2004 through September 29, 2005. The examination began November 1, 2005 and ended November 4, 2005.

The purpose of this examination was to validate the completeness, accuracy and timeliness of reporting Professional Liability claims as required by Section 627.912, Florida Statutes.

In conducting the review, three tests were performed; Completeness, Accuracy and Timeliness. The Completeness test compares the total number of claims closed during the scope period that should have been reported to closed claims that were actually reported. The Accuracy test compares the information required to be reported to the Office to the information contained in the company's claim file. This test was only conducted on a sample of those claims closed during the scope period and actually reported. The Timeliness test compares the date the claim should have been reported to the Office to the date the claim was actually reported. This test was only conducted on those closed claims actually reported within the scope period. The Timeliness test may include closed claims reported during the scope period but actually closed prior to the scope period. However, because they were not closed during the scope period, such claims would not be included in either the Completeness or Accuracy test.

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. The files examined were selected systematically from data files provided by the Company using Microsoft Excel's "random sample" selection process. Procedures and conduct of the examination were in accordance with the Market Conduct Examiner's Handbook produced by the National Association of Insurance Commissioners.

## **COMPANY OPERATIONS**

MAG Mutual Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida. The Company provides professional liability insurance in the State of Florida.

Total Direct Premiums Written in Florida for professional liability are broken down as follows:

Year	Total Written Premium (Florida)
2004	\$82,432,988

The Company had 806 Professional Liability claims open as of April 1, 2004, which were subject to Section 627.912, Florida Statutes, and which will need to be reported upon closure as required by the Statute.

232 claims were closed during the scope period and should have been reported pursuant to Section 627.912, Florida Statutes.

## CLAIMS REVIEW

### Findings

#### Completeness Test

The Completeness test compares the total number of claims closed during the scope period that should have been reported to closed claims that were actually reported.

Of 229 closed claims reviewed, 3, or 2%, of the claims were not reported.

Three (3) errors were due to failure to report closed claims. Section 627.912, Florida Statutes, states that closed claims meeting specific reasons for closure must be reported to the Office. The Company did not report closed claims meeting the requirements of the above statute to the Office.

**Corrective Action:** The Company has taken corrective action and reported the identified claims. The Company would like it noted that all of the claims except one were claims closed after the notice of intent and no indemnity was paid. It has acknowledged the need to report these going forward and will change its procedures accordingly.

#### Accuracy Test

The Accuracy test compares the information required to be reported to the Office to the information contained in the Company's claim file. The Accuracy test can only be conducted on those claims closed during the scope period and actually reported. 229 claims were reported during the scope period.

Ten (10) closed claims were reviewed.

Ten (10), or 100%, of the claims reviewed were in error.

Ten (10) errors were due to failure to accurately report closed claims. Section 627.912, Florida Statutes, states that closed claims meeting specific reasons for closure must be reported to the Office and contain required information for each claim. The Company failed to accurately report all information required for closed claims as defined.

**Corrective Action:** Subsequent to the exam and prior to this report, the Company has taken the necessary action to correct the inaccuracies reported. The Company should establish procedures to ensure that all information required to be reported for closed claims is contained in each report.

Timeliness Test

The Timeliness test compares the date the claim should have been reported to the Office to the date the claim was actually reported. The Timeliness test can only be conducted on those closed claims actually reported within the scope period. 229 claims were reported during the scope period.

29, or 13%, of the claims reviewed were in error.

29 errors were due to failure to timely report closed claims. Section 627.912, Florida Statutes, states that closed claims meeting specific reasons for closure must be reported to the Office within a certain time frame. The Company failed to report closed claims within the time frame required.

**Corrective Action:** The Company should establish procedures to ensure that closed claims are reported within the time frame required.

**SUMMARY OF FINDINGS**

		Actually Reported	Errors
Total Population	232		
Completeness Test		229	3
Accuracy Test		10	10
Timeliness Test		229	29

**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.