

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.
(AMERICAN INTERNATIONAL GROUP, INC.)**

BY

THE FLORIDA DEPARTMENT OF INSURANCE



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INTRODUCTION

National Union Fire Insurance Company of Pittsburgh, PA (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 March 2001. The examination began July 1, 2001 and ended December 15, 2001. The last property and casualty market conduct examination of this insurer, by the Florida Department of Insurance, was concluded June 12, 1999.

The prior examination report included the review of commercial automobile, commercial liability, commercial multi-peril, medical malpractice, fidelity, surety and workers' compensation policies. Violations cited included failure to provide documentation, failure to maintain records, use of unfiled forms/endorsements, failure to attach mandatory form/endorsements, failure to correctly specify contents of policy, failure to display telephone numbers and purpose on policies/certificates, failure to provide timely notices of renewal, failure to correct violations in prior exam report, failure to deliver policies timely, failure to offer/obtain/maintain signed UM acceptance/rejection forms, failure to document/substantiate debits/credits, failure to follow filed rates, rating schedules or rating rules, use of unfiled rates, failure to apply credits/debits within approved range, failure to audit policies and return premiums timely, failure to properly countersign/obtain power of attorney, use of unappointed agents, failure to comply with Exchange of Business requirements, failure to display agent's name/license ID number or insurer on applications, failure to provide specific reason for denials, cancellations or nonrenewals, failure to provide timely notices of nonrenewal or cancellation, failure to comply with PIP/DHSMV notice requirements, failure to return premiums timely, use of unlicensed and unappointed adjusters, and failure to affix the fraud statement to claim forms.

The purpose of the current examination was a follow-up to the 1999 examination to verify compliance with Florida Statutes and Administrative Rules.

During this examination, records reviewed included commercial automobile, other liability and workers' compensation 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, \$6,653.75 was returned to Florida consumers. In addition, \$397.00 will be refunded, 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

National Union Fire Insurance Company of Pittsburgh, PA was incorporated in Pennsylvania on February 14, 1901 and began writing business on March 1, 1901. The American International Group, Inc. (AIG), acquired financial control of the Company in early 1968. The home office of the Company is located in New York, New York, and the Company operates through various regional offices located in Atlanta, Dallas, Chicago, Los Angeles and San Francisco.

The corporate officers of the Company are shown in Exhibit I. There have been no substantive changes to this list of officers since the last examination.

COMPANY PROCESSES/STATISTICAL AFFILIATIONS

Computer System

The Company utilizes various policy issuing systems for processing business, depending on the line of business being written. Not all issuing systems interface with one another.

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 that is responsible for claims investigations. AIG's Internal Audit Division is responsible for investigations involving the conduct of AIG employees or AIG's business partners in any claim or underwriting related matter dealing with current, former or prospective insureds, claimants, producers, third party administrators and others, when such conduct is suspected to be illegal, inappropriate or not in the best interest of AIG.

Disaster Recovery Plan

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

Internal Audit Procedures

The Company has developed Internal Audit Procedures for use in reviewing Florida business.

The Internal Audit Division (IAD) is a key component of AIG's internal control environment and reports directly to AIG's Chairman and CEO and the Audit committee. Internal auditors are hired as employees of the AIG parent company with no ties to any of

the operating companies and departments. There are fifty-two professional staff involved in the audit process. Any business activity of AIG, its subsidiaries and affiliates is subject to audit review. The IAD conducts an annual risk assessment of all AIG entities from which the annual audit plans are prepared.

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 ISO acts as the statistical agent for commercial automobile and other liability.

The Company has entered into an Affiliation Agreement with National Council on Compensation Insurance (NCCI) and NCCI acts as the statistical agent for workers' compensation.

Credit Reports

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

OPERATIONS/MARKETING

There has been no change in business operations since the last examination.

Marketing

The Company is licensed to write a broad array of property and casualty products, such as commercial auto, property, fidelity, workers' compensation, and professional liability insurance in the United States. The Company transacts business throughout the entire State of Florida.

Agents/Agencies/MGA/Exchange of Business

Marketing of the product lines written by the Company is through the independent agency system. Some of the other liability programs are marketed through program administrators who are independent agents. Marketing packets are mailed to brokers that describe individual products and programs. They are provided in folders that summarize policy highlights, limits available, etc., and contain a sample copy of the policy and an application. To a lesser extent, some products are marketed through magazines and other publications, such as trade journals.

There is no utilization of an MGA.

Direct Response/Internet Marketing

There is no direct response or internet marketing of products. The Company does have a website which brokers can access to read up on new products. Website address www.accessaig.com

Adjusters/Claims Handling

Claims are handled through AIG Claims Services, a subsidiary of American International Group, Inc., through its offices in Tampa, Florida and Alpharetta, Georgia. Company adjusters are utilized.

Lines of Business

During the scope of the examination, the Company wrote fire and allied lines, inland marine, medical malpractice, group accident and health, workers' compensation, other liability, products liability, commercial automobile liability and physical damage, aircraft, fidelity, surety, burglary and theft, and boiler and machinery coverage.

REVIEW OF POLICIES

COMMERCIAL AUTOMOBILE

Description of Product/Lines of Business

Commercial Automobile is a monoline policy that provides liability and physical damage coverage for vehicles written by the Company for a number of special programs, including health care services and transportation risks. The primary focus appears to be very large national accounts with exposures in a number of states. Many of the policies are composite-rated in conjunction with commercial general liability and/or workers' compensation. The Company often applies individual risk rating techniques to determine the premiums.

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	\$30,858,916	421
2000	\$26,605,308	334
2001	\$12,132,639	97

Statistics reflected for the year 2001 include only the first quarter premiums and policy counts.

Examination Findings

One hundred (100) policy files were examined.

One hundred fifty-five (155) errors were found.

Errors affecting premium resulted in six (6) overcharges totaling \$4,316.00 and nine (8) undercharges totaling \$3,391.00.

The errors are broken down as follows:

1. Forty-seven (47) errors were due to failure to provide notice of renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes. These errors were due to the Company's failure to provide written notice of the renewal premium to the insured forty-five (45) days prior to expiration of the policy. Renewal quotes were mailed only to the producing agent. This error occurred in the 1999 Examination, Page 8, Item 32, Exhibit II and also in the 1993 Examination, Page 10, Item 6.

2. Forty-two (42) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to failure to maintain the applications and premium worksheets in the file. Premiums could not be verified due to this omission.
3. Seventeen (17) errors were due to failure to report individual rated risk statistics. This constitutes a violation of Rule 4-137.008, Florida Administrative Code. These errors were due to premiums that were individual risk rated, but the Company failed to include on the quarterly reports to the Florida Department of Insurance. Due to the number of errors, the Company has been requested to revise all reports made during the scope of this examination and forward to the Department. Exhibit III.
4. Fifteen (15) errors were due to failure to offer/obtain/maintain signed UM Acceptance/Rejection Form. This constitutes a violation of Section 627.727, Florida Statutes. These errors were due to failure to obtain the insured's signature on the form when UM coverage was either rejected or the limits were lower than the liability limits. This error occurred in the 1999 Examination, Page 8, Item 34, Exhibit II, and also in the 1993 Examination, Pages 9 and 10, Items 3 and 4.
5. Six (6) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to the use of incorrect rates to calculate the premiums. These errors resulted in one (2) overcharges totaling \$2,244.00, which has been refunded by the Company, and four (4) undercharges totaling \$115.00.
6. Five (5) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to use of countrywide rating factors instead of the Florida rating factors. These errors resulted in three (3) overcharges totaling \$1,539.00, which have been refunded by the Company.
7. Three (3) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to the Company using incorrect territories to calculate the premium. These errors resulted in one (1) overcharge totaling \$533.00, which has been refunded by the Company, one (1) undercharge totaling \$958.00, and one policy did not contain sufficient information to re-calculate the premium.
8. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. This error was due to omission of a premium charge for medical payments coverage. This error resulted in one (1) undercharge of \$17.00.
9. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. This error is due to the Company incorrectly using the UM rate for vehicles not subject to No-Fault. All vehicles in Florida are subject to No-Fault. This error resulted in an overcharge that was included in a net undercharge on the same policy.
10. Four (4) errors were due to failure to attach mandatory forms. This constitutes a violation of Section 627.412, Florida Statutes. These errors were due to the omission of Florida Cancellation/Nonrenewal forms, CA0267 and CA0128. Both forms were missing on two policies. This error occurred in the 1999 Examination, Page 7, Item 27, Exhibit IV.

11. Four (4) errors were due to failure to attach correct forms. This constitutes a violation of Section 627.412, Florida Statutes. These errors were due to the attachment of the Stacked UM Form CA2147 instead of the correct nonstacked UM form CA2172. These errors did not affect premium.
12. Three (3) errors were due to failure to attach mandatory forms. This constitutes a violation of Section 627.412, Florida Statutes. These errors were due to omission of the Florida PIP Form CA2210. PIP coverage was on the policy, but the form was missing.
13. Two (2) errors were due to use of unfiled UM Acceptance/Rejection Form 62574 (8/98). This constitutes a violation of Section 627.727, Florida Statutes.
14. One (1) error was due to use of unfiled UM Acceptance/Rejection Form 2298 (12-87). This constitutes a violation of Section 627.727, Florida Statutes.
15. One (1) error was due to failure to comply with the PIP benefit requirement. This constitutes a violation of Section 627.736, Florida Statutes. This error was due to the omission of PIP coverage on Florida vehicles. This error resulted in one (1) undercharge of \$205.00.
16. One (1) error was due to failure to comply with Unfair Trade Practice requirements. This constitutes a violation of Section 626.9541(0), Florida Statutes. This error was due to the use of an incorrect classification to lower premiums. Information in the file indicated the vehicle was used to transport patients to hospitals, which would make the correct classification a Social Services Bus, Code 6409. The classification used on the policy was for a light service truck and a note in the file showed the Company had used that classification “to bring the premium down”. This error resulted in one (1) undercharge totaling \$2,096.00.
17. One (1) error was due to failure to comply with Uninsured Motorists coverage requirements. This constitutes a violation of Section 627.727, Florida Statutes. This error was due to issuance of stacked UM coverage for a corporation. Corporations are not eligible for stacked UM limits in Florida. The difference in premium could not be calculated on a composite-rated risk.
18. One (1) error was due to use of unfiled rate. This constitutes a violation of Section 627.062, Florida Statutes. This error was due to a policy issued with \$500,000 deductible, but the Company had not filed a rate for this deductible. There was no indication in the file that it was individually risk rated and the premium was not included in the quarterly reports to the Department.

OTHER LIABILITY

Description of Product/Lines of Business

Other Liability is a monoline policy that provides primarily professional liability coverage for special programs written by the Company. These programs have been filed with the Department and the filings indicate the rating will be on an (a) rate basis in many cases. Other policies were rated using Insurance Services Office (ISO) rates, which were filed on behalf of the Company. Included in this review were Insurance Agents' and Brokers' Professional Liability, Alternate Staffing General Liability, Employment Practices Liability, Real Estate Agents' Errors and Omissions, Health Care Agency Professional Liability, Mortgage Bankers/Mortgage Brokers Errors and Omissions, Chiropractors Professional Liability, Executive and Organizational Liability Insurance Program, Beauticians and Barbers Professional Liability, Indoor Tanning Salons Professional Liability, School Leaders Errors and Omissions, Pension Trust Liability, Employee Benefit Plan Fiduciary Liability, Directors and Officers Liability, and a Miscellaneous Professional Liability Program.

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	\$106,755,751	1,627
2000	\$ 89,303,355	2,194
2001	\$ 18,673,626	572

Statistics for the year 2001 reflect only the first quarter premiums and policy counts.

Examination Findings

One hundred (100) policy files were examined.

Sixty (60) errors were found.

Errors affecting premium resulted in three (3) overcharges totaling \$250.00 and nine (9) undercharges totaling \$13,441.00.

The errors are broken down as follows:

1. Nineteen (19) errors were due to failure to report individually rated risks. This constitutes a violation of Rule 4-137.008, Florida Administrative Code. These errors were due to a number of programs filed by the Company indicated the risks were to be (a) rated, but the premiums were not reported to the Department on the quarterly reports. Due to the high number of errors, the Company has been

- requested to revise all reports made during the scope of this examination and to forward copies of the revised reports to the Department. Exhibit III.
2. Seventeen (17) errors were due to failure to provide timely notice of renewal premiums. This constitutes a violation of Section 627.4133, Florida Statutes. These errors were due to failure to provide forty-five (45) days advance written notice of the renewal premium to the insured. When a notice was provided it was sent only to the producing agent and not to the insured. This error occurred in the 1999 Examination, Pages 14 and 15, Item 18, Exhibit V and in the 1993 Examination, Page 25, Item 5.
 3. Eight (8) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to use of incorrect rates. These errors resulted in eight (8) undercharges totaling \$12,786.00.
 4. Seven (7) errors were due to use of unfiled rates. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to rates not filed for the Staffing Services Program, Association Professional Liability, Computer Re-Sellers, and Crimeguard.
 5. Three (3) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to failures to apply credit for risk management seminars. These errors resulted in three (3) overcharges totaling \$250.00, which have been refunded by the Company.
 6. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.062, Florida Statutes. This error was due to an error in premium calculation. This error resulted in one (1) undercharge of \$655.00.
 7. Two (2) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to one (1) file that did not contain an application and one (1) file that did not contain the policy.
 8. One (1) error was due to failure to document or substantiate credit. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. This error was due to a credit applied to the premium, but the file did not contain supporting documentation such as an inspection report, loss control report, financial analysis or photographs. This error occurred in the 1999 Examination, Page 15, Item 21, Exhibit VI, and in the 1993 Examination, Page 25, Item 7.
 9. One (1) error was due to failure to attach mandatory cancellation/nonrenewal endorsement. This constitutes a violation of Section 627.412, Florida Statutes.
 10. One (1) error was due to use of unfiled Form 73262(6/99), Not-for-Profit Protector Renewal Certificate. This constitutes a violation of Section 627.410, Florida Statutes.

WORKERS' COMPENSATION

Description of Types of Risks

Workers' Compensation is a monoline policy. The Company writes standard workers' compensation coverage for many types of businesses, including the aviation industry, health services, transportation and contractors. A large amount of this business has been written on large wrap-up construction projects.

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	\$ 7,482,695	194
2000	\$24,408,785	293
2001	\$ 2,473,482	109

Premium for excess workers' compensation is included in premiums written. In year 2000, there was an increase in writings of excess workers' compensation, major accounts and national accounts. The premium and policy counts for the year 2001 are for the first quarter only. The premiums for 2001 appear to be somewhat lower than for the prior year. The Company advised that it is because there are a substantial number of risks that renew on or about July 1 and those premiums would not be reflected in the first quarter statistics.

Examination Findings

One hundred (100) policies and audits were examined.

Sixty-eight (68) errors were found.

Errors affecting premium resulted in (1) overcharge totaling \$397.00 and nine (9) undercharges totaling \$87,492.00.

The errors are broken down as follows:

1. Twelve (12) errors were due to use of unfiled rates. This constitutes a violation of Section 627.091, Florida Statutes. These errors were due to unfiled charges being made for WC000313, Waiver of Our Right to Recover From Others Endorsement. Florida Exception, Rule IX.F of the basic manual states that a rate charged for this endorsement must be filed with the Florida Department of Insurance prior to application of the endorsement and any associated additional premiums. The rates were not filed.
2. Twelve (12) errors were due to failure to provide timely notice of renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes.

- These errors were due to failure to provide written notice of the renewal premium to the insured at forty-five (45) days prior to expiration of the policy. Notices were sent only to the producing agent with no copy sent to the insured. This error occurred in the 1999 Examination, Page 35, Item 14, Exhibit VII policies).
3. Eleven (11) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to use of incorrect experience modification factors. These errors resulted in one (1) overcharge of \$397.00, which is to be refunded. See Pending Issues. In addition, there were nine (9) undercharges totaling \$84,488.00. One of these policies had an error that resulted in an overcharge of \$17,208.00 (Item 10). The overcharge was deducted from the undercharge, leaving a net undercharge for these errors \$67,280.00. This error occurred in the 1999 Examination, Page 33, Item 3, Exhibit VIII.
 4. Seven (7) errors were due to failure to follow filed rating plan rules. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to the Company failing to send the Florida Contracting Classification Premium Adjustment Program letter to policyholders, which advises of a rate reduction for eligible insureds.
 5. Seven (7) errors were due to failure to follow filed rules. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to failure to display the Risk Identification number on policies. This error occurred in the 1999 Examination, Page 34, Item 8, Exhibit IX.
 6. Six (6) errors were due to failure to audit policies and return premium timely. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to failure to complete audits within ninety (90) days of expiration of the policy. This error occurred in the 1999 Examination, Page 33, Item 2, Exhibit VIII.
 7. Six (6) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. These errors were due to failure to maintain applications in the file.
 8. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to the application of 5% credit for a drug-free workplace, but the files did not contain a completed Form 09-1 certifying that the insured had established a drug-free workplace. These errors resulted in two (2) undercharges totaling \$14,339.00. This error occurred in the 1999 Examination, Page 34, Item 9, Exhibit IX.
 9. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to the application of 2% credit for a safety plan, but the files did not contain Form 09-1 certifying that the insured had established a safety program. These errors resulted in two (2) undercharges totaling \$5,853.00.
 10. Two (2) errors were due to failure to follow the filed rating plan. This constitutes a violation of Section 627.191, Florida Statutes. These errors were due to failure to allow the premium discount or incorrect application of the premium discount. These errors resulted in two (2) overcharges. One (1) overcharge of \$17,208.00, was not refunded due to an undercharge developed on the same policy. One (1) overcharge of \$3.00 was waived.

11. One (1) error was due to failure to follow the filed rating plan. This constitutes a violation of Section 627.191, Florida Statutes. This error was due to incorrect expense constant, \$180.00 in lieu of the Florida expense constant of \$200.00. This error resulted in one (1) undercharge of \$20.00. This error occurred in the 1999 Examination, Page 34, Item 6, Exhibit IX.

CANCELLATIONS/NONRENEWALS REVIEW

DESCRIPTION OF CANCELLATION/NONRENEWAL PROCEDURES

The Company's procedure is to provide at least forty-five (45) days notice to the insured when canceling a policy for reasons other than nonpayment of premium. If cancellation is effected due to the insured's failure to remit premium, the Company will provide ten (10) days notice to the insured. When a policy has not been in effect for ninety (90) days, the Company will provide the insured with twenty (20) days notice. In all situations, the notice is to specify the reason for cancellation and a copy is sent to the producing agent. Return premiums are calculated as of the effective date of cancellation.

The Company's procedure on nonrenewals is to provide forty-five (45) days written notice to the insured and specify the reason for the nonrenewal.

CANCELLATION REVIEW

Thirty-eight (38) cancelled policies were examined.

Eight (8) errors were found.

Four (4) errors resulted in underreturns totaling \$1,421.08. Three (3) errors resulted in overreturns totaling \$160.92.

The errors are broken down as follows

1. Three (3) errors were due to failure to calculate the return premium correctly. This constitutes a violation of Section 627.062, Florida Statutes. These errors were due to two (2) premium calculation errors and one (1) policy which was canceled short rate in order to rewrite in the same company. Cancellation should have been calculated pro rata when being rewritten in the same company. These errors resulted in two (2) underreturns totaling \$1,388.00, which have been paid by the Company, and one overreturn of \$125.00.
2. Three (3) errors were due to failure to cancel one day after premium finance date. This constitutes a violation of Rule 4-196.001, Florida Administrative Code. These errors were due to the Company canceling either on the date of the notice or a few days after. These errors resulted in one (1) underreturn of \$12.00, which has been paid by the Company, and two (2) overreturns totaling \$35.92.
3. One (1) error was due to failure to return the premium timely. This constitutes a violation of Rule 4-167.001, Florida Administrative Code. This error was due to the policy being canceled on February 10, 1999, but the return premium not being processed until November 23, 1999. This error resulted in interest due in amount of \$21.08, which has been paid by the Company.
4. One (1) error was due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. This error was due to failure to maintain evidence of cancellation in the file. The Company canceled with an endorsement, but the file did not contain a notice of cancellation by the Company, nor a request

from the insured. This error occurred in the 1999 Examination, Page 41, Item 3, Exhibit X (2 of 50 files reviewed).

NONRENEWAL REVIEW

Five (5) nonrenewed policies were examined.

Six (6) 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 provide a specific reason for nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. The Company failed to give a reason for nonrenewal on one policy and indicated “change in terms, rates and/or conditions” on another notice. The latter is not a specific reason for nonrenewal.
2. Two (2) errors were due to failure to provide proof of mailing. This constitutes a violation of Rule 4-167.010, Florida Administrative Code. The proof of mailing did not accompany the Company’s copies of the notice of nonrenewal.
3. One (1) error was due to failure to renew due to small premium volume. This constitutes a violation of Section 627.1615, Florida Statutes. This error was due to nonrenewal for the reason, “does not meet minimum premium threshold requirements”.
4. One (1) error was due to failure to provide timely notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes. This error was due to the Company giving forty-three (43) days notice instead of the required forty-five (45) days notice.

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

Forty-four (44) DOI received complaints were reviewed.

Four (4) errors were found.

The errors are as follows:

1. Four (4) errors were due to failure to respond timely to DOI request for assistance. This constitutes a violation of Rule 4-166.025, Florida Administrative Code. These errors were due to the Company not responding to DOI requests for assistance on complaints within twenty-one (21) days of receipt of communication.

COMPANY RECEIVED COMPLAINTS

The Company did not maintain a record of company received complaints during the scope of this examination. No complaints in this category were reviewed.

1. One (1) error was due to failure to maintain a complete record of all complaints. This constitutes a violation of Section 626.9541(1)(j), Florida Statutes. The Company did not maintain a record of company-received complaints. The Company responded that new tracking procedures were instituted in February 2001, in response to the findings in another AIG company market conduct examination, to track informal complaints.

CLAIMS REVIEW

DESCRIPTION OF CLAIMS REVIEWED – NON-PPA/MEDICAL REVIEWS

The type of claims reviewed were: commercial automobile bodily injury, property damage, comprehensive, collision and PIP; general liability bodily injury and property damage; employment practices liability; professional liability; directors and officers liability; and inland marine.

Examination Findings

Fifty (50) claims were examined. Three (3) claims were commercial automobile bodily injury, ten (10) claims were commercial automobile property damage, five (5) claims were commercial automobile other than collision, thirteen (13) claims were commercial auto collision, nine (9) claims were PIP, two (2) claims were general liability bodily injury, two (2) claims were general liability property damage, two (2) claims were employment practices liability, two (2) claims were professional liability, one (1) claim was directors and officers liability, and one (1) claim was inland marine.

Twenty-six (26) errors were found.

One (1) error resulted in underpayments totaling \$666.67

The errors are broken down as follows:

1. Thirteen (13) errors were due to use of unappointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes. These errors were due to licensed adjusters that were not appointed by the Company. This error occurred in the 1999 Examination, Page 43, Item 2, Exhibit XI.
2. Eleven (10) errors were due to use of unlicensed nonresident adjusters. This constitutes a violation of Section 626.873, Florida Statutes.
3. One (1) error was due to failure to provide a written explanation of claim denial. This constitutes a violation of Rule 4-166.026, Florida Administrative Code. This error was due to a claim denied by the Company, but the claimant was not give a written explanation.
4. One (1) error was due to failure to act promptly with respect to claims communication. This constitutes a violation of Rule 4-166.024, Florida Administrative Code. This error was due to a claim acknowledged on January 14, 1999 and a January 20, 1999 note indicated the amount that would be paid, but no payment was made until June 15, 1999.
5. One (1) error was due to failure to properly compute sales tax or advise insured of sales tax rights. This constitutes a violation of Rule 4-166.026, Florida Administrative Code. This error was due to failure to pay sales tax on a total theft loss and the Company failed to advise the insured that sales tax would be paid if the tax became an obligation of the insured upon replacement of the vehicle. This error resulted in an underpayment of \$666.67, which has been paid by the Company.

AGENTS/MGA REVIEW/ADVERTISING/MARKETING

DESCRIPTION OF MGA ARRANGEMENTS

The Company uses the independent agency system, and does not utilize an MGA for writing business in Florida. There are program administrators for various professional liability programs.

Examination Findings

Thirty (30) applications/policies written during the scope of examination were examined.

Nineteen (19) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Eight (8) errors were due to use of unlicensed nonresident agents. This constitutes a violation of Section 626.741, Florida Statutes. These errors were due to business produced by out-of-state agents who did not hold a Florida nonresident agent's licenses.
2. Six (6) errors were due to failure to display agent's name and license identification number on the application. This constitutes a violation of Section 627.4085, Florida Statutes. Due to the omission of the agent's name and license identification number, it could not be determined whether the agents were licensed and appointed by the Company. This error occurred in the 1999 Examination, Page 40, Item 12, Exhibit XII.
3. Five (5) errors were due to use of unlicensed/unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes. This error occurred in the 1999 Examination, Page 38, Item 3, Exhibit XIII.

PENDING ISSUES

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

MONETARY ISSUES

1. Commercial Automobile, Item 3:

Due to the high number of policies that were individually risk rated, but not reported on the quarterly reports to the Florida Department of Insurance, the Company has been requested to revise all reports made during the scope of this examination and forward same to the Department within ninety (90) days of receipt of this report. Exhibit III.

2. Other Liability, Item 1:

Due to the high number of policies that were individually risk rated, but not reported on the quarterly reports to the Florida Department of Insurance, the Company has been requested to revise all reports made during the scope of this examination and forward same to the Department within ninety (90) days of receipt of this report. Exhibit III.

3. Workers' Compensation, Item 3:

Overcharge of \$397.00 is to be refunded for Preliminary Advisory 42, BCL Construction, Policy Number 4530204.

CORRECTIVE ACTIONS

1. Other Liability – The Company was requested to display form numbers and edition dates of all endorsements on policies. The Company advised that this has been implemented.
2. Workers' Compensation – The Company was requested to file Cancellation and Nonrenewal Form, LWNFLCAN(1/91). Filing was completed on July 30, 2001.
3. Workers' Compensation – The Company was requested to comply with application requirements in Section 440.381, Florida Statutes. The Company advised that procedures were instituted in March 2001.
4. Workers' Compensation – The Company was requested to file all forms in use on Workers' Compensation policies that are not NCCI forms. The Company is using forms with the same numbers as NCCI forms, but they are not the copyrighted forms and should be filed.
5. Claims – The Company should place the Fraud Statement on all proofs of loss. The Company responded that the fraud statement is now being stamped on all proofs of loss.

EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
OFFICERS OF THE COMPANY	I
1999 EXAMINATION, PAGE 8	II
MEMO DATED SEPTEMBER 28, 2001 RE NUFIC (a) RATES	III
1999 EXAMINATION, PAGE 7	IV
1999 EXAMINATION, PAGE 14 AND PAGE 15	V
1999 EXAMINATION, PAGE 15	VI
1999 EXAMINATION, PAGE 35	VII
1999 EXAMINATION, PAGE 33	VIII
1999 EXAMINATION, PAGE 34	IX
1999 EXAMINATION, PAGE 41	X
1999 EXAMINATION, PAGE 43	XI
1999 EXAMINATION, PAGE 40	XII
1999 EXAMINATION, PAGE 38	XIII