

**NORTH CAROLINA DEPARTMENT OF INSURANCE  
RALEIGH, NORTH CAROLINA**

**STATE OF NORTH CAROLINA**

**BEFORE THE COMMISSIONER  
OF INSURANCE**

**COUNTY OF WAKE**

**IN THE MATTER OF )  
CONTINENTAL CASUALTY GROUP, INC., )  
a.k.a. CONTINENTAL CASUALTY INSURANCE )  
GROUP, INC. AND CCIG INSURANCE )  
SERVICES, JAMIE MORGAN, )  
WILLIAM BAXTER, DEREK )  
LLOYD, AMS INSURANCE (NEVIS) LIMITED, )  
ANDREW HAROLD KRAUSE, )  
JOHN THOMAS LEE, AND )  
LESLIE JOHN MORRELL )**

**FINAL AGENCY DECISION  
AND ORDER**

**Docket Number D-1365**

This matter was heard on May 23, 2007 and June 7, 2007 by the undersigned Hearing Officer designated by the Commissioner of Insurance pursuant to North Carolina General Statutes §§ 58-2-50, 58-2-55, 58-2-70, 58-3-125, 58-3-5, 58-28-10, 58-28-20, 58-28-45, 58-33-46, 150B-38, 150B-40, and other applicable statutes and regulations. Respondents Continental Casualty Group, Inc. (a.k.a. Continental Casualty Insurance Group, Inc. and CCIG Insurance Services)[hereinafter, "CCIG"], Andrew Krause, John Thomas Lee, and Leslie John Morrell were represented at the hearing by T. Slade Rand, Jr., Esq. and the North Carolina Department of Insurance [NCDOI] was represented by Assistant Attorney General Anne Goco Kirby. Respondents William Baxter and Jamie Morgan did not appear at the hearing and were not represented by counsel.

After careful consideration of the evidence and arguments presented, and based upon the record as a whole, the undersigned Hearing Officer hereby renders the following Findings of Fact and Conclusions of Law:

**FINDINGS OF FACT**

1. On February 7, 2007, the North Carolina Department of Insurance ["the Department"] issued an Emergency Cease and Desist Order, Notice of Hearing, and Order to Produce Documents and Information on Respondents CCIG, Jamie Morgan, William Baxter, and Derek Lloyd pursuant to North Carolina General Statutes §§ 58-2-50, 58-2-55, 58-3-125, 58-3-5, 58-28-10, 58-28-20, 58-28-45, 58-33-46, 150B-38, 150B-40, and other applicable statutes and regulations. The Orders and Notice were duly served on all Respondents.

2. On March 6, 2007, the Department filed a Motion to Amend the Emergency Cease and Desist Order and Notice of Hearing to add Respondents Andrew Krause, AMS Insurance (Nevis) Limited [hereinafter, "AMS Insurance"], John Thomas Lee, and Leslie John Morrell.
3. On March 20, 2007, the Department issued an Amended Emergency Cease and Desist Order, Notice of Hearing, and Order to Produce Documents and Information on Respondents CCIG, Jamie Morgan, William Baxter, Derek Lloyd, Andrew Krause, AMS Insurance, John Thomas Lee, and Leslie John Morrell. The Amended Orders and Notice were duly served on all Respondents.
4. On March 16, 2007, Respondents Derek Lloyd and AMS Insurance filed Motions to Dismiss. The Department voluntarily dismissed the case against Respondents Derek Lloyd and AMS Insurance without prejudice on March 27, 2007.
5. On April 18, 2007, Respondent Andrew Krause filed a Motion for Continuance of the April 19, 2007 hearing. By Order entered April 18, 2007, the Department allowed Mr. Krause's request for a continuance. On April 25, 2007, the Department entered a Scheduling Order rescheduling the hearing for May 17, 2007.
6. The Department called insurance agent Scott Wheeler and Terry Dorman, Chief Examiner of the NCDOL Unlicensed Plan Investigations Division [ "Chief Examiner Dorman" ] to testify in its case in chief. Respondents did not call any witnesses to testify.
7. CCIG operates a business in Rochester Hills, Michigan. CCIG is neither a licensed insurer nor an eligible surplus lines insurer in this State. CCIG is not registered as a corporation in any state. CCIG has used the names Continental Casualty Insurance Group, Inc., Continental Casualty Group, Inc. and CCIG Insurance Services.
8. In a letter to Chief Examiner Dorman dated February 27, 2007, the Registrar of Insurance of the Nevis Financial Services Department identified Lee and Morrell as shareholders of CCIG and Krause as a manager of CCIG. However, during a telephone conversation with Krause in April 2007, Krause told Chief Examiner Dorman that he, Lee and Morrell are the sole owners of CCIG.
9. Krause is CCIG's manager. Krause hired William Baxter and Jamie Morgan to work in CCIG's Rochester Hills, Michigan office and supervised both employees.
10. Krause conceived the idea of forming CCIG and developed the business plan for the company. In 2006, Krause hired AMS Insurance, a licensed insurance manager in Nevis, West Indies, to act as CCIG's registered agent and to assist CCIG in obtaining a captive insurance company license in Nevis.

11. Derek Lloyd is a Director of AMS Insurance who handled CCIG's account. Lloyd represented to the Department that the express and sole purpose of CCIG's proposed captive was to provide various insurance risks on eighteen (18) specified properties owned by the ultimate beneficial owners of the company.

12. In the application which CCIG submitted to the Nevis Financial Services Division [hereinafter, "Nevis FSD"], CCIG represented that it was forming a captive for the purpose of insuring 18 properties located in North Topsail Beach, North Carolina. Each property was to be insured for \$250,000. CCIG further represented that it had no intention to market the proposed activity of the captive and that its underwriting activity would be restricted to properties within the parent company's owning portfolio.

13. The Nevis FSD granted CCIG provisional license approval by the end of 2006 on the basis of the foregoing representations by CCIG. However, Nevis FSD never received CCIG's bank proof of minimum capitalization requirements and no license was ever issued to CCIG, nor authority given to issue policies on the 18 specified properties.

14. Contrary to CCIG's representations to the Nevis FSD, CCIG did market insurance policies to owners of other property located in Topsail Beach. While under Krause's supervision, Morgan marketed special risk flood insurance policies to Topsail Beach realtors and to current and prospective owners of property located in the Coastal Barrier Resources Act ["CBRA"] Zone in Topsail Beach, North Carolina. In particular, Morgan solicited applications for contracts of insurance by making telephone calls and sending postcards, e-mails and faxes to current and prospective Topsail Beach property owners and to Topsail Beach realtors in December 2006 and January 2007.

15. CCIG also maintained an internet website, [www.ccinsurancegroup.com](http://www.ccinsurancegroup.com), through which it promoted its low cost flood insurance policies to current and prospective owners of properties in the North Topsail Beach CBRA Zone. Krause delegated responsibility for maintaining the website to Baxter.

16. In the summer of 2006, Krause met with Scott Wheeler, an insurance agent, at Wheeler's office in Sneads Ferry, North Carolina. Wheeler sells flood insurance and other insurance policies to property owners in the Topsail Beach area. Krause told Wheeler that he represented a group of investors who were interested in getting quotes for homeowners and flood insurance on properties in Topsail Beach. Wheeler later gave Krause a quote for flood insurance, which Krause rejected as being too expensive.

17. Subsequently, a mortgage broker informed Wheeler about a potential low cost alternative for flood insurance available through CCIG. The broker later sent Wheeler a copy of a \$250,000 flood insurance policy on a Topsail Beach residence which CCIG issued to Patricia Kerrin for a premium of \$6000.00. Morgan also began receiving many telephone and e-mail inquiries from customers who had been solicited to purchase flood insurance from CCIG.

18. Several of Wheeler's customers forwarded copies of CCIG's postcards, e-mails, and fax solicitations to him. The e-mails and faxes were from Jamie Morgan of CCIG. Although CCIG has no offices in North Carolina, the mailers listed a Raleigh return address for CCIG. In the postcards, e-mails, and faxes, CCIG offered to provide special risk flood insurance coverage exclusively to owners of any property located in the Topsail Beach CBRA Zone for either 10% off the insured's current policy premium or for a flat rate of \$7,000.

19. CCIG's postcards caused Wheeler to be concerned because legitimate flood insurers that he did business with never quoted a flat rate and never gave a quote before receiving an application and copies of the flood elevation certificate. Moreover, the \$7,000 rate was substantially less than the \$12,000 prevailing market rate for flood insurance on properties in the CBRA Zone.

20. Because of his concerns, Wheeler began investigating CCIG. During the course of his investigation, Wheeler learned that the Raleigh address which CCIG listed on its postcards was for a rented mailbox at a UPS store. Wheeler also learned that CCIG was not registered as a corporation in either North Carolina or Michigan and that CCIG was neither a licensed insurer nor an eligible surplus lines insurer in North Carolina or Michigan. Accordingly, Wheeler advised his clients not to do business with CCIG.

21. Since Wheeler was receiving so many phone calls and e-mails about CCIG from concerned customers, he prepared a form e-mail summarizing his findings about CCIG and instructed his staff to send the e-mail to anyone who called with questions about CCIG.

22. Wheeler shared his findings on CCIG with Bill Bradbury of the Department's Eastern Regional Office in January, 2007. Bradbury referred the matter to other divisions of the Department, including the Unlicensed Plan Investigations unit of the Consumer Services Division, which began an investigation into CCIG's activities in January 2007.

23. During the course of its investigation, the Department confirmed that the Raleigh address which CCIG listed on its postcards was a UPS mailbox. Krause rented the box on CCIG's behalf on November 29, 2006 for a one year term. The maintenance of a mailbox in North Carolina for the purpose of receiving applications and other correspondence from North Carolina residents interested in purchasing flood insurance from CCIG was in violation of N.C.G.S. §§ 58-28-5 and 58-28-10.

24. During its investigation, the Department received information from six North Carolina residents who had been solicited to purchase flood insurance from CCIG in December 2006 and January 2007. Five of the six individuals had received postcards from CCIG which promoted its low cost flood insurance policies on properties in North Topsail Beach at a rate ten percent less than the customer's current rate or a flat rate of \$7,000.00. Two of the individuals contacted CCIG at the 1-800 number listed on the postcard and spoke with Morgan. Distribution of the postcards to the five individuals and telephone contact with the two individuals constitute separate violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a).

25. Three of the individuals who provided information about CCIG to the Department had received phone calls from CCIG. Two of these individuals were real estate agents in the Topsail Beach area who received phone calls from Morgan. Morgan represented to these realtors that CCIG was offering flood insurance for properties located in North Topsail Beach and was interested in obtaining referrals for clients. These three telephone solicitations by Morgan and CCIG constitute separate violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a).

26. Morgan represented that CCIG only had 200 policies to offer and requested that interested individuals submit photos of the property and an elevation certificate. Morgan also faxed and/or e-mailed flood insurance policy applications to five of the individuals who provided information about CCIG to the Department. The faxes and applications listed the Raleigh UPS mailbox as CCIG's address. The distribution of applications for flood insurance policies issued by CCIG to these five individuals constitute separate violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a).

27. During the course of the Department's investigation, Chief Examiner Dorman accessed CCIG's website on numerous occasions between January 19, 2007 and April 5, 2007. On January 19, 2007, January 23, 2007, February 1, 2007, February 6, 2007, February 13, 2007, February 27, 2007, March 9, 2007, March 14, 2007, April 2, 2007, and April 5, 2007, Mr. Dorman viewed the website and printed out the webpages on each occasion. The printed webpages show that CCIG had been marketing flood insurance policies to North Topsail Beach property owners since at least January 19, 2007. The printed webpages also show that CCIG continued to market such policies on its website until April 5, 2007, after the February 7, 2007 Emergency Cease and Desist Order was entered.

28. CCIG did not take its website down until after Chief Examiner Dorman advised Krause on April 5, 2007 that the website needed to be taken down. Each day that CCIG maintained its website constitutes a separate violation of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a). Mr. Dorman confirmed on ten separate days that the website was up and marketing flood insurance policies to North Topsail Beach property owners. The evidence shows that the website was advertising policies from at least January 19, 2007 to April 5, 2007.

29. In January 2007, Chief Examiner Dorman began corresponding with Derek Lloyd of AMS Insurance regarding CCIG's marketing activities in North Carolina. In light of the information which Chief Examiner Dorman provided to AMS Insurance, AMS Insurance formally withdrew CCIG's captive insurance license application and resigned as the licensed insurer and registered agent to CCIG.

30. Although CCIG had been marketing flood insurance to all eligible Topsail Beach property owners, Krause represented to Chief Examiner Dorman in April 2007 that CCIG was a captive insurer formed only for the purpose of self-insuring properties owned by CCIG. However, the Department obtained certified copies of the property tax records on 15 of the 18 properties which CCIG identified in its application to the Nevis FSD as being owned by the

beneficial owners of the company. The property tax records on these 15 properties listed various individuals and a construction company as owners. CCIG was not listed as an owner on any of the property tax records. Morell, who was listed as owner of 4 of the 15 properties, was the only individual related to CCIG who was listed as an owner of any of the properties.

31. Although Morgan represented in a January 9, 2007 fax that CCIG only had 152 policies of the 200 policies remaining to offer, Krause told Chief Examiner Dorman that CCIG had only issued four or five policies, including the policy which was issued to Patricia Kerrin.

32. Krause designed the CCIG policy application which Morgan distributed to Topsail Beach property owners.

33. Krause was aware that Morgan had been circulating postcards which advertised CCIG flood insurance policies to Topsail Beach property owners and that Krause was otherwise marketing CCIG's flood insurance policies to current and prospective Topsail Beach property owners. Krause was also aware that CCIG's website promoted its flood insurance policies to all current and prospective owners of eligible properties in the North Topsail Beach CBRA Zone and that the website was still up and running as of April 5, 2007.

### **CONCLUSIONS OF LAW**

1. The undersigned has personal jurisdiction over the Respondents CCIG, Krause, Morrell, Morgan, and Baxter and subject matter jurisdiction in this matter.
2. Respondents violated N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a).
3. Respondents should be ordered pursuant to N.C.G.S. § 58-28-20 to cease and desist from violating N.C.G.S. § 58-28-5.
4. Respondent CCIG committed well in excess of fourteen violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a). Pursuant to N.C.G.S. § 58-28-10, Respondent CCIG should be ordered to pay civil penalties of \$21,000 for its violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a).

### **ORDER**

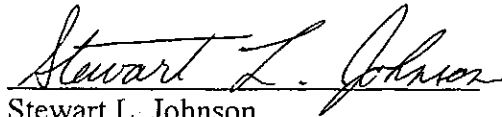
NOW THEREFORE, the following is hereby ordered:

1. Respondent CCIG shall pay civil penalties of \$21,000 for its violations of N.C.G.S. §§ 58-28-5, 58-28-10 and 58-28-45(a) no later than 15 days after receiving service of this Final Agency Decision and Order. Payment of this civil penalty shall be made by cashier's check, certified check, or money order payable to the "North Carolina Department of Insurance." This civil penalty shall be subject to disbursement in accordance with the provisions of Article IX, Section 7 of the North Carolina Constitution for the benefit of the public schools; and

2. All Respondents shall continue to **CEASE AND DESIST** from:
- a. Contracting to provide insurance in this state for risks located in this state, whether as an insurer, agent, or by any other method, without first complying fully with the statutes and regulations of the State of North Carolina and the Department;
  - b. Offering, selling, and marketing insurance in this state for risks located in this state, whether as an insurer, agent, or by any other method, without first complying fully with the statutes and regulations of the State of North Carolina and the Department;
  - c. Taking or receiving an application for insurance offered by CCIG or any other entity which is not either a licensed insurer or eligible surplus lines insurer in this State;
  - d. Issuing or delivering contracts of insurance and certificates of insurance or other evidence of insurance coverage issued by CCIG or any other entity which is not either a licensed insurer or eligible surplus lines insurer in this State;
  - e. Soliciting, negotiating, procuring or effectuating insurance coverage, or renewals thereof, disseminating information as to coverage or rates, forwarding applications, delivering policies or contracts, or in any other manner representing or assisting CCIG in the transaction of insurance with respect to subjects of insurance located or to be performed in this state;
  - f. Directly or indirectly acting as an agent for, or otherwise representing or aiding in the solicitation, negotiation, procurement or effectuation of insurance coverage issued by CCIG or by any other entity which is not either a licensed insurer or eligible surplus lines insurer in this State;
  - g. Making, publishing, disseminating, circulating or placing before the public, or causing, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio or television station, or in any other way, an advertisement, announcement or statement for or regarding any insurance issued by CCIG or any other entity which is not either a licensed insurer or eligible surplus lines insurer in this State;
  - h. Conducting insurance business within the meaning of the North Carolina State, without first complying fully with the North Carolina General Statutes and the regulations of the Department; and

- i. Receiving or collecting any premiums, commissions, or other consideration for insurance issued by CCIG or any other entity which is not either a licensed insurer or eligible surplus lines insurer in this State.

This 5<sup>th</sup> day of September, 2007.



Stewart L. Johnson  
N.C. Department of Insurance  
Post Office Box 26387  
Raleigh, NC 27611  
(919) 715-0011

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on this day I have served the foregoing **FINAL AGENCY DECISION AND ORDER** by mailing a copy thereof by certified mail addressed as follows:


T. Slade Rand, Jr., Esq.  
Attorney for CCIG, Andrew Krause, John Thomas Lee,  
and Leslie John Morrell  
Rose Rand Attorneys, P.A.  
P.O. Drawer 2367  
Wilson, NC 27894-2367

and by mailing a copy thereof by federal express, addressed as follows:

Jamie Morgan  
9595 Bartel  
Columbus, MI 48063

William Baxter  
Continental Casualty Group, Inc.  
a.k.a. Continental Casualty Insurance  
Group, Inc. and CCIG Insurance Services  
1700 W. Hamlin Rd, Suite 210  
Rochester Hills, MI 48309

This the 6<sup>th</sup> day of September, 2007.

  
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