

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

AMERICAN INTERNATIONAL INSURANCE COMPANY
(AMERICAN INTERNATIONAL GROUP, INC.)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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I. INTRODUCTION

American International Insurance Company (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 1998 through December 2000. The exam began May 15, 2001 and ended June 30, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded September 11, 1999.

The prior examination report included the review of private passenger automobile, homeowners and other liability. Violations cited included failure to offer/obtain/maintain signed UM acceptance/rejection forms, use of unfiled forms, use of unlicensed/unappointed public adjusters or company employee adjusters, use of unappointed adjusters, failure to comply with PIP benefit requirements and failure to comply with provisions of Chapters 175 and 185 (Municipal Coding).

The purpose of this target examination was to ensure compliance with Florida Statutes and Administrative Code.

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1998 through December 2000, as reflected in the report.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, \$59.00 was returned to Florida consumers due to overcharges of premium, underpayments of claims and/or inappropriately charged fees.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

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

2. Exam Findings

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

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

American International Insurance Company is a member company of American International Group, Inc. (AIG).

In January 1986, AIG purchased Belgian General Insurance Company which had been established as a New York corporation on October 1, 1985. AIG changed the name to American International Insurance Company, and obtained a Certificate of Authority for the Company to do business in Florida as of October 6, 1986.

American International Insurance Company is a direct writer of personal lines insurance in the State of Florida and writes preferred and standard personal automobile insurance.

Claim functions of the Company are handled by AIG Claim Services, Inc., a member company of American International Group, Inc., in the claims office located in Longwood, Florida. Company adjusters are used for the adjustment of claims.

The home office of the Company is in New York, New York. All new business policies, renewals and policy changes are processed in the administrative offices in Wilmington, Delaware.

B. MANAGEMENT

The Company's computer system is driven by an application created by Decision Research Corporation (DRC). It consists of a policy writing system, a billing and

receivables system, a quotation system and runs on a Hewlett Packard Platform.

The Company has established the Special Investigative Unit to investigate insurance claims and has created an Anti-Fraud Plan to comply with Section 626.9891, Florida Statutes. This plan has been filed with the Department of Insurance.

The Company has established a Disaster Recovery Plan and has contracted with SunGard Recovery Services, Inc., Philadelphia, Pennsylvania, for the temporary operations site for claims, service and sales functional work processing in the event that a disaster strikes the Company's offices.

The functional areas of the Company perform internal audits. The Operations Department performs quality control audits on each customer service representative. Underwriting and administrative audits are performed randomly and on an as needed basis. The Claims Department performs annual audits to make sure the Company's procedures are being followed. The Management Department performs representative level audits annually.

C. OPERATIONS

Marketing is all on a direct-response or internet marketing basis and is accomplished through AIG Marketing, Inc., a wholly-owned subsidiary of American International Group, Inc., and one independent agency in Florida. One of four call centers, located in Vestal, New York; Philadelphia, Pennsylvania; Chadds Ford, Pennsylvania and Lake Mary, Florida, responds to requests for quotations, policy issuance, and endorsements.

Business for the Company is produced through "sponsored" automobile programs with employer groups, major corporations and associations. The business is

solicited using membership/customer/employee lists and other advertising media such as mailing kits, inserts and space ads with the goal of producing individually underwritten personal lines policies. Insurance is written in all areas of the State of Florida.

The Company utilizes a tier plan to determine the premium level of each insured. There are six (6) rate levels ranging from Level 0 with a factor of .85 to Level V with a factor of 2.10. The level is determined by combining an underwriting score with a financial score. Further explanation of this process is provided in Exhibit I.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

American International Insurance Company is a subscriber of Insurance Services Office (ISO). However, rules/rates are independently filed in accordance with Section 627.0651, Florida Statutes.

b. Form Filings

American International Insurance Company is a subscriber of ISO and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

ISO acts as the Company's official statistical agent.

2. 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>
1998	\$16,515,698	10,036
1999	\$22,728,139	19,586
2000	\$36,720,644	24,117

The Company has been in a growth mode and writings have increased through aggressive marketing of private passenger automobile insurance programs.

3. Exam Findings

One hundred (100) policy files were examined.

Fifty-Eight (58) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$59.00 and eighteen (18) undercharges totaling \$397.00.

The errors are broken down as follows:

1. Seventeen (17) errors were due to failure to comply with Personal Injury Protection (PIP) benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes. These policies included the Expanded Arbitration Provision, but the file did not contain a signed PIP form electing this provision. When this provision is selected by an insured, disputes regarding this

coverage between an “insured” and the Company will be resolved by arbitration, and legal rights to settle such disputes by means of the court system are waived. Six (6) of these errors resulted in undercharges totaling \$36.00. The difference in premium was calculated only on those policies that contained a form where the insured had specified the type of coverage desired. Exhibit I.

2. Three (3) errors were due to failure to comply with PIP coverage requirements for Extended PIP and Additional PIP. This constitutes a violation of Section 627.739, Florida Statutes. One (1) error resulted in an overcharge of \$28.00, but it was not refunded due to another error on the same policy resulting in a \$29.00 undercharge (Item 4). One (1) error resulted in an undercharge of \$8.00. The premium was not calculated on the remaining error because there was no PIP form in the file that specified the coverage desired.
3. Three (3) errors were due to failure to comply with PIP coverage requirements for deductibles. This constitutes a violation of Section 627.739, Florida Statutes. One (1) error resulted in an overcharge of \$52.00, which has been refunded by the Company. One (1) error resulted in an undercharge of \$4.00. The premium was not calculated on the remaining error because the file did not contain a signed form that specified the coverage desired.
4. Seventeen (17) errors were due to failure to offer/obtain/maintain a signed uninsured motorists (UM) acceptance/rejection form when the UM limits were lower than the bodily injury limits or the policy was written with nonstacked UM coverage. This constitutes a violation of Section 627.727, Florida Statutes. Ten (10) of these errors resulted in undercharges totaling \$235.00. One (1) undercharge of \$29.00 was applied to an overcharge on the same policy (Item 2 above). The premium was calculated only on those policies that contained a form specifying the insured’s choice of

coverage. This error occurred in the 1997 Examination, Page 4. Exhibit II.

5. Three (3) errors were due to failure to obtain a signed UM form specifying the limits desired. This constitutes a violation of Section 627.727, Florida Statutes. The insured signed the form indicating the desired UM limits to be lower than bodily injury, but failed to indicate what limits were desired.
6. Nine (9) errors were due to failure to maintain applications in the files. This constitutes a violation of Section 627.318, Florida Statutes.
7. Four (4) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. Incorrect symbols were used to calculate the premiums. One (1) of these errors resulted in an overcharge of \$7.00, which has been refunded by the Company. Three (3) errors resulted in undercharges totaling \$27.00.
8. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. These premiums were calculated giving credit for driver training, but the file did not contain evidence of completion of the driver training course. These errors resulted in undercharges totaling \$87.00.

V. AGENTS/MGA REVIEW

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

Six (6) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Six (6) errors were due to use of unlicensed/unappointed nonresident agents. This constitutes a violation of Section 626.741, Florida Statutes. The individuals who quoted and/or accepted the order for the policies were not licensed nor appointed by the Company.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Twenty-five (25) cancelled/nonrenewed policies were examined.

Two (2) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Two (2) errors were due to failure to comply with the cancellation requirement for policies in effect less than sixty (60) days. This constitutes a violation of Section 627.7295, Florida Statutes. These policies were cancelled for nonpayment of premium, but the insured's check for the down payment had not been dishonored.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Four (4) errors were found.

None of the errors affected payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit III.

The errors are broken down as follows:

1. Four (4) errors were due to use of unlicensed/unappointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes. This error occurred in the 1997 Examination, Page 11. Exhibit IV.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last 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. Complaint handling procedures are described in Exhibits V and VI.

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

A. COMPANY RECEIVED COMPLAINTS

Ten (10) complaints were reviewed.

No errors were found.

IX. PENDING ISSUES

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

1. Due to the high number of errors associated with failure to obtain or maintain signed personal injury protection option forms and uninsured motorist acceptance/rejection forms, the Company was directed to obtain these forms to complete the underwriting files. Exhibit VII. Documentation of the plan to obtain these forms and the results of the plan is to be provided to the Department of Insurance within ninety (90) days of the receipt of this examination report.

EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
FLORIDA PERSONAL INJURY PROTECTION EXPANDED ARBITRATION PROVISION	I
1997 EXAMINATION, PAGE 4	II
MASS MARKETING DIVISION CLAIM HANDLING WORKFLOW	III
1997 EXAMINATION, PAGE 11	IV
INSURANCE DEPARTMENT COMPLAINT HANDLING PROCEDURE	V
SPECIAL SERVICES – COMPLAINT HANDLING PROCEDURE	VI
MEMORANDUM – PIP FORMS, UM FORMS	VII