

2001 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

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

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 6/7/02

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I. INTRODUCTION

New Hampshire Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this property and casualty market conduct examination, January 1997 through December 1999. The examination began December 31, 2000 and ended March 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 1993 examination report included the review of private passenger automobile, homeowners, commercial automobile, commercial fire, commercial inland marine, commercial umbrella, general liability, gun dealers, commercial multi-peril, businessowners, surety and workers' compensation. Violations cited included failure to countersign policies, failure to attach mandatory forms, use of improper form edition dates, failure to secure uninsured motorist selection form for lower limits than bodily injury, failure to provide a company telephone number, failure to provide subjective credit documentation, use of an excessive subjective credit, lack of rating documentation, failure to display form numbers and edition dates on policy declaration pages, failure to give 45 days advance written notice of renewal premium, failure to use filed "A" rates, use of incorrect increased limits factors for general liability, use of incorrect general liability base rates, failure to experience rate, use of unfiled company deviation, incorrect protection classes, failure to document specific rates on property section, use of unfiled flood rules and rates, failure to display agent information on the applications, use of unfiled general liability class codes, and failure to follow filed rates for the gun dealers program.

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

During this examination, records reviewed included policies, cancellations/nonrenewals, agent/MGA licenses, claims and consumer complaints for the period of January 1997 through December 1999, 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, \$10,033.48 was returned to Florida consumers due to overcharges of premium and underpayments of claims.

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

New Hampshire Insurance Company was incorporated in July 1869 and began writing business in April 1870, as New Hampshire Fire Insurance Company. Financial control of the Company was acquired on May 15, 1969, through a stock tender offer by American International Group, Inc. (AIG). At the 1971 year end, AIG owned or controlled all of the outstanding stock. Direct ownership has been held since 1986 by NHIG Holding Corporation, which is a wholly owned subsidiary of AIG.

The Company was restructured in 1992 to focus on the commercial middle market and markets its products through national and regional brokers along with four other AIG affiliates. Effective January 1, 1994, the Company entered into a reinsurance agreement with the American Home/National Union Intercompany Pool, led by National Union Fire Insurance of Pittsburgh, Pennsylvania.

The Company transacts its business initially through the use of independent agents throughout the State of Florida. Depending on the program type, commercial business is forwarded to agencies or “program administrators” for servicing and underwriting. Personal lines business is forwarded to their managing general agency, Apex Managers, Inc., for processing. Business is also underwritten and issued in the regional office located in Atlanta, Georgia.

All claims are handled through AIG Claims Services (AIGCS).

B. MANAGEMENT

The Company's Anti-Fraud Plan sets forth procedures to address insurance fraud, including internal fraud involving employees or company representatives, fraud resulting from misrepresentation on applications for insurance coverage and claims fraud. AIG Fraud Investigators, along with the AIGCS Investigative Service Division, are utilized by the Company for claims investigations. AIG's Internal Audit Division (IAD) is responsible for investigations of company employee conduct or business partners in any claim or underwriting related matters when such conduct is suspected to be illegal. AIGCS has Special Investigative Units (SIU), with procedures to train company employees and agents in the detection and prevention of fraud. The SIUs maintain a fraud database, which provides the Underwriting Department with an applicant's fraud history.

The Company is under the scrutiny of AIG's Internal Audit Division (IAD). The IAD is a component of AIG's internal control environment and reports directly to AIG's chairman, CEO and audit committee. Any business activity of AIG subsidiaries and affiliates is subject to audit review. IAD has full access to any and all records, personnel and physical properties of the Company.

The Company utilizes the Livingston-Disaster Recovery Plan. This plan has procedures to restore or replace data in the event of disaster. Team and task forces are established for all planning efforts, which are required to restore or replace affected data centers or offices and return processing to normal.

C. OPERATIONS

The Company markets its products throughout the State of Florida and is not concentrated in any particular area within the state. The Company's products include commercial package policies, which may contain automobile, property,

general liability, burglary, inland marine, and boiler and machinery. Workers' compensation and homeowners policies are also written.

IV. REVIEW OF POLICIES

A. HOMEOWNERS

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

New Hampshire Insurance Company independently files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

New Hampshire Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Services Office (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>
1997	\$27,795,000	47,931
1998	\$21,902,017	38,885
1999	\$13,244,263	35,463

As of 1999, the Company ceased taking out additional policies from the Florida Residential Property and Casualty Joint Underwriters Association. In addition, the decrease in policy count and DPW is due to policy cancellations. Current business consists of renewals only.

3. Exam Findings

One hundred (100) policy files were examined.

Seventy-five (75) errors were found.

None of the errors affected premium.

The errors are broken down as follows:

1. Seventy (70) errors were due to failure to offer separate deductibles for hurricane coverage and all other coverages. This constitutes a violation of Section 627.701, Florida Statutes.
2. Five (5) errors were due to use of incorrect protection classes. This constitutes a violation of Section 627.062, Florida Statutes. These errors were in the same protection class group, and therefore, did not affect premium.

B. COMMERCIAL MULTI-PERIL

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

New Hampshire Insurance Company is a subscriber of Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

New Hampshire 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>
1997	\$9,572,785	1,653
1998	\$9,741,492	1,973
1999	\$1,273,658	397

The decrease in policy count and direct premium written in 1999 was due to termination of the Braishfield condominium association program effective October 1, 1999. Braishfield and Associates was the agency or “program administrator” responsible for servicing, rating and underwriting this program.

3. Exam Findings

One hundred (100) policy files were examined.

One hundred-eleven (111) errors were found.

Errors affecting premium resulted in fourteen (14) overcharges totaling \$9,898.00 and twenty-eight (28) undercharges totaling \$902,504.14. The policies reviewed contained multiple rating errors resulting in both overcharges and undercharges on any given policy. In view of this, the net affect of the multiple policy errors are explained throughout the section.

The errors are broken down as follows:

1. Two (2) errors were due to use of incorrect protection classes. This constitutes a violation of Section 627.062, Florida Statutes.
2. One (1) error was due to failure to apply the filed .77 package modification factor to the property portion of the risk. This constitutes a violation of Section 627.062, Florida Statutes.
3. Five (5) errors were due to use of obsolete loss cost multipliers on the property section. This constitutes a violation of Section 627.062, Florida Statutes. Effective 2/1/99 the filed multiplier was 1.239 instead of 1.213.
4. Five (5) errors were due to use of obsolete ISO loss costs on the property section. This constitutes a violation of Section 627.062, Florida Statutes. Effective 2/1/99, those loss costs effective 11/1/98 should have been used instead of those that became effective on 8/1/97.
5. One (1) error was due to use of an incorrect loss cost liability multiplier on the automobile section. This constitutes a violation of Section 627.062, Florida Statutes. The filed multiplier was 1.208 instead of 1.449.
6. Five (5) errors were due to use of incorrect loss cost multipliers on the Uninsured Motorist coverage of the automobile section. This constitutes a violation of Section 627.062, Florida Statutes. In four instances, 1.208 should have been used instead of 1.342 and in one instance, 1.243 should have been used instead of 1.381.
7. Three (3) errors were due to use of incorrect territory codes. This constitutes a violation of Section 627.062, Florida Statutes.
8. Six (6) errors were due to use of obsolete ISO package modification factors of .72 applied to the property section. This constitutes a violation of Section 627.062, Florida Statutes. The correct factor should have been .66.

9. Five (5) errors were due to use of obsolete ISO package modification factors of .85 applied to the general liability portion. This constitutes a violation of Section 627.062, Florida Statutes. The correct factor should have been .89.
10. Six (6) errors were due to use of incorrect general liability increased limits factors. This constitutes a violation of Section 627.062, Florida Statutes. The correct factor should have been 1.48.
11. Two (2) errors were due to use of obsolete ISO loss costs on the general liability section. This constitutes a violation of Section 627.062, Florida Statutes. Loss costs effective on 11/1/98 should have been used instead of those in effect as of 2/1/98.
12. One (1) error was due to failure to apply the .89 package modification factor to the general liability portion of the risk, which became eligible upon addition of a property section. This constitutes a violation of Section 627.062, Florida Statutes.

Items #1 thru #12 resulted in twelve (12) overcharges totaling \$9,678.00, which have been refunded by the Company and three (3) undercharges totaling \$531.00.

13. One (1) error was due to charging an unfiled \$150.00 minimum premium. This constitutes a violation of Section 627.062, Florida Statutes. This resulted in an overcharge totaling \$61.00, which has been refunded by the Company.
14. One (1) error was due to use of an incorrect loss cost liability multiplier on the automobile section. This constitutes a violation of Section 627.062, Florida Statutes. This resulted in an overcharge totaling \$159.00, which has been refunded by the Company. The filed multiplier was 1.195 instead of 1.200.
15. One (1) error was due to use of an unfiled 15% Company deviation applied to the general liability section. This constitutes a violation

of Section 627.062, Florida Statutes. This resulted in an undercharge totaling \$40.00.

16. Twenty-four (24) errors were due to failure to follow filed ISO general liability loss costs and Company multipliers for the Braishfield and Associates condominium association program. This constitutes a violation of Section 627.062, Florida Statutes.
17. Twenty-four (24) errors were due to use of an unfiled policy surcharge applied to all Braishfield and Associates condominium association program policies. This constitutes a violation of Section 627.062, Florida Statutes. The Company was aware of this and took corrective action prior to the examination.
18. One (1) error was due to use of an unfiled 6% surcharge applied to the garagekeepers legal liability (GKLL) portion of the Braishfield and Associates condominium association program policy. This constitutes a violation of Section 627.062, Florida Statutes.
19. Two (2) errors were due to failure to apply filed loss cost multipliers of 1.208 and 1.391 to the physical damage coverage on the GKLL portion of the Braishfield and Associates condominium association program policies. This constitutes a violation of Section 627.062, Florida Statutes.

Items #16 thru #19 resulted in twenty-four (24) undercharges totaling \$901,933.14. The Braishfield and Associates condominium association program was terminated by the Company in October 1999.

20. Fifteen (15) errors were due to failure to provide the insured with 45 days advance written notice of the renewal premium. This constitutes a violation of Section 627.4133, Florida Statutes. This error was brought to the Company's attention in the 1993 Market Conduct Examination Report on Page 24. This error was also brought to the Company's attention in the 1988 Market Conduct Examination Report on Page 41. Exhibit I.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Seven (7) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Seven (7) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) 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 give a specific reason for nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. “Underwriting reasons” is not considered a specific reason.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Nine (9) errors were found.

Three (3) errors resulted in underpayments totaling \$135.48.

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

The errors are broken down as follows:

1. Five (5) errors were due to use of an unlicensed adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to use of an unappointed Florida non-resident adjuster. This constitutes a violation of Section 626.112, Florida Statutes.
3. Two (2) errors were due to failure to properly compute sales tax on total automobile losses. This constitutes a violation of Rule 4-166.026, Florida Administrative Code. These errors resulted in underpayments totaling \$69.49, which have been refunded by the Company.
4. One (1) error was due to failure to include sales tax in the replacement cost valuation of homeowner's contents prior to taking depreciation on an actual cash value settlement. This constitutes a violation of Rule 4-166.026, Florida Administrative Code. This resulted in an underpayment totaling \$65.99, which has been refunded by the Company.

VIII. COMPLAINTS 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 not been established by the Company. This constitutes violation of Section 626.9541, Florida Statutes.

The Company was unable to provide Company Received Consumer Complaints. As stated in a memo dated 1/25/01, the Company does not have a central tracking system for the Company Received Complaints it resolves. A directive was made to include all complaints on their current tracking system. Exhibit III.

X. EXHIBITS

SUBJECT _____ EXHIBIT NUMBER

1993 AND 1988 MARKET CONDUCT REPORT PAGES I

CLAIMS HANDLING PROCEDURES II

COMPANY RECEIVED CONSUMER COMPLAINTS III