

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

AIU INSURANCE COMPANY  
AMERICAN HOME ASSURANCE COMPANY  
AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY  
AIG CASUALTY COMPANY  
COMMERCE AND INDUSTRY INSURANCE COMPANY  
GRANITE STATE INSURANCE COMPANY  
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA  
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA  
NEW HAMPSHIRE INSURANCE COMPANY

New York, New York

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 2, 2009

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Raleigh, North Carolina  
February 2, 2009

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Eric Dinallo  
Superintendent of Insurance  
Department of Insurance  
State of New York  
25 Beaver Street  
New York, New York 10004-2319

Honorable Joel Ario  
Insurance Commissioner  
Pennsylvania Insurance Department  
1326 Strawberry Square  
Harrisburg, Pennsylvania, 17120

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a compliance examination has been made of the market conduct activities of

**AIU INSURANCE COMPANY (NAIC #19399)**  
**AMERICAN HOME ASSURANCE COMPANY (NAIC #19380)**  
**AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY (NAIC #40258)**  
**AIG CASUALTY COMPANY (NAIC #19402)**  
**COMMERCE AND INDUSTRY INSURANCE COMPANY (NAIC #19410)**  
**GRANITE STATE INSURANCE COMPANY (NAIC #23809)**  
**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA (NAIC #19429)**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA**  
**(NAIC #19445)**  
**NEW HAMPSHIRE INSURANCE COMPANY (NAIC #23841)**  
NAIC Exam Tracking System Exam Number: NC170-M10  
New York, New York

hereinafter generally referred to as the Company at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

### **FOREWORD**

This examination reflects the North Carolina insurance activities of AIU Insurance Company, American Home Assurance Company, American International South Insurance Company, AIG Casualty Company, Commerce and Industry Insurance Company, Granite State Insurance Company, The Insurance Company of the State of Pennsylvania, National Union Fire Insurance Company of Pittsburgh, Pennsylvania, and New Hampshire Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

### **SCOPE OF EXAMINATION**

This compliance examination commenced on June 2, 2008 and covered the period of January 1, 2007 through December 31, 2007 with analyses of certain operations of the Company being conducted through January 23, 2009. This action was taken due to previous examination findings referenced in the Market Conduct Report of September 30, 2005.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting and rating, terminations, and claims practices.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed

and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

### Previous Examination Findings

A general examination covering the period January 1, 2000 through December 31, 2002 was performed on the Company and a report dated September 30, 2005 was issued. The general examination report identified concerns in the areas of policyholder treatment, marketing, underwriting and rating, terminations, and claims practices. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

### **EXECUTIVE SUMMARY**

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

*Consumer Complaints* - untimely response to Departmental inquiries; incomplete complaint register; NAIC code was not included on a response to the Department.

*Marketing* – terminated producer files were not provided.

*Underwriting and Rating* – Private Passenger Automobile: applications accepted from producers not appointed by the Company, failure to obtain uninsured/underinsured selection/rejection forms. Commercial Automobile: applications accepted from producers not licensed in North Carolina and/or appointed by the Company. Commercial general liability: accepted applications from producers not appointed by the Company.

*Claims Practices* - invalid receipts.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web Site [www.ncdoi.com](http://www.ncdoi.com), by clicking "Helpful Links."

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

## **POLICYHOLDER TREATMENT**

### Consumer Complaints

The Company's complaint handling procedures were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as the responses for 20.0 percent of the consumer complaints reviewed exceeded the 7 calendar day requirement.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0103 as the Company's complaint register did not contain a listing of all complaints.

The Consumer Services Division of the Department provided a listing of 39 complaints received during the period under examination. All complaints were selected and received for review. **The current examination revealed the following:**

- Of the 39 complaints reviewed 19 were not responded to within 7 calendar days; however, 18 complaints were granted an extension. The Company failed to respond by the extension deadline on 5 complaints and one complaint was not responded to within 7 calendar days without an extension (15.4 percent error ratio). The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 1.0602.
- The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0103 as it's complaint register did not contain a listing of all complaints.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the response to one Departmental inquiry (2.6 percent error ratio) did not include the NAIC company code.

The Company's response to each complaint was deemed to be appropriate to the circumstances. The average response time for the complaints was 15.8 calendar days.

Service Days	Number of Files	Percentage of Total
1 - 7	20	51.3
8 - 14	1	2.6
15 - 21	8	20.5
22 - 30	5	12.8
31 - 60	5	12.8
<b>Total 39</b>	<b>39</b>	<b>100.0</b>

## MARKETING

### Producer Terminations

The Company's procedures for termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106 as 62.0 percent of the terminated files requested were not furnished for review.



- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56 as it did not mail a copy of the notification of termination to the producer for 100.0 percent of the producer termination files reviewed.

The Company furnished a listing of 348 producers terminated during the period under examination. The examiners randomly selected 50 files for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as 16 producer termination files requested (32.0 percent error ratio) were not furnished for review.
- The Company was deemed to be in compliance with the provisions of NCGS 58-33-56 as it mailed a copy of the notification of termination to the producer for the 34 producer termination files reviewed.

### **UNDERWRITING AND RATING**

#### Private Passenger Automobile

The Company's underwriting and rating practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-35-10, 58-36-30 and Rule 22 of the North Carolina Personal Automobile Manual as 77.2 percent of the policy premiums paid on an installment plan basis were charged an installment fee in excess of the plan filed by the North Carolina Rate Bureau and approved by the Department.

The Company provided a listing of 7,174 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-35-10, NCGS 58-36-30, and Rule 22 of the North Carolina Personal Automobile Manual as the installment fee charged was not in excess of the plan filed by the North Carolina Rate Bureau and approved by the Department.

- The Company was reminded of the provisions of NCGS 58-35-10(b), NCGS 58-36-30(a) and Rule 22 of the North Carolina Personal Automobile Manual as 3 policy premiums (3.0 percent error ratio) paid on an installment plan basis were charged an installment fee less than the plan filed by the North Carolina Rate Bureau and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 3 new business applications (3.0 percent error ratio) were accepted from a producer not appointed with the Company.
- The Company was deemed to be in apparent violation of the provisions of Rule 14.b.1 of the North Carolina Personal Automobile Manual as it did not obtain a signed selection/rejection form when the applicant rejected underinsured coverages for 16 policies (16.0 percent error ratio).
- The Company was reminded of the provisions of 11 NCAC 10.0602(a)(5) as it charged a rate in excess of the rate that would have been applicable if the applicant had been charged 550 percent of the rate with no Safe Driver Incentive Plan points for 3 policies (3.0 percent error ratio). At the request of the examiners, refunds in the amount of \$623.00 were issued by the Company.

As a result of charging a rate in excess of 550 percent of the manual rate with no Safe Driver Incentive Plan points, the examiners requested the Company to conduct a self audit. The Company identified an additional 323 policies that resulted in premium overcharges in the amount of \$58,571. All refund checks were mailed to the insureds on December 19, 2008.

One policy was rated by applying deviations prior to the addition of the point surcharge and resulted in a premium overcharge. At the request of the examiners, the Company issued a refund in the amount of \$304.00. It is the Department's position that deviations are to be applied after the addition of the point surcharge. At the request of the examiners, the Company agreed to conduct a self audit. The Company identified an additional 428 policies that resulted in premium overcharges in the amount of \$91,450. All refund checks were mailed to the insureds on December 19, 2008.

#### Commercial Automobile

The Company's underwriting and rating practices and procedures for active commercial automobile policies were reviewed to determine adherence to Company guidelines and

compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Lines Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 as the premium for 34.0 percent of the commercial automobile policies reviewed was calculated incorrectly.

The Company furnished a listing of 56 active commercial automobile policies issued during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-41-50 as the premium for all commercial automobile policies reviewed was calculated correctly.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 2 commercial automobile applications (4.0 percent error ratio) were accepted from a producer not appointed by the Company.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and NCGS 58-33-40(h) as one commercial automobile application (2.0 percent error ratio) was accepted from a producer not licensed in the State of North Carolina and not appointed by the Company.

Commercial General Liability

The Company's underwriting and rating practices and procedures for active commercial general liability policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Lines Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 as the minimum premium used for its Miscellaneous Professional Liability Program for commercial general liability policies had not been filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 for use of a premises and operations rate for commercial general liability policies that had not been filed with and approved by the Department.

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-150, 58-41-50, and 11 NCAC 10.1201 as forms utilized for the Employee Benefit Plan Fiduciary Liability Insurance Program, written on commercial general liability policies, had not been filed with and approved by the Department.

The Company furnished a listing of 1,038 active commercial general liability policies issued during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company advised the examiners that there is no minimum premium charge for the Company's Miscellaneous Professional Liability Program. All premium charges are actual.
- The Company was deemed to be in compliance with the provisions of NCGS 58-41-50 as all premises and operations rates for commercial general liability policies reviewed had been filed with and approved by the Department.
- The Company was deemed to be in compliance with the provisions of NCGS 58-3-150, 58-41-50, and 11 NCAC 10.1201 as all forms utilized for the Employee Benefit Plan Fiduciary Liability Insurance Program, written on commercial general liability policies, had been filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 12 applications (24.0 percent error ratio) were accepted from a producer not appointed by the Company.
- The Company was reminded of the provisions of NCGS 58-41-50(a) as the premium for 3 policies reviewed (6.0 percent error ratio) was calculated incorrectly resulting in 2 overcharges and 1 undercharge to the insureds. The overcharges in the amount of \$33.00 were reimbursed to the insureds during the course of the examination.

## **TERMINATIONS**

### Private Passenger Automobile Nonrenewals

The Company's nonrenewal procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85 and the policy termination provisions as 50.0 percent of the nonrenewal notices were not issued 60 days prior to the expiration date of the policy.

The Company provided a listing of one private passenger automobile policy nonrenewed during the period under examination. The policy was selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-36-85 and the policy termination provisions as the nonrenewal notice was issued 60 days prior to the expiration date of the policy.

#### Commercial Automobile Nonrenewals

The Company's nonrenewal procedures for commercial automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0104, and 19.0106 as it was unable to provide 10.0 percent of the policies requested for review.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-2-131, 58-2-185, and 11 NCAC 19.0106 as 84.4 percent of the policies received were deemed invalid receipts.

The Company provided a listing of 2 commercial automobile policies nonrenewed during the period under examination. Both policies were selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0104, and 19.0106 as it provided both policies for review.
- The Company was deemed to be in compliance with the provisions of NCGS 58-2-131, 58-2-185, and 11 NCAC 19.0106. There were no invalid receipts.

### Commercial General Liability Nonrenewals

The Company's nonrenewal procedures for commercial general liability policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Lines Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-2-131, 58-2-185, and 11 NCAC 19.0106 as 97.8 percent of the commercial general liability nonrenewals received were deemed invalid receipts.

The Company advised the examiners that no commercial general liability policies were nonrenewed during the period under examination.

### Declinations/Rejections

The Company was requested to furnish the examiners with a listing of declined/rejected applications for the period of time subject to this examination.

#### **The previous examination revealed the following:**

- The Company was unable to provide declined/rejected applications for review. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0104, and 19.0106.

The Company furnished the examiners a listing of 385 applications declined/rejected during the period under examination. Fifty declined/rejected applications were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0104, and 19.0106 as the Company was able to provide all declined/rejected applications for review.

## **CLAIMS**

### Paid Claims

The Company's practices for handling paid claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 96.0 percent of the first party automobile physical damage claims selected for review.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 64.0 percent of the first party property damage claims selected for review.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 20.0 percent of the third party property damage claims selected for review.

The Company provided the examiners a listing of 6,315 first party automobile physical damage, first party property damage, and third party property damage claims paid for the period of time subject to this examination. One hundred fifty claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all automobile physical damage claims requested for review.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all first party property damage claims selected for review.
- The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(a)(5) as 3 first party property damage claims (6.0 percent error ratio) involved losses outside North Carolina and were deemed invalid receipts.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all third party property damage claims selected for review.

### Bodily Injury Claims

The Company's practices for handling bodily injury claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 26.0 percent of the claims selected for review.

The Company provided the examiners a listing of 2,684 bodily injury claims for the period of time subject to this examination. Fifty claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all claims selected for review.

#### Closed Without Payment Claims

The Company's practices for handling closed without payment claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 17.0 percent of the claims selected for review.

The Company provided the examiners a listing of 5,479 closed without payment claims for the period subject to this examination. One hundred claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all claims selected for review.
- The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(a)(5) as 2 claims (2.0 percent error ratio) were paid claims in lieu of closed without payment and were deemed invalid receipts.

#### Subrogated Claims

The Company's practices for handling subrogated claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 16.0 percent of the claims selected for review.



The Company provided the examiners a listing of 232 subrogated claims for the period of time subject to this examination. Fifty claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was able to provide all of the claims selected for review.

No errors were noted where the Company failed to reimburse the insured's deductible in a timely manner. The reimbursements were issued on an average of 5.3 days from the date the Company collected the monies.

#### Total Loss Settlement Claims

The Company's practices for handling total loss settlement claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 12.0 percent of the total loss claims selected for review.

The Company provided the examiners a listing of 308 total loss settlement claims for the period of time subject to this examination. Fifty claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it provided all total loss claims selected for review.

#### Litigated Claims

The Company's practices for handling litigated claims were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was unable to provide 30.0 percent of the claims selected for review.

The Company provided the examiners a listing of 67 litigated claims for the period subject to this examination. Fifty claims were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102, 19.0105, and 19.0106 as it was able to provide all the claims selected for review.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-2-131(i), NCGS 58-2-185 and 11 NCAC 19.0106(a)(5)(h) as 3 claims were located outside North Carolina and 2 claims were not in litigation (10.0 percent error ratio) and were deemed invalid receipts.

### **SUMMARY**

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of September 25, 2005. The current examination revealed the following:

The Market Conduct examination revealed the following:

1. Policyholder Treatment
  - a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as the responses for 15.4 percent of the consumer complaints reviewed exceeded the 7 calendar day requirement of this rule or were not provided within the extension granted.
  - b. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0103 as it's complaint register did not contain a listing of all complaints.
  - c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the specific corporate name and National Association of Insurance Commissioners company code was not included on 2.6 percent of the responses to the Department.
2. Producer Terminations
  - a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as 32.0 percent of the terminated producer files requested were not furnished for review.

### 3. Underwriting and Rating

- a. The Company was reminded of the provisions of NCGS 58-35-10(b), NCGS 58-36-30(a) and Rule 22 of the North Carolina Personal Automobile Manual as 3.0 percent of the policy premiums paid on an installment plan basis were charged an installment fee less than the plan filed by the North Carolina Rate Bureau and approved by the Department.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 3.0 percent of the private passenger automobile new business applications were accepted from a producer not appointed by the Company.
- c. The Company was deemed to be in apparent violation of the provisions of Rule 14.b.1 of the North Carolina Personal Automobile Manual as it did not obtain a signed selection/rejection form when the applicant rejected underinsured coverages for 16.0 percent of the policies reviewed.
- d. The Company was reminded of the provisions of 11 NCAC 10.0602(a)(5) as it charged a rate in excess of the rate that would have been applicable if the applicant had been charged 550 percent of the rate with no Safe Driver Incentive Plan points for 3.0 percent of the private passenger automobile policies reviewed.
- e. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 4.0 percent of the commercial automobile applications were accepted from a producer not appointed by the Company.
- f. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and NCGS 58-33-40(h) as 2.0 percent of the commercial automobile applications were accepted from a producer not licensed in the State of North Carolina and not appointed by the Company.
- g. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 24.0 percent of the commercial general liability applications were accepted from a producer not appointed by the Company.
- h. The Company was reminded of the provisions of NCGS 58-41-50(a) as the premium for 6.0 percent of the commercial general liability policies reviewed was calculated incorrectly.

### 4. Claims Practices

- a. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(a)(5) as 6.0 percent of the first party property damage claims received were deemed invalid receipts.
- b. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(a)(5) as 2.0 percent of the closed without payment claims received were deemed invalid receipts.

- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-2-131(i), NCGS 58-2-185 and 11 NCAC 19.0106(a)(5)(h) as 10.0 percent of the litigated claims received were deemed invalid receipts.

All areas of concern were discussed with Company management prior to the conclusion of this examination.

#### TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-185	Record of business kept by companies and agents; Commissioner may inspect.
NCGS 58-3-150	Forms to be approved by Commissioner.
NCGS 58-33-5	License required.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination. (Effective July 1, 2002)
NCGS 58-35-10	Exceptions to license requirements.
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
11 NCAC 1.0602	Insurance Companies' Response to Departmental Inquiries.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 10.0602	Consent to Rate Procedures: Rate Bureau Coverages.
11 NCAC 10.1201	General Requirements.
11 NCAC 19.0102	Maintenance of Records.

<u>Statute/Rule</u>	<u>Title</u>
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0105	Claim Records.
11 NCAC 19.0106	Records Required for Examination.

### **CONCLUSION**

An examination has been conducted on the market conduct affairs of AIU Insurance Company, American Home Assurance Company, American International South Insurance Company, AIG Casualty Company, Commerce and Industry Insurance Company, Granite State Insurance Company, The Insurance Company of the State of Pennsylvania, National Union Fire Insurance Company of Pittsburgh, Pennsylvania, and New Hampshire Insurance Company for the period January 1, 2007 through December 31, 2007 with analyses of certain operations of the Company being conducted through February 2, 2009. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, marketing, underwriting and rating, terminations, and claims practices.

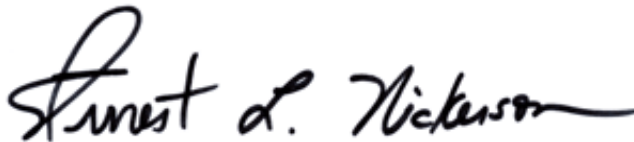
In addition to the undersigned, Gary Jones and Tracy Miller Biehn, North Carolina Market Conduct Examiners, participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Bill George". The signature is written in a cursive style with a large, sweeping initial "B".

Bill George, AIS  
Examiner-In-Charge  
Market Regulation Division  
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Ernest L. Nickerson". The signature is written in a cursive style with a large, sweeping initial "E".

Ernest L. Nickerson, FLMI, ACS, AIRC, ARM, RHU  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina