

Market Conduct Report

AIG PROPERTY CASUALTY COMPANY

April 12, 2019

Connecticut Insurance Department

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AIG Property Casualty Company

I. INTRODUCTION

A. Statutory Authority

By authority granted under Section 38a-15 of the Connecticut General Statutes, this examination was conducted by Market Conduct examiners of the State of Connecticut Insurance Department at the company's office located in Berkeley Heights, New Jersey.

B. Scope of Examination

From June 11, 2018 to on or about October 1, 2018, the Market Conduct Division of the Connecticut Insurance Department examined the market conduct practices of AIG Property Casualty Company using a sample period of July 1, 2016 through June 30, 2017. The examination was limited to Connecticut business.

C. Company Profile

<u>Company</u>	<u>Commenced Business</u>	<u>State of Domicile</u>
AIG Property Casualty Company	May 17, 1871	Pennsylvania

Direct premiums written as of December 31, 2017 are as follows:

	<u>Connecticut</u>	<u>Total</u>
AIG Property Casualty Company	65,625,648	1,554,300,840

D. Market Conduct Reports

The examiners generated a listing of market conduct examination reports using National Association of Insurance Commissioners' I-Site. This information was used to request market conduct examination reports from the company.

The examiners obtained copies of all relevant market conduct examination reports which had been issued to the company during the three (3) years preceding the examination. The reports were reviewed to identify any recommendations that had been made by the respective Insurance Departments and to determine whether the company had taken appropriate corrective action in response to those recommendations.

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E. Privacy of Consumer Financial Information

Standard 1: The company has adequate procedures in place for the protection of consumer financial information.

The examiners reviewed AIG Global Standards for response to privacy risk incidents. It outlined roles and responsibilities along with an incident response plan. The company appears to have adequate controls in place regarding the protection of consumer financial information.

Standard 2: The company provides each consumer with an initial privacy notice in accordance with statutes, rules and regulations.

The company appears to be in compliance.

Standard 3: The company provides each consumer with an annual privacy notice in accordance with statutes, rules and regulations but at a minimum annually.

The company appears to be in compliance.

Standard 4: The company provides each consumer with an opt out notice in accordance with statutes, rules and regulations.

The company appears to be in compliance.

Standard 5: The company provides each consumer with a revised privacy notice in accordance with statutes, rules and regulations.

The company appears to be in compliance.

Standard 6: All notices are provided in the required timeframe so as to minimize any improper intrusion into the privacy of consumers.

The company appears to be in compliance.

Standard 7: The company complies with all requirements for the disclosure of nonpublic personal financial information to nonaffiliated third parties so as to minimize any improper intrusion into the privacy of consumers.

The company appears to be in compliance.

AIG Property Casualty Company

Standard 8: The company complies with all requirements for the disclosure and redisclosure of nonpublic personal financial information so as to minimize any improper intrusion into the privacy of consumers.

The company appears to be in compliance.

Standard 9: The company has procedures for the sharing of consumer account numbers so as to minimize any improper intrusion into the privacy of consumers.

Company information is only shared on a need to know basis. Third parties that must handle AIG Company information can only do so if there is an appropriate written agreement, the agreement complies with applicable law and the agreement requires 3rd party to adhere to applicable requirements outlined in the AIG Global Information Handling Policy.

II. ITEMS EXAMINED

A. Operations and Management

Standard 1: The company has an up-to-date, valid internal or external audit program.

The Quality Assurance group selects samples of underwriting files for all offices during the year and provides audit reports. In addition, the Quality Assurance group selects claims samples as well to determine compliance with Best claim practices. The company provided the examiners with copies of actual files that were reviewed. The company appears to have an up-to-date audit program.

Standard 2: The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

The company Global Information Handling Operations Guidelines were reviewed. The company has several processes and procedures in place with regard to data collection, storage, usages, transfer/sharing and destruction and retention. The company appears to have adequate procedures in place.

Standard 3: The company has an antifraud plan in place.

The company SIU Investigation Best Practice was reviewed. The plan involves initial evaluation, investigation, and closure. During the exam period, a total of fifteen (15) files were referred to the SIU unit. There were no prosecutions or resulting convictions.

AIG Property Casualty Company

Standard 4: The company has a valid disaster recovery plan.

The company business disaster recovery plan was reviewed. The company has extensive plans and procedures in place to ensure recovery. The company appears to be in compliance.

Standard 5: The company adequately monitors the activities of the managing general agents.

Per company response on Preliminary Questionnaire, it does not use Managing General Agents.

Standard 6: The company's contracts with managing general agents comply with applicable statutes, rules and regulations.

See above.

Standard 7: Records are adequate, accessible, consistent and orderly, and comply with State record retention requirements.

The company appears to be in compliance.

Standard 8: The company is licensed for the lines of business that are being written.

The company appears to be in compliance.

Standard 9: The company cooperates on a timely basis with examiners performing the examination.

The company was not able to provide the examiners with timely information with regard to the rating of private passenger automobile policies. Specifically, it was not timely with regard to responding to the Department's request for information regarding its filed rates and rules. The company had difficulty in determining what specific territories, rates and rules it was using during the examination period and the various effective dates for when these were in effect.

B. Complaint Handling

Standard 1: All complaints are recorded in the required format on the company's complaint register.

The company appears to be in compliance.

AIG Property Casualty Company

Standard 2: The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

The company appears to be in compliance.

Standard 3: The company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

The company appears to be in compliance.

Standard 4: The time frame within which the company responds is in accordance with applicable statutes, rules and regulations.

The company appears to be in compliance.

C. Marketing and Sales

Standard 1: All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

The company provided the examiners with Direct Marketing and print medium advertising for review. The company appears to be in compliance.

Standard 2: The company's internal producer training materials are in compliance with applicable statutes, rules and regulations.

The company appears to be in compliance.

Standard 3: The company's communications to producers are in compliance with applicable statutes, rules and regulations.

The company appears to be in compliance.

Standard 4: The company's mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

The company does not mass market property casualty insurance.

D. Producer Licensing

Standard 1: The company's records of licensed and appointed producers agree with Insurance Department's records.

AIG Property Casualty Company

The company appears to be in compliance.

Standard 2: The producers are properly licensed and appointed in the jurisdiction where the application was taken.

The company was not in compliance with regard to producer licensing and appointments.

Standard 3: Termination of producers complies with statutes regarding notification to the producer and notification to the State, if applicable.

The company appears to be in compliance.

Standard 4: The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

The company appears to be in compliance.

Standard 5: Records of terminated producers adequately document the reasons for termination.

The company appears to be in compliance.

E. Policyholder Service

Standard 1: Premium notices and billing notices are sent out with an adequate amount of advance notice.

The company appears to be in compliance.

Standard 2: Policy issuance and insured requested cancellations are timely.

The company appears to be in compliance.

Standard 3: All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.

The company appears to be in compliance.

F. Underwriting and Rating

Standard 1: The rates charged for the policy coverage are in accordance with filed rates or the company's rating plan.

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Private Passenger Automobile

During the rating of private passenger automobile policies, it was determined that the company was not in compliance with Connecticut General Statutes, Section 38a-686. In three (3) instances, the risks appeared to qualify for a 2 point subtraction in the tier assignment. The company did not apply the subtraction and this resulted in a higher tier factor which is viewed as an overcharge.

In addition, the tier factor rounded to 2 decimals when the filed rule specified 3 decimals. The declaration page was determined to have a display error with regard to Uninsured/Underinsured Motorist Coverage. The company agreed and the issue was corrected on the system in September 2018.

TERRITORY DEFINITIONS

During the review, it was determined that the company assigned more than one rating territory to a town/city and was not in compliance with Bulletin PC-68 and Connecticut Regulation 38a-686-2. The company was advised to do a review to determine what specific town or cities were split into more than one rating territory, when the issue first began, and the impact it had on premiums. The company determined that a total of twenty-three cities or towns were in noncompliance. The company advised the error first began in 2004 and it resulted in overcharges of \$239,175 and undercharges of \$5,826. The company agreed to remediate back to July 1, 2016 and refund any policyholder that was overcharged due to this error.

Standard 2: Disclosures to insureds concerning rates and coverages are accurate and timely.

The company appears to be in compliance.

Standard 3: The company does not permit illegal rebating, commission cutting or inducements.

The company appears to be in compliance.

Standard 4: Credits and deviations are consistently applied on a non-discriminatory basis.

The company appears to be in compliance.

Standard 5: Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

Not applicable to Private Passenger Automobile and Homeowners policies.

AIG Property Casualty Company

Standard 6: The company's underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules, regulations and company's guidelines in the selection of risks.

The company appears to be in compliance.

Standard 7: All forms and endorsements forming a part of the contract are listed on the declarations page and should be filed with the Department of Insurance.

The company appears to be in compliance.

Standard 8: The producers are properly licensed and appointed in the jurisdiction where the application was taken.

Private Passenger Automobile

It was determined that, in some instances, the producer entity was not properly registered as a DBA per our Department records. It was recommended the company advise its producers to ensure correct DBA names are on file with the Department.

Homeowners

The company was not in compliance with Connecticut General Statutes regarding adequate procedures and documentation to ensure that individual producers of new business are properly licensed and appointed in accordance with Connecticut General Statutes, Section 38a-702b and 38a-702m. The company stated they used to track the entity producers and not the individual producers on a new business policy. The company advised they have launched in late 2017 a new system CIP that requires both the agency name and individual producer name to generate a quote. The names are then cross-referenced with the database to verify license and appointment.

Standard 9: Underwriting, rating and classifications are based on adequate information developed at or near inception of the coverage rather than near expiration or following a claim.

The company appears to be in compliance.

Standard 10: File documentation adequately supports decisions made.

See Standard 15.

Standard 11: Policies and endorsements are issued or renewed accurately, timely and completely.

AIG Property Casualty Company

The company appears to be in compliance.

Standard 12: Audits, when required, are conducted accurately and timely.

The company appears to be in compliance.

Standard 13: The company verifies that VIN number submitted with application is valid and that the correct symbol is utilized.

The company appears to be in compliance.

Standard 14: The company does not engage in collusive or anti-competitive underwriting practices.

The company appears to be in compliance.

Standard 15: Rejections and declinations are not unfairly discriminatory.

DECLINATIONS

Private Passenger Automobile

Homeowners

During review of declinations for private passenger automobile and homeowner declinations, it was determined that the company did not have appropriate documentation in order to verify the declination decisions made. In addition, there were some instances the reasons documented for the declinations were not included in the company filed underwriting guidelines. The lack of documentation the company retained was not sufficient to determine compliance with appropriate statutes and regulations.

Standard 16: Cancellation/non-renewal notices comply with policy provisions and State laws, and company's guidelines.

Private Passenger Automobile

Non-Renewals

In review of private passenger automobile non-renewals that eight (8) notices used nonspecific reasons, eight (8) notices used reasons not in filed guidelines and in one (1) instance, a cancellation notice was sent instead of a non-renewal notice.

Standard 17: Cancellation/non-renewal notices comply with policy provisions and State laws, including the amount of advance notice provided to the insured and other parties to the contract.

See above.

AIG Property Casualty Company

Standard 18: Unearned premiums are correctly calculated and returned to appropriate party in a timely manner, and in accordance with applicable statutes, rules and regulations.

The company appears to be in compliance.

Standard 19: Rescissions are not made for non-material misrepresentation.

The company appears to be in compliance.

Standard 20: All policies are correctly coded.

The company appears to be in compliance.

G. Claims

Personal Lines

a. Automobile

The review included on a sample basis:

	<u>Population Size</u>	<u>Sample Size</u>
Collision	1,151	60
Comprehensive	797	60
Property Damage	1,023	60
Bodily Injury	86	39
Med Pay	140	10
Subrogated	140	60
Closed Without Payment	259	60
Rental Reimbursement	481	10
Towing	262	10

b. Homeowner

The review included on a sample basis:

	<u>Population Size</u>	<u>Sample Size</u>
Paid	411	60
Closed Without Payment	111	60
Subrogated	84	30

Standard 1: The initial contact by the company with the claimant is within the required time frame.

The company appears to be in compliance.

AIG Property Casualty Company

Standard 2: Timely investigations are conducted.

The company appears to be in compliance.

Standard 3: Claims are resolved in a timely manner.

Subrogated Claims-Private Passenger Automobile

During the review of private passenger automobile subrogated claims, it was determined that the company failed to settle subrogation claims in a timely manner. The examiner noted several claim files that remained open after an extended amount of time had lapsed. The files were not adequately documented. Claim notes contained long unexplained lapses in time with no adjuster activity or claim diary notes for pending future action to be taken.

The company has advised they have now migrated to a new claim system with regard to subrogated claims. The new Subro Source claim system per the company will allow the recovery technicians to take actions at scheduled times. The company stated this will eliminate any unnecessary delays in settlement and help to resolve in a timelier manner.

Standard 4: The company responds to claim correspondence in a timely manner.

The company appears to be in compliance.

Standard 5: Claim files are adequately documented.

See Standard 3.

Standard 6: Claim files are handled in accordance with policy provisions and applicable statutes, rules and regulations.

Private Passenger Automobile

In a review of property damage liability claims, it was determined that (2) claims had delays in payment and (2) two claims had claim handling errors. It was also determined that the company did not consider loss of use in the settlement of automobile property damage liability claims as per Connecticut Regulation 38a-334-2(c) and 38a-334-5(a) and Bulletin CL-1-07. The file documentation did not show evidence claimant was advised they were entitled to loss of use compensation. The company has since developed a letter they now will send to claimants in which it will advise they are entitled to loss of use compensation.

In a review of comprehensive claims, one (1) claim had a delay in settlement.

In a review of collision claims, one (1) claim file the company overpaid the body shop and (1) one claim had a delay in appraisal.

In a review of subrogated claims, thirteen (13) claims had delays in the settlement of the claim.

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Homeowners

In a review of homeowner paid claims, it was determined that there were (4) four claim handling errors.

In review of homeowner closed without payment claims, the company denial letter, sent to claimants, did not include in four (4) instances the notice required per Connecticut General Statutes, Section 38a-323b and Bulletin CL-4 that advises if they disagree with decision they may contact the Connecticut Insurance Department Consumer Affairs Division.

In a sample of subrogated homeowner claims, one (1) claim file had an undue delay in deductible return.

Standard 7: The company uses the reservation of rights and excess of loss letters when appropriate.

The company appears to be in compliance.

Standard 8: Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

The company was not in compliance with Connecticut General Statutes with regard to its handling of subrogation claims.

Standard 9: The company's claim forms are appropriate for the type of product.

The company appears to be in compliance.

Standard 10: Claim files are reserved in accordance with the company's established procedures.

The company appears to be in compliance.

Standard 11: Denied and closed without payment claims are handled in accordance with policy provisions and State law.

The company was not in compliance with Connecticut General Statutes.

Standard 12: Cancelled benefit checks and drafts reflect appropriate claim handling procedures.

The company appears to be in compliance.

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Standard 13: Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

The company appears to be in compliance.

Standard 14: The company uses licensed adjusters and (Connecticut) appraisers in the handling of casualty claims.

It was determined that (3) three adjusters did not hold Connecticut adjusters licenses in accordance with Connecticut General Statutes, Section 38a-790.

Standard 15: Loss statistical coding is complete and accurate.

The company appears to be in compliance.

Standard 16: Release by injured person voidable if obtained within fifteen days.

The company appears to be in compliance.

III. SUMMARY OF RECOMMENDATIONS

Report

Section

II. D Producer Licensing:
 New Business

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Sections 38a-702b and 38a-702m regarding the licensing and appointment of producers.

II. D Producer Licensing:
 New Business

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Section 38a-15 with regard to the retention of documentation regarding the licensing and appointment of producers.

II. F. Underwriting and Rating:
 Private Passenger Automobile - Declinations

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Section 38a-15 regarding the retention of documentation for private passenger automobile declinations

II. F. Underwriting and Rating:
 Homeowner - Declinations

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Section 38a-15 regarding the retention of documentation for homeowner declinations.

II. F. Underwriting and Rating:
 Private Passenger Automobile-Non-Renewals

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Section 38a-323 with regard to private passenger automobile non- renewals.

AIG Property Casualty Company

II. F. Underwriting and Rating:

Personal Lines – Private Passenger Automobile

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statute, Section 38a-686 and Bulletin PC-68 with regard to private passenger automobile rating.

II. G. Claims:

Property Damage Liability Claims-Loss of Use

It is required that AIG Property Casualty Insurance Company comply with Connecticut Regulations 38a-334-2(c) and 38a-334-5(a) with regard to consideration of loss of use payments in the settlement of property damage liability claims.

II. G. Claims:

Personal Lines-Private Passenger Automobile Claims

It is required that AIG Property Casualty Insurance Company comply with Connecticut General Statutes, Section 38a-816 with regard to the settlement of private passenger automobile claims.

II. G. Claims:

Personal Lines-Homeowners Claims

It is required that AIG Property Casualty Company comply with Connecticut General Statutes, Sections 38a-323b and 38a-816 with regard to the settlement of homeowner claims.

II. G. Claims:

Casualty Claims Adjusters

It is required that AIG Property Casualty Company comply with Connecticut General Statutes, Section 38a-792 with regard to the licensing of casualty claims adjusters.

IV. ACKNOWLEDGMENT

The courtesy and cooperation of AIG Property Casualty Insurance Company during the course of this examination is acknowledged.

Mark J. Duffy, Karen A. Romero and James Stowe participated in the examination and preparation of this report.



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

----- X
IN THE MATTER OF:

DOCKET MC 19-12

AIG PROPERTY CASUALTY COMPANY:
----- X

STIPULATION AND CONSENT ORDER

It is hereby stipulated and agreed between AIG Property Casualty Company and the State of Connecticut Insurance Department by and through Andrew N. Mais, Insurance Commissioner, to wit:

I

WHEREAS, pursuant to a Market Conduct examination, the Insurance Commissioner alleges the following with respect to AIG Property Casualty Company:

1. AIG Property Casualty Company, hereinafter referred to as Respondent, is domiciled in the State of Pennsylvania and is licensed to transact property and casualty insurance in the State of Connecticut. The NAIC company code number is 19402.
2. From June 11, 2018 through December 31, 2018, the Department conducted an examination of Respondent's market conduct practices in the State of Connecticut covering the period from July 1, 2016 through June 30, 2017.
3. During the period under examination, Respondent failed to follow established practices and procedures to ensure compliance with statutory requirements resulting in instances of:
 - a) improper declination of homeowner policies
 - b) improper declination of automobile policies
 - c) improper non-renewal of private passenger automobile policies
 - d) failure to maintain procedures to track individuals acting as agents
 - e) improper rating of automobile policies
 - f) failed to consider loss of use in the settlement of automobile property damage liability claims
 - g) improper settlement of automobile claims
 - h) unlicensed individuals adjusting casualty claims

4. The conduct described in paragraph three is in violation of Sections 38a-15, 38a-307, 38a-323, 38a-686, 38a-702m, 38a-792 and 38a-816 of the Connecticut General Statutes, and Section 38a-334-2(c) and 38a-334-5(a) of the Connecticut Regulations and constitutes cause for the imposition of a fine or other administrative penalty under Sections 38a-2, 38a-41 and 38a-817 of the Connecticut General Statutes.

II

1. WHEREAS, Respondent neither admits nor denies the allegations in paragraphs three and four of Article I of this Stipulation and Consent Order; and
2. WHEREAS, Respondent agrees to undertake a complete review of its practices and procedures, with respect to those areas of concern, as described in the Market Conduct Report and this Stipulation, so that those areas of concern are compliant with Connecticut Statutes; and
3. WHEREAS, Respondent agrees to provide the Insurance Commissioner with a full report of findings and a summary of actions taken to comply with the requirements of paragraph two of this Section within ninety (90) days of the date of this document; and
4. WHEREAS, Respondent agrees to pay a fine in the amount of \$120,000 for the violations described herein; and
5. WHEREAS, Respondent, being desirous of terminating administrative action without the necessity of a formal hearing or further litigation, does consent to the making of this Consent Order and voluntarily waives:
 - a. any right to notice and a hearing; and
 - b. any requirements that the Insurance Commissioner's decision contain a statement of findings of fact and conclusions of law; and
 - c. any and all rights to object to or challenge before the Insurance Commissioner or in any judicial proceeding any aspect, provision or requirement of this Stipulation

NOW THEREFORE, upon the consent of the parties, it is hereby ordered and adjudged:

1. That the Insurance Commissioner has jurisdiction of the subject matter of this administrative proceeding.
2. That Respondent is fined the sum of One Hundred Twenty Thousand Dollars (\$120,000) for the violations herein above described.

AIG PROPERTY CASUALTY COMPANY

By: MATTHEW A. CLISZIS
(Representative of Insurance Company)

CERTIFICATION

The undersigned deposes and says that she/he has duly executed this Stipulation and Consent Order on this 11th day of JULY 2019, for and on behalf of AIG Property Casualty Company; that she/he is the OFFICER of such company, and she/he has authority to execute and file such instrument.

By: [Signature]

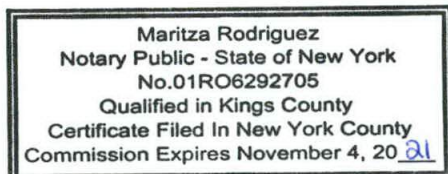
STATE OF NEW YORK

SS

COUNTY OF NEW YORK

On the 11th day of JULY 2019, before me personally appeared MATTHEW A. CLISZIS, sealer of the foregoing Stipulation and Consent Order, acknowledged same to be her/his act and deed.

[Signature]
Notary Public/Commissioner of The Superior Court



Section Below To Be Completed by State of Connecticut Insurance Department

Dated at Hartford, Connecticut this 19th day of July 2019.

[Signature]
Andrew N. Mais
Insurance Commissioner