

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

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

BY

THE FLORIDA DEPARTMENT OF INSURANCE

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INTRODUCTION

Illinois National 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 1999 through August 2001. The examination began September 30, 2001 and ended November 10, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded December 23, 1993.

The prior examination report included the review of private passenger automobile policies. Violations cited included improper applications, failure to obtain uninsured motorists rejections, failure to affix "physical damage only" stamps, failure to affix fraud statements, use of unlicensed adjusters, failure to submit titles to Florida Department of Highway Safety and Motor Vehicles, failure to pay sales tax, inadequate documentation and lack of documentation for detailing fees.

The purpose of the current examination was to verify compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included nonstandard private passenger automobile policies, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints 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 requested 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, \$606.59 was returned to Florida consumers due to overcharges of premium and underpayments of claims.

CERTIFICATE OF AUTHORITY – AUTHORIZED LINES

GENERAL COMMENTS

The Certificate of Authority/Renewal Invoices was 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

Illinois National Insurance Company was incorporated in the State of Illinois in 1933. In late 1960, financial control passed to New Hampshire Insurance Company through an exchange of stock arrangement. The Company is wholly-owned by American International Group, Inc. (AIG), and AIG has held control of both New Hampshire Insurance Company and Illinois National Insurance Company since May 1969.

The officers of the Company are shown in Exhibit I.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company uses a mainframe based underwriting system that is provided by a third party vendor, Computer Science Corporation. Claims are administered by Company adjusters using a claims handling system provided by the same vendor.

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 to investigate possible fraudulent claims.

Disaster Recovery Plan

The Company has developed a Disaster Recovery Plan for use with Florida business.

Internal Audit Procedures

The Company has not developed Internal Audit Procedures for use in reviewing Florida business. The Company has been requested to develop a written plan and provide it to the Department within ninety (90) days of receipt of this examination report.

The Company advised that on a regular basis, monthly whenever possible, a sample of business is reviewed for proper compliance with underwriting guidelines. Feedback regarding errors or areas of improvement are given to employees for correction.

Privacy Plan

The Company has developed a Plan to meet the requirements of Emergency Rule 4ER-01.

Statistical Affiliations

The Company is a subscriber of Insurance Services Office (ISO), and as such ISO is authorized to file loss costs and forms on behalf of the Company.

ISO acts as the official statistical agent of the Company.

Credit Reports

The Company does not use credit reports as an underwriting tool.

OPERATIONS/MARKETING

Marketing

Illinois National Insurance Company's business is directed toward the preferred end of the nonstandard private passenger automobile market throughout the State of Florida. AIG Specialty Auto, a division of American International Group, Inc., handles the underwriting, policy issuance and customer service.

Agents/Agencies

Business is distributed primarily through the independent agency system. Agents quote premiums through a variety of methods, including use of comparative rating vendors or Company rating disks. New business applications are either mailed to the Company for underwriting review and pricing compliance, or are uploaded electronically from company software to the home office location at 4501 North Point Parkway, Alpharetta, Georgia.

MGA/Exchange of Business/Direct Response/Internet Marketing

The Company does not utilize managing general agents and there is no exchange of business, direct response or internet marketing. Website address is www.specialtyconnections.com.

Adjusters and Claims Handling

Claims are handled in the home office of the Company in Alpharetta, Georgia, by company adjusters.

The Company accepts notifications of loss from any interested party via telephone, mail or facsimile. Details of losses are entered into the claims handling system provided by a third-party vendor, Computer Science Corporation. Coverage is verified and the loss is assigned to an adjuster, who will reconfirm coverage and commence the liability and damage investigation. Based upon accident information, appropriate initial reserves are established and may be adjusted once investigation of the loss is completed.

Lines of Business

In addition to private passenger automobile, the Company wrote commercial multi-peril, workers' compensation, other liability and commercial automobile during the scope of the examination.

REVIEW OF POLICIES

PRIVATE PASSENGER AUTOMOBILE

Description of Product/Lines of Business

Illinois National Insurance Company writes one-tier nonstandard private passenger automobile insurance. Insurance Services Office (ISO) rules and forms together with independently filed rules, forms and rates are used in writing this line of coverage in Florida.

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>
1999	\$33,072,141	28,805
2000	\$39,976,667	33,877
2001	\$37,786,635	39,620

The premiums and policy count for the year 2001 are as of August 1, 2001. Prior to 2001, the Company wrote primarily annual policies, but changed to six-month policies during this year. Writings have increased with this change.

Examination Findings

One hundred (100) policy files were examined.

Twenty-three (23) errors were found.

Errors affecting premium resulted in eight (8) overcharges totaling \$259.00 and thirteen (13) undercharges totaling \$888.00.

The errors are broken down as follows:

1. Eight (8) errors were due to failure to provide safety device discounts. This constitutes a violation of Section 627.0653, Florida Statutes. These errors were due to failure to allow credit for anti-lock brakes, passive restraints or anti-theft devices. These errors resulted in seven (7) overcharges totaling \$232.00, which have been refunded by the Company. One (1) error did not affect the premium.
2. Seven (7) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to application of the homeowner discount without obtaining the proof of home ownership as outlined in the filed rules. These errors resulted in seven (7) undercharges totaling \$492.00.
3. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to use of

incorrect symbols to calculate the premium. These errors resulted in two (2) undercharges totaling \$58.00.

4. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. These errors were due to incorrect sub-classes. The Company failed to charge points for a “driving while intoxicated” violation (sub-class 3) and an “inexperienced operator” (sub-class 2). These errors resulted in two (2) undercharges totaling \$248.00.
5. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.0651, Florida Statutes. This error was due to incorrect calculation of the PIP premium. This error resulted in one (1) overcharge of \$11.00, which has been refunded by the Company.
6. Two (2) errors were due to failure to comply with Personal Injury Protection (PIP) coverage requirements. This constitutes a violation of Section 627.739, Florida Statutes. These errors were due to failure to issue PIP coverage as requested on the options form signed by the insured. On one (1) policy, the insured elected the Work Loss Exclusion, but no credit was given. One (1) error was due to inclusion of the Work Loss Exclusion, but the insured had not elected this option. These errors resulted in one (1) overcharge of \$16.00, which has been refunded by the Company and one (1) undercharge of \$30.00.
7. One (1) error was due to failure to comply with Uninsured Motorists (UM) coverage requirements. This constitutes a violation of Section 627.727, Florida Statutes. This error was due to failure to issue the policy with UM coverage as requested on the signed election of UM coverage form. This error resulted in one (1) undercharge of \$60.00. This error occurred in the 1993 Examination, Page 4, Item 2, Exhibit II.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

Notices of cancellation are mailed to the insured with ten (10) days notice for nonpayment of premium and forty-five (45) days notice for reasons other than nonpayment. Renewal notices are mailed sixty (60) days prior to expiration of the policy. If the renewal premium is not received by the expiration date, the renewal policy does not go into effect (without any further notice to the insured). Policies are nonrenewed by giving an insured forty-five (45) days advance written notice prior to expiration.

CANCELLATION REVIEW

Thirty (30) cancelled policies were examined.

No errors were found.

NONRENEWAL REVIEW

Twenty (20) nonrenewed policies were examined.

No errors were found.

COMPLAINTS/INVESTIGATION REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has not 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 examination were reviewed and findings are as follows:

DOI RECEIVED COMPLAINTS

Fifty (50) complaint files were reviewed.

One (1) error was found.

The error is described as follows:

One (1) error was due to failure to respond to Department inquiries. This constitutes a violation of Rule 4-166.025, Florida Administrative Code. The Department sent requests to the Company for a response August 25, 1999, September 16, 1999 and October 1, 1999. The Company responded to this complaint on October 15, 1999.

COMPANY RECEIVED COMPLAINTS

The Company has not maintained a log of company-received complaints. Therefore, no Company received complaints were reviewed.

One (1) error was due to failure to maintain log correctly. This constitutes a violation of Section 626.9541(1)(j). This error was due to the failure of the Company to maintain a record of company received complaints.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

This claim review included private passenger automobile bodily injury, property damage, personal injury protection, comprehensive and collision claims.

Examination Findings

Fifty (50) claims were examined. Six (6) claims were bodily injury, ten (10) claims were property damage, twelve (12) claims were PIP, seven (7) claims were comprehensive, twelve (12) claims were collision, one (1) claim was uninsured motorists, one (1) claim was rental reimbursement and one (1) claim was towing.

Six (6) errors were found.

Five (5) errors resulted in underpayments totaling \$347.59.

The errors are broken down as follows:

1. Five (5) errors were due to failure to comply with PIP benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes. This error was due to failure to pay claims within the required thirty (30) days and failure to pay interest due. These errors resulted in underpayments totaling \$347.59, which have been paid by the Company.
2. One (1) error was due to failure to disclose information. This constitutes a violation of Section 627.4137, Florida Statutes. This error was due to failure to respond timely to a request for policy information from the insured's attorney. Requests were made on July 9, 1998 and October 22, 1998 and the Company responded on February 2, 1999.

DESCRIPTION OF CLAIMS REVIEWED – PPA/MEDICAL REVIEWS

Claims reviewed were private passenger automobile PIP claims.

Examination Findings

Fifty (50) claims were examined.

No errors were found.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

Illinois National Insurance Company writes private passenger automobile business through independent agents. AIG Specialty Auto, a wholly-owned subsidiary of American International Group, Inc., handles policy issuance and servicing of these policies. The Company does not utilize managing general agents.

The Company does not use advertising materials.

Examination Findings

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

Three (3) errors were found.

None of the errors affected policy fees. An additional \$120.00 was paid to the Florida Department of Insurance for appointment fees owed due to unappointed agents used by the Company.

The errors are broken down as follows:

1. Three (3) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes. These errors were due to failure to appoint agents in Illinois National Insurance Company. Applications have been sent to DOI Licensing on two of the individuals. A check for \$120.00 accompanied the applications. The third individual is no longer employed.

PENDING ISSUES

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

CORRECTIVE ACTIONS

1. Company Operations/Management – The Company should develop a written internal audit plan and file with the Department within ninety (90) days of receipt of this examination report.

EXHIBITS

SUBJECT

EXHIBIT NUMBER

OFFICERS OF THE COMPANY

I

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II