

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

INTERSTATE FIRE & CASUALTY INSURANCE COMPANY

AS OF

January 6, 2006

NAIC COMPANY CODE: 22829



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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 Interstate Fire & Casualty Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was June 1, 2004 through September 29, 2005. The examination began December 19, 2005 and ended January 6, 2006.

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

Interstate Fire & Casualty Insurance Company is a foreign property and casualty surplus lines insurer eligible 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 | \$1,032,135 |

The Company had eight (8) 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.

Three (3) 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 three (3) closed claims reviewed, three (3) or 100%, 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.

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 actually reported during the scope period. One (1) claim was reported during the scope period but closed prior to the scope period such that it would not be included in the Completeness test. It was reviewed for Timeliness in reporting.

One (1) claim was reported during the scope period.

One (1) closed claim was reviewed.

There were zero (0) errors found.

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. One (1) claim was reported during the scope period but closed prior to the scope period such that it would not be included in the Completeness test. It was reviewed for timeliness in reporting.

One (1) claim was reported during the scope period.

There were zero (0) errors found.

Reconciliation of populations for Completeness, Accuracy and Timeliness Tests

There were three (3) claims subject to the reporting requirements of Section 627.912, Florida Statutes, and no claims were reported. The Company reported one (1) claim to the Office which was closed prior to the scope period but reported within the scope period such that it was not included in the Completeness test. Because it was reported within the scope period, that claim was reviewed for Accuracy and Timeliness.

SUMMARY OF FINDINGS

| | | Actually Reported | Errors |
|-------------------|---|-------------------|--------|
| Total Population | 3 | | |
| Completeness Test | | 0 | 3 |
| Accuracy Test | | 1 | 0 |
| Timeliness Test | | 1 | 0 |

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.