FINANCIAL SERVICES COMMISSION

OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

TARGET MARKET CONDUCT EXAMINATION FINAL REPORT

OF

TOWER HILL SELECT INSURANCE COMPANY

AS OF

NOVEMBER 30, 2004

NAIC COMPANY CODE: 12011

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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 Tower Hill Select 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	0	0	0	0%	$0
Frances	46	32	14	30%	$209,068
Ivan	1	1	0	0%	$0
Jeanne	35	31	4	11%	$28,211
Totals	82	64	18	22%	$237,279

	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	N/A	N/A	N/A	N/A
Frances	31	37	35	34
Ivan	N/A	N/A	N/A	N/A
Jeanne	20	N/A	38	N/A

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	0	0	0	0
Frances	7	7	0	0
Ivan	0	0	0	0
Jeanne	1	3	0	0

Days Open				
Hurricane	0 – 30	31 – 60	61 – 90	Over 90
Charley	0	0	0	0
Frances	10	22	0	0
Ivan	0	1	0	0
Jeanne	15	16	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	0	0	0	0
Frances	45	1	0	0
Ivan	1	0	0	0
Jeanne	33	2	0	0

A total of seventy-nine (79) out of eighty-two (82) claim files (96% 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 three (3) complaints related to hurricane claims. The following table shows a breakdown of complaints by hurricane:

Hurricane	Total Complaints	% Of Total Claims
Charley	0	0%
Frances	3	7.14%
Ivan	0	0%
Jeanne	0	0%
Totals	3	4.05%

The reason for all complaints was no contact by an adjuster.

Sample Findings

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

depreciation withholding practices, additional living expenses, food spoilage, and application of multiple deductibles.

Twenty-five (25) claim/complaint files were reviewed. Thirteen (13) 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 began writing business in August 2004 and did not have any cancellations/nonrenewals issued, therefore, review of compliance with Emergency Orders 77677-04-CO and 78059-04-CO, was not performed.

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.