

**2002 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION**

**OF**

**AIG NATIONAL INSURANCE COMPANY, INC.  
(AMERICAN INTERNATIONAL GROUP, INC.)**

**BY**

**THE FLORIDA DEPARTMENT OF INSURANCE**

**DATE FILED: 1/06/03**



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## **EXECUTIVE SUMMARY**

AIG National Insurance Company, Inc., (Company) is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination. The scope of this examination was January 2000 through March 2002. The examination began February 24, 2002 and ended April 13, 2002. This is the first examination for this insurer.

The purpose of this examination was to review the issues behind the volume of consumer complaints received by the Department of Insurance. From a review of the consumer complaints filed against the Company, the Department focused on the timely processing of claims, the Company's cancellation procedures and the Company's premium calculation procedures. Some of these complaints were miscoded and the actual number of complaints for this Company was lower than reported in the Department's Consumer Services database. In addition to complaints, compliance with Florida Statutes and Administrative Rules was verified.

A total of two hundred twenty (220) files were examined for this Company with ninety-six (96) errors. The following represents general findings; however, specific details are found in each section of the report.

Sixteen (16) complaint files were examined with one (1) error. The error was due to failure to comply with additional premium requirements. The Company incorrectly canceled a policy based on ninety percent (90%) of pro rata instead of pro rata.

Fifty (50) private passenger automobile files were examined with eighty-six (86) errors. The errors were due to the failure of the Company to advise the insured how to obtain a copy of the credit report when the credit report/score adversely affected the insured's premium and use of an unfiled chart which converts financial scores to octals for the purpose of determining tier placement. In addition, the Company failed to establish written procedures in connection with the use of credit reports and failed to maintain evidence of compliance with the written procedures.

Fifty (50) cancellations and nonrenewals were examined with no errors.

Seventy-four (74) claims files were examined with six (6) errors. The errors were due to use of unlicensed and/or unappointed adjusters.

Thirty (30) files were examined for the agents/MGA/advertising review with three (3) errors. The Company failed to appoint all members of an agency when required to do so.

The Company has been requested to establish and maintain written procedures in connection with the use of credit reports/scores, to file the credit score conversion chart, to establish procedures for notifying insureds as to the means of obtaining copies of credit reports/scores, and to cease using unlicensed and unappointed adjusters. The Company was requested to complete all corrective actions within ninety (90) days of receipt of this examination report.

As a result of the findings of this examination, \$360.00 is due the Department of Insurance for past agent appointment fees. See Pending Issues Section.

## **CERTIFICATE OF AUTHORITY – AUTHORIZED LINES**

### **GENERAL COMMENTS**

The Certificate of Authority and Renewal Invoices were reviewed for all years within the scope of the examination.

### **EXAM FINDINGS**

The review included verification of the lines of business the Company was authorized to write during the scope of the examination versus those lines actually being written. It also included verification that notification requirements were met for any lines of business that were discontinued.

No errors were found.

## **COMPANY OPERATIONS/MANAGEMENT**

### **HISTORY/MANAGEMENT**

AIG National Insurance Company, Inc., was originally incorporated in the State of New York on December 12, 1994 as Abeille General Insurance Company, Inc., and was owned at that time by Commercial Assurance Company plc, of London, England. On February 1, 1997, the Company adopted its present name. AIG National Insurance Company, Inc., became a wholly-owned subsidiary of New Hampshire Indemnity Company, Inc., on July 6, 1997, when it was purchased from Commercial Assurance Company. Financial control of the Company is held by New Hampshire Indemnity Company, a wholly-owned subsidiary of American International Group, Inc.

The Company's home office is located at 70 Pine Street, New York, New York. The Company maintains an administrative office located at 4501 North Point Parkway, Alpharetta, Georgia. The Company website can be accessed at: [www.specialtyconnection.com](http://www.specialtyconnection.com).

The following is a list of the Company's corporate officers:

Anthony P. Pavia	President
Kenneth Vincent Harkins	Vice President
Michael Vernon Tripp	Vice President
Elizabeth Margaret Tuck	Secretary
Carol Ann McFate	Treasurer

In 2001, Anthony P. Pavia replaced Thomas Flaherty as President.

### **COMPANY PROCESSES/STATISTICAL AFFILIATIONS**

#### **Computer System**

The Company utilizes a mainframe computer system which is networked throughout the various departments to allow employees to access e-mail, administrative systems, policy and claim data and other on-line resources needed to perform job functions. An outside vendor, Computer Sciences Corporation, manages the underwriting and claim computer programs.

#### **Anti-Fraud Plan**

The Company has filed a Plan with the Florida Department of Insurance as required by Section 626.9891, Florida Statutes. The Plan does meet the requirements by establishing a Special Investigation Unit.

Allegations of fraud resulting from misrepresentation on applications of insurance are referred to the Special Investigation Unit. Appropriate action including civil and/or criminal litigation is taken based on the findings of the investigation.

All incoming claims are reviewed using a variety of profiling indicators to identify questionable claims. Any claim containing two (2) or more profiling indicators is referred to the Special Investigation Unit for further evaluation and referral, if necessary, to the appropriate law enforcement agency.

### **Disaster Recovery Plan**

The Company has developed a Disaster Recovery Plan for use with Florida business. In addition to its own daily backup of all programs and data, additional daily backups are performed by the AIG Data Centers in Wilmington, Delaware, and Livingston, New Jersey. In addition, the Company's vendor, Computer Sciences Corporation, maintains complete backups of its operating system and data in the event of any disaster. Member companies of American International Group, Inc. located in Phoenix, Arizona, and Pittsburgh, Pennsylvania, have the capability of accessing the Company's operating systems and data should a catastrophic event render the Company's current facilities uninhabitable or prevent the continuation of normal business operations.

### **Internal Audit Procedures**

The Company has developed Internal Audit Procedures for use in reviewing Florida business. The Company periodically performs random checks of its policies by manual file review, an automated VIN check system and rating disk tests to ensure proper rating. Claim files are reviewed monthly for accuracy, payments and reserves. Alleged incidents of fraud involving employees or company representatives are referred to the Special Investigation Unit for further evaluation and appropriate action if required.

### **Privacy Plan**

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01. The Company provides a written Privacy Notice to each new and renewal policyholder.

### **Statistical Affiliations**

Insurance Services Office acts as the Company's official statistical agent for its private passenger automobile program. The Company independently files its own rates and forms.

### **Credit Reports**

The Company does use credit reports as an underwriting tool. Credit scores are used in conjunction with underwriting scores to determine placement of insureds into one (1) of six (6) tiers. The credit scores are divided into nine (9) groups or octals. Octals range from one (1) through eight (8) with an additional octal titled "unmatched". Octals one (1) through four (4) do not affect tier placement. In these instances, the underwriting score determines the tier. The Company advises the applicant that a credit score will be obtained.

## **OPERATIONS/MARKETING**

### **Marketing**

The Company remained dormant following its name change in 1997 until December 1999, when it began writing standard private passenger automobile insurance in the State of Florida.

### **Agents/Agencies/MGA/Exchange of Business/Direct Response/Internet/Adjusters and Claims Handling**

In the private passenger automobile files reviewed, the Company used licensed and appointed independent agents located throughout the State of Florida to market its private passenger automobile insurance policies to the general public.

In the claim files reviewed, the Company used licensed and appointed adjusters of AIG Claim Services, Inc., for the handling of its claims in the State of Florida. AIG Claims Services, Inc., is a wholly-owned subsidiary of American International Group, Inc., and is the adjusting company for its member insurance companies that are licensed to transact business in the State of Florida.

### **Lines of Business**

During the scope of this examination, the Company wrote private passenger automobile insurance providing the following coverages: bodily injury liability, property damage liability, personal injury protection, uninsured motorist, comprehensive, collision, towing and rental reimbursement.

## REVIEW OF POLICIES

### PRIVATE PASSENGER AUTOMOBILE

#### Description of Product/Lines of Business

The examination involved a complete review of private passenger automobile coverages including bodily injury liability, property damage liability, personal injury protection, uninsured motorist, comprehensive, collision, towing and rental reimbursement. New applicants are placed in one (1) of six (6) rating tiers. The lowest rated tier is zero (0) and the highest is five (5). Tier assignment is determined by a combination of the underwriting score and the credit score octal. The underwriting score is developed by use of the following factors: driver classification, vehicle classification, driving records, mileage, location and bodily injury liability coverage limits. The credit score is divided into nine (9) octals, and placement in an octal is determined by financial scores ranging from zero (0) to nine hundred ninety-nine (999). Octals one (1) through four (4) do not affect tier placement. In these instances, the underwriting score determines the tier. The underwriting score may affect tier placement during the policy period and/or at renewal as a result of changes to certain factors involved in determining the underwriting score.

#### Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
2000	\$1,967,447	2,269
2001	\$7,038,258	4,958

The Company began writing private passenger automobile insurance in the State of Florida at the end of 1999, and the premiums and policy count for 2000 are a reflection of the Company's initial policy writings in the State. The increase in premium and policy count for 2001 is due to a rate increase effective May 2001 and an increase in agency representation.

## **Examination Findings**

Fifty (50) policy files were examined.

Eighty-six (86) errors were found.

The errors are broken down as follows:

1. Fifty (50) errors were due to use of an unfiled underwriting chart to determine tier placement. This constitutes a violation of Section 627.0651, Florida Statutes. The Company has been requested to file the financial score chart with the Department of Insurance. The Company has filed the chart as requested.
2. Twenty-one (21) errors were due to failure of the Company to advise the insured how to obtain a copy of the credit report when the credit report/score adversely affected the insured's premium. This constitutes a violation of Rule 4-125.004(3)(e), Florida Administrative Code. These errors were due to failure by the Company to advise the insured of the means of obtaining a copy of the credit report. The Company has implemented a procedure to comply.
3. One (1) error was due to failure of the Company to establish written procedures in requesting and utilizing credit reports. This constitutes a violation of Rule 4-125.004(3), Florida Statutes. This error was due to failure by the Company to establish written procedures in connection with its use of credit reports in rating private passenger auto policies. The Company has been requested to establish written procedures regarding its request and utilization of credit reports and cease using credit as an underwriting tool until such time the Company has provided evidence of compliance. The Company has complied with this request.
4. One (1) error was due to failure of the Company to maintain evidence of compliance with established written procedures. This constitutes a violation of Rule 4-125.004(3)(e), Florida Administrative Code. This error was due to failure by the Company to maintain evidence of its compliance with written procedures established in connection with its use of credit reports in rating private passenger automobile policies. The Company has been requested to maintain evidence of its compliance with written procedures regarding its request and utilization of credit reports. The Company has complied with this request.

## **CANCELLATIONS/NONRENEWALS REVIEW**

### **DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES**

The files reviewed in the examination revealed the following procedures were followed: the Company cancels and nonrenews policies giving the insured the number of days notice required by Florida Statutes, plus at least three (3) days mailing time. Notices are sent to the insured, agent and lienholder, when applicable. Return premiums are calculated as of the effective date of cancellation. Return premiums generated from cancellations originated by the Company are calculated on a pro rata basis. Return premiums generated from cancellations requested by insureds are calculated at ninety percent (90%) of pro rata.

### **CANCELLATION REVIEW**

Forty (40) cancelled policies were examined.

No errors were found.

### **NONRENEWAL REVIEW**

Ten (10) nonrenewed policies were examined.

No errors were found.

## COMPLAINTS/INVESTIGATION REVIEW

A complete record of all the complaints received by the Company during the scope of the examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company.

Consumer complaints received during the scope of the examination were reviewed and findings are as follows:

### COMPLAINTS/INVESTIGATIONS REFERRED BY MARKET CONDUCT

<b>Consumer's Last Name</b>	<b>Alleged Violation</b>	<b>Violation Found</b>	<b>Comments</b>
Hawarah	Incorrect return premium	627.7282	Company incorrectly calculated return premium based on 90% of pro rata. Return premium should have been calculated based on pro rata. Company returned additional money due insured in response to Department inquiry prior to this examination.

One (1) DOI referral complaint was examined.

One (1) error was found.

The error is described as follows:

1. One (1) error was due to failure to comply with additional premium requirements. This constitutes a violation of Section 627.7282, Florida Statutes. The Company received a request to cancel the policy from the insured based upon an additional premium notice sent to the insured and calculated the return premium due based on ninety percent (90%) of pro rata instead of pro rata as required. The Company returned additional money due the insured in response to the Department inquiry prior to this examination.

## COMPLAINTS RECEIVED FROM DOI

<b>Consumer Services Ref. Number</b>	<b>Alleged Violation</b>	<b>Violation Found</b>	<b>Comments</b>
S-9900-0073258	Company did not give insured credit for full amount paid agent	None	Agent did not remit full payment made by insured to Company. Company refunded based on full amount paid to agent. Matter referred by Orlando Service Office to agent/agency investigation.
S-0001-0032048	Policy delay	None	Company mailed policy to insured timely.
S-9900-0071476	Insured upset re: total loss settlement offer	None	Claim settlement correct.
S-9900-0073158	Claim denial	None	No coverage.
S-0102-0020375	Improper premium increase	None	Satisfactory explanation provided to insured.
S-0102-0034762	Policy delay	None	System error delayed upload of application from agent. Company mailed policy timely.
S-0102-0004469	Premium misquote	None	Satisfactory explanation provided to insured.
S-0102-0004006	Premium increase	None	Satisfactory explanation provided to insured.
S-0102-0006695	Insured upset with agent's handling of two checks given to agent.	None	One of checks given to agent was post-dated and agent could not deposit until date on check. Insured was given proper credit.
S-0001-0065093	Premium Increase	None	Satisfactory explanation provided to insured.
S-0102-007937	Premium Increase	None	Satisfactory explanation provided to insured.
S-0001-0038099	Insured upset re: total loss settlement offer	None	Claim settlement correct.
S-0102-0017243	Unsatisfactory claim settlement	None	Claim settlement correct.
S-0102-0034808	Unsatisfactory claim settlement	None	Claim settlement correct.
S-0001-0057838	Claim denial	None	Claim settlement correct.

Fifteen (15) complaints received by the Company from DOI were examined.

No errors were found.

As indicated in the Executive Summary section of the report, this examination addressed the reasons behind the volume of consumer complaints filed against this Company. From this review, two conclusions were documented. First, the larger percentage of complaints logged against this Company were actually against other companies in the American International Group, Inc. Second, the complaints reviewed for this Company indicated no business practices were in violation of Florida Statutes and Rules.

## **CLAIMS REVIEW**

### **DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS**

A review of claims made under private passenger automobile insurance policies during the scope of the examination included the following types of coverage: bodily injury liability, property damage liability, personal injury protection benefits, uninsured motorist, physical damage including comprehensive and collision, towing and rental reimbursement.

#### **Examination Findings**

Fifty (50) claims were examined. Four (4) claims were bodily injury liability. Twelve (12) claims were property damage liability. Twelve (12) claims were personal injury protection. Two (2) claims were uninsured motorist. Thirteen (13) claims were collision. Four (4) claims were comprehensive. One (1) claim was towing. Two (2) claims were rental reimbursement.

Six (6) errors were found.

The errors are broken down as follows:

1. Six (6) errors were due to use of unlicensed/unappointed adjusters. This constitutes a violation Section 626.112, Florida Statutes, and is considered a business practice of the Company. The Company has been requested to cease using unlicensed and unappointed adjusters. Exhibit V. See Pending Issues Section.

### **DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS**

The examination included the review of claims made under private passenger automobile insurance policies to determine if independent medical examinations were properly handled.

#### **Examination Findings**

Twenty-four (24) personal injury protection claims were examined.

No errors were found.

## **AGENTS/MGA REVIEW/ADVERTISING/MARKETING**

### **DESCRIPTION OF MGA ARRANGEMENTS**

The Company does not have or utilize an MGA.

Based on the sample reviewed, the Company uses licensed and appointed independent agents to produce business in the State of Florida.

### **Examination Findings**

Ten (10) applications/policies written during the scope of examination were examined.

Twenty (20) agencies with a direct written premium in excess of \$25,000.00 per year during the scope of the examination were examined.

Three (3) errors were found.

Three (3) errors resulted in unpaid license fees totaling \$360.00.

The errors are broken down as follows:

1. Three (3) errors were due to failure to appoint general lines agents. This constitutes a violation of Section 626.733, Florida Statutes. These errors were due to failure of the Company to appoint all general lines agents within an agency when the agency has produced premiums in excess of \$25,000.00 during the calendar year. The Company owes the Department \$120.00 in prior appointment fees for each of these individuals for a total of \$360.00. See Pending Issues Section.

## **PENDING ISSUES**

The following issues were pending at the conclusion of the examination field work:

### **MONETARY ISSUES**

1. Agents – The Company failed to appoint all general lines agents within an agency in addition to the originally appointed Primary Agent when the agency produced premiums in excess of \$25,000.00 during the calendar year. The Company has been requested to always appoint all general lines agents employed within an agency that produces premiums in excess of \$25,000.00 per year. The Company owes an estimated \$360.00 to the Department of Insurance for past agent appointment fees. The Company has a procedure to comply with this request.

### **CORRECTIVE ACTIONS**

1. Claims - The Company used adjusters prior to proper licensing or appointment. The Company has been requested to implement procedures to insure that all adjusters are properly licensed and appointed prior to the handling of claims and to advise the Department of Insurance of its corrective action within ninety (90) days after receipt of the examination report. Exhibit V.

**EXHIBITS**

**SUBJECT**

**EXHIBIT NUMBER**

REQUEST TO AIG NATIONAL INSURANCE COMPANY,  
INC. TO CEASE USING UNLICENSED AND UNAPPOINTED  
ADJUSTERS

I