MARKET CONDUCT EXAMINATION

of

AMERICAN INTERNATIONAL INSURANCE COMPANY
AIU INSURANCE COMPANY
AMERICAN HOME ASSURANCE COMPANY
BIRMINGHAM FIRE INSURANCE COMPANY OF PENNSYLVANIA

January 1, 2004 through December 31, 2004

Exhibit A
Order No. G06-9

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
P O Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler,

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

American International Insurance Company NAIC #32220
AIU Insurance Company NAIC #19399
American Home Assurance Company NAIC #19380
Birmingham Fire Insurance Company of Pennsylvania NAIC #19402

In this report, the above entities are also referred to as "the Companies".

This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the AIU Insurance Company and affiliates during the course of this market conduct examination, including those people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' operations from January 1, 2004 through December 31, 2004. This is the first examination of these personal lines AIG affiliated companies. The examination was performed in the Companies' regional claims office in Renton, Washington and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Agent Activities
- Complaints
- Underwriting and Rating
- Rate & Form Filings
- Cancellations and Non-Renewals
- Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is less than 5% the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the Companies follow established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY
OPERATIONS AND MANAGEMENT

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
American International Insurance Company	NY	October 1, 1985*	July 14, 1977
AIU Insurance Company	NY	December 1, 1913	May 11, 1912**
American Home Assurance Company	NY	1899	January 18, 1955
Birmingham Fire Insurance Company of Pennsylvania	PA	May 17, 1871	September 21, 1950

* Certificate of Authority issued to Belgian General Insurance Company (US branch) in NY on June 25, 1975. The Company incorporated October 1, 1985. Current name adopted in an acquisition agreement on May 14, 1986.

** Originally established as Pacific Fire Insurance Co. in 1851. Name changed a number of times until the current name was adopted in 1976.

The Companies write the following personal lines of business in Washington:

- Private Passenger Auto
- Homeowners
- Personal Umbrella Liability
- Excess Flood
- Private Collections

The business is marketed both through direct marketing channels with operations located in Wilmington, Delaware and Private Client Group business focused on high net-worth individuals which is written through brokers or agents. This group is headquartered in Berkeley Heights, New Jersey.

Findings

Operations and Management Standard #2 does not apply to this exam of foreign companies.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	**The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington.**	**RCW 48.05.030(1)**

GENERAL EXAMINATION PRACTICES

Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	**The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.**	**RCW 48.03.030(1)**
3	**The Company maintains full and accurate records and accounts.**	**RCW 48.05.280**
4	**The Company filed an antifraud plan with the Office of Insurance Commissioner.**	**RCW 48.30A.045**

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	**The Company does business in its own legal name.**	**RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06**

Standard #2:

- Twenty two files (22) contained correspondence or forms that did not identify the insurer or identified the wrong insurer. The Companies acknowledged that there were numerous letters and templates used by the claims department that did not identify the insuring Company. See Appendix 1 for details.

Subsequent event: The Companies implemented a project to review and correct all claim forms and templates. The project took place between December 2004 and July 2005.

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting sample were reviewed by the examiners. The examiners also reviewed a sample of records from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies' agent licensing records with the OIC records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
3	**The Companies must notify the OIC when an agent's**	**RCW 48.17.160(3)**

#	AGENT ACTIVITY STANDARD	REFERENCE
	appointment is revoked.	
4	**The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract**	**RCW 48.17.591(2)**

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	**The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.**	**RCW 48.17.060(1) and (2)**
2	**The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.**	**RCW 48.17.160**

Standard#1:

- 10,265 policies were written through the Companies' direct call centers between January 1, 2002 and March 2004. The employees placing that business were not licensed in Washington as non-resident agents. The Companies acknowledge that they did not require those agents handling Washington calls to be licensed, except in their resident state of Florida. Between January and March 2004 the Companies implemented a plan to require non-resident licenses for their employees handling Washington calls. See Appendix 2.

Standard #2:

- Nineteen (19) policies were written by agents who were not appointed by the Company at the time the policy was solicited. See Appendix 2 for detail.

COMPLAINTS

The examiners reviewed 38 of 184 complaints filed with the OIC or complaints filed directly with the Companies between January 1, 2002 and December 31, 2004.

Files were reviewed to determine if the Companies responded to complaints filed with the OIC within time frames stated in its procedures and those required by Washington regulation. Files were reviewed for adverse trends. The examiners also reviewed the Companies' complaint handling procedures.

Findings

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	**Response to communication from the OIC must be within 15**	**WAC 284-30-650,**

#	COMPLAINT STANDARD	REFERENCE
	business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	**WAC 284-30-360(2), Technical Advisory T 98-4**

UNDERWRITING AND RATING

The examiners selected 95 of 39,137 auto, homeowner, personal umbrella or scheduled collection policies that were either new or renewed during the examination period for review.

Files were reviewed to determine if the Companies:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Companies' computer system and if the Companies were using the filed and approved rates.

Underwriting standards #5 and #6 apply to commercial policies only and therefore are not applicable to this examination.

Findings

To arrive at the premium, one policy was rated with debits and credits that were allowed in the rate filing. However, the underwriter is required to document the file to show why the debits and credits applied. The underwriter failed to do so. As a result, the examiners were unable to determine which factors from the rating plan were used to establish the premium. The file was returned to management for review.

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	**Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.**	**RCW 48.18.230(1), WAC 284-30-560**
3	**The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.**	**RCW 48.22.085(2)**
4	**During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.**	**RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145**
7	**The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to**	**WAC 284-30-574**

#	UNDERWRITING STANDARD	REFERENCE
	support a denial or termination of coverage.	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquires; collections identified with medical industry code; the purchase of a new vehicle or home (exceptions); or the total available line of credit to set rates or deny coverage. *Effective 06/30/03*	WAC 284-24A-065 (1) through (6)
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. *Effective 06/30/03*	WAC 284-24A-010(1) and (2)
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003.	WAC 284-24A-015(1)
12	No insurer may alter an application for insurance without the insured's written permission.	RCW 48.18.070

The following Underwriting Standards Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.	RCW 48.22.030(3) and (4)
8	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.	WAC 284-30-560

Standard #2: One (1) policy did not contain the insured's signed form requesting UIM limits that were lower than the liability limits. See Appendix 3 for detail.

Standard #8: The Companies were using a form identified as a policy processing form that is actually an application. Two (2) policies with this form were in the underwriting sample. The form does not meet the requirements of WAC 284-30-560(1) as it does not provide a statement as to whether or not coverage has commenced. The Companies advised the examiners that they were revising the form. See Appendix 3 for detail.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose was to determine if the Companies were complying with the laws regarding the filing and use of rates and forms.

Rate and form filing Standards #5 and #7 apply only to commercial filings and therefore are not applicable to this examination.

Findings

The examiners returned the following to Underwriting management for review and correction, if necessary:

- The Companies were using an endorsement that was not the same form number as the form number identified in the underwriting manual. The Companies acknowledged that they failed to update their underwriting manual to reflect the updated form number. The policies were being issued with the correct endorsement.
- The Companies were showing a privacy notice form in the list of forms and endorsements that applied to the policy on the Declarations page. This form is not a policy form and does not have to be filed and approved. It should not be listed as part of the policy. The Companies were advised to remove it from the policy, or to create a separate area to post advisory notices provided to the insured that are not part of the policy.
- The underwriting manual contained a rule that permitted retention of premium unless the insured requested the premium refund. This information was not included in the policy. The Companies were advised that this conflict between the rule and the policy needed to be corrected.

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
4	**The policy must contain all endorsements and forms.**	**RCW 48.18.190**
6	**Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law.**	**RCW 48.22.095, RCW 48.22.005**
3	**The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage and limits.**	**RCW 48.18.140(1) and (2)(a)-(f)**

The following Rate and Form Filing Standards Failed:

#	POLICY PROVISION STANDARD	REFERENCE
1	**Policy forms and applications, where required, have been filed with and approve by the OIC prior to use.**	**RCW 48.18.100, RCW 48.18.103**
2	**Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.**	**RCW 48.19.040(1) and (6)**

Standard #1:

- Two (2) forms were not filed and approved prior to use: Loss Payable Clause (LP-1 11-89) and Additional Insured – Lessor (Lessor AI 1 - 89). The Companies were unable to identify the number of policies that had been issued with either of these forms.

- One form had an error in the numbering of endorsements. The Companies were aware of the problem, but had not re-filed the form to correct it. Two hundred thirty one (231) policies were issued with this form. The correction was scheduled to be submitted with another filing during the third quarter of 2005.

See Appendix 4 for detail.

Subsequent event: The Companies filed and received approval for form LP-1 11-89 and form AII 1-28. The form has been re-implemented in November 2005.

Standard #2:

- One (1) insured was given a passive restraint discount for which they were not eligible. This was done to avoid a complaint from the customer.

- One policy was rated in the wrong earthquake territory at renewal. This would have resulted in overcharging the insured. The insured cancelled the coverage effective on the renewal date.

See Appendix 4 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed 115 of 4,807 policies that were cancelled or non-renewed during the exam period to determine if the Companies were in compliance with state laws governing policy cancellation and non-renewal.

Findings

The examiners returned the following issue to underwriting management for review and correction.

- The Companies issued a follow-up notice to the renewal offer. The notice was sent to the insured three or four days before the policy terminated to remind the insured that they could still pay the premium and renew the policy. The notice was identified as a Cancellation for Non-Payment Notice. The reason for termination was expiration rather than non-payment.

Subsequent event: The Companies agreed to change the name of the form to Notice of Expiration.

The following Cancellation and Non-renewal Standards Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	**The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company.**	**RCW 48.17.591**
2	**The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.**	**RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292**
3	**The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.**	**WAC 284-30-570, Bulletin 96-2**

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 110 of 5,797 claims that were closed during the exam period. An additional 30 claims that contained settlements of first party total losses were also reviewed. The primary claims department for Washington claims is in Renton, Washington. The Companies handle personal injury protection claims from either their office in Phoenix, AZ or Chadds Ford, PA. Subrogation files are handled in the Phoenix, AZ office.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

Findings

The examiners returned the following files with errors for review and correction if necessary:

- One (1) file was paid using a $250 deductible. The correct deductible was $300.
- One (1) file was paid using a collision deductible. After determining the at-fault driver was uninsured the Company failed to reimburse the difference in deductible. The Company sent the additional $400 to the insured.
- One (1) file was paid with the wrong deductible. The Company sent the additional $200 to the insured.

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
1	**The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.**	WAC 284-30-330
3	**The Company provided an explanation of all pertinent coverage to first party claimants.**	WAC 284-30-350
4	**The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed.**	WAC 284-30-360(1) and (3)
5	**The Company complies with the requirement for prompt investigation of claims.**	WAC 284-30-370
6	**The Company must accept or deny coverage within 15 days after receiving proof of claim.**	WAC 284-30-380
8	**The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.**	WAC 284-30-395
9	**The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.**	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
2	**The Company claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.**	WAC 284-30-340
7	**The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.**	WAC 284-30-390, or WAC 284-30-3901-3916 as applicable

Standard #2:

- Four (4) files did not contain file documentation to explain the claim handler's activities or decisions. See Appendix 5 for detail.

Standard # 7:

- One file did not contain proof that the title of a total loss vehicle had been sent to the Department of Licensing.

- One file did not contain documentation to explain how the Company arrived at the salvage value. The Company re-evaluated the salvage value and sent an additional payment to the insured of $215.95. See Appendix 5 for detail.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Company is required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Company. (RCW 48.07.070)	N/A		

General Examination:

#	STANDARD	PAGE	PASS	FAIL
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The Company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06)	8		X
3	The Company maintains full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Company filed an antifraud plan with the Office of Insurance Commissioner. (RCW 48.30A.045)	8	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. (RCW 48.17.060(1) and (2))	9		X
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160)	9		X
3	The Company must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	8	X	

#	STANDARD	PAGE	PASS	FAIL
4	The Company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract. (RCW 48.17.591(2))	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	9	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the Company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	10	X	
2	The Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	11	X	
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10		X
4	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The Company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision. (WAC 284-24-100)	N/A		
6	The Company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	N/A		
7	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	

#	STANDARD	PAGE	PASS	FAIL
8	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560.	11	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquires; collections identified with medical industry code; the purchase of a new vehicle or home (exceptions); or the total available line of credit to set rates or deny coverage. (WAC 284-24A-065) (1) through (6)) *Effective 06-30-03*	11	X	
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. (WAC 284-24A-010(1) and (2) *Effective 06/30/03*	11	X	
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24-A-015(1))	11	X	
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	11	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100, RCW 48.18.103)	12		X
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040)(1) and (6))	12		X
3	The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage and limits. (RCW 48.18.140(1) and (2)(a)-(f))	12	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	12	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	N/A		

#	STANDARD	PAGE	PASS	FAIL
6	Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	12	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2)	N/A		

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the Company. (RCW 48.17.591)	14	X	
2	The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	14	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	14	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	14	X	
2	The Company's claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	15	X	
3	The Company provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	15	X	
4	The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1) and (3))	15	X	
5	The Company complies with requirement for prompt investigation of claims. (WAC 284-30-370)	15	X	
6	The Company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	15	X	
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim	15	X	

	settlements. (WAC 284-30-390, or WAC 284-30-3901-3916)			
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)	15	X	
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	15	X	

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTIONS	PAGE
1	The Companies are instructed to comply with RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T2000-06 and ensure that the legal name of the Company is clearly identified in all correspondence, releases, and checks.	8
2	The Companies are instructed to comply with RCW 48.17.060(1) and (2), and RCW 48.17.160 and ensure that all agents and agencies are licensed and appointed with each Company prior to allowing them to represent the Company.	9
3	The Companies are instructed to comply with RCW 48.18.100 and ensure that policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	12
4	The Companies are instructed to comply with RCW 48.19.040 and ensure that they have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing in effect.	12
5	The Companies are instructed to comply with RCW 48.18.140(1) and (2)(a)-(f) and ensure that the policy identifies all forms that make up the policy. That the policy identifies the effective time and date of the policy. The policy will identify all coverage, conditions and limits. The Companies are further instructed to ensure that the Companies underwriting rules conform to the conditions of the policy.	12

APPENDIX 1

GENERAL EXAMINATION STANDARD #2 RCW 48.05.190(1)	The Company conducts business in its own legal name.
Policy or claim #	Comments
A3162078	There were four letters in the claim file that did not give the true legal name of the insuring company.
4109025	An estimate for auto repair that is given by the insurer and to body shops does not show the true legal name of the insurer.
4104694	A "Release of all Claims" listed the insured, the true name of the insuring company and AIGCS. The AIGCS stands for American International Group Claims Service.
400529788	One letter in the claim file showed the wrong insuring company name.
4088899	The insuring company name was abbreviated on a settlement check using only the letters AHA.
00548236	Insuring company name was not included on the auto repair estimate.
4105767	Insuring company name was not included on the auto repair estimate.
4114510	Insuring company name was not included on the auto repair estimate.
4112738	Insuring company name was not included on the auto repair estimate.
4060038	Insuring company name was not included on the auto repair estimate.
4117441	Insuring company name was not included on the auto repair estimate.
4076123	Insuring company name was not included on the auto repair estimate.
438733	Correspondence did not identify the insuring company
5868267	Correspondence did not identify the insuring company
3772097	Correspondence did not identify the insuring company
5868267	Correspondence did not identify the insuring company
7877381	Correspondence did not identify the insuring company
349-19-07	Correspondence did not identify the insuring company
158-09-85	Correspondence did not identify the insuring company
414-62-92	Correspondence did not identify the insuring company
529-95-99	Correspondence did not identify the insuring company
982-59-23	Correspondence did not identify the insuring company

APPENDIX 2

AGENT ACTIVITIES STANDARD #1 (RCW 48.17.060)(1)(2)	The Company must ensure that agents are licensed for the appropriate line of business with the State of Washington.
10,265 policies	Agents working in the Companies call center were not appointed in Washington at the time the policies were solicited. The policy list is in examiners' work-papers.

AGENT ACTIVITIES STANDARD #2 (RCW 48.17.160)	The Company must appoint agents to represent the Company prior to allowing the agent to solicit business on behalf of the Company.
10,265 policies	Agents working in the Companies call center were not appointed in Washington at the time the policies were solicited. The policy list is in examiners' work-papers.
15 policies	Agent was not appointed at the time the policies were solicited. The policy list is in the examiners' work-papers.
5446586	Agent was not appointed at time policy was solicited. Agent is a non-resident.
5486120	Agent was not appointed at the time the policy was solicited.
HO 0005481232	Agent was not appointed at the time the policy was solicited.
HO 0003774154	Agent was not appointed at the time the policy was solicited.

APPENDIX 3

UNDERWRITING AND RATING STANDARD #2 RCW 48.22.030(3) and (4)	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.
469-29-82	The company was unable to provide a copy of the form signed by the insured requesting UIM limits that were lower than their liability limits.
UNDERWRITING AND RATING STANDARD #8 WAC 284-30-560 (1) and (2)(a)	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.
518-59-58	The policy contained a form called a policy processing form that is actually an application. It does not meet the requirements of WAC 284-30-560(1) because it does not provide a statement as to whether or not coverage has commenced.
526-80-92	The policy contained a form called a policy processing form that is actually an application. It does not meet the requirements of WAC 284-30 560(1) because it does not provide a statement as to whether or not coverage has commenced.

APPENDIX 4

RATE AND FORM FILING STANDARD #1 RCW 48.18.100 OR RCW 48.18.103	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.
Multiple	Two forms were used that had not been filed and approved for use in Washington. The Companies have used this form since the early 1990's., and are unable to identify how many policies have been issued with either of these forms. The Companies agreed to cease using the forms until the forms have been filed and approved.
Multiple	Form PCHO (8/02) contains a reference that Exclusion #8 is Earthquake. Exclusion #8 is Faulty, Inadequate, or Defective Planning. Exclusion #9 is earthquake. The form needs to be re-filed with to correct the numbering of the exclusions. 231 policies were issued with this form.
RATE AND FORM FILING STANDARD #2 RCW 48.19.040	Where required, the Company have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.
667-35-78	An insured called complaining about pricing, so an employee "gave customer passive restraint discount for which they were not eligible. They did not want a complaint when there is only $10 difference in premium."
8709031	The policy was rated with earthquake coverage. The earthquake rating done on wrong territory rates at renewal. The policy holder cancelled the coverage at the time of renewal.

APPENDIX 5

CLAIMS SETTLEMENT STANDARD #2 WAC 284-30-340	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file.
Policy or claim #	Comments
4072116	This claim involved a total loss vehicle. The documentation in the file was lacking and made it difficult to understand what had been done or the time frames of the activities.
04-00548236	The claim file lacked required documentation of the claim handler's activities.
xn001094	Documentation in the file was incomplete. The file did not contain detail about how the salvage value had been determined.
xn001191	The Company failed to open a salvage file after determining that there was a total loss vehicle. The salvage had not sold at the time of the examination.
CLAIMS SETTLEMENT STANDARD #7 WAC 284-30-390 AND WAC 284-30-3901-3916	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.
2070421	The Company was unable to provide documentation that the title was sent to the Dept. of Licensing.
xn001094	The Company was not able to explain how they arrived at the salvage value. The Company re-evaluated the salvage value and sent an additional payment of $215.95.

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Maura C. Popp
Associate General Counsel
Legal Department

RECEIVED
JAN 13 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

January 11, 2006

VIA UPS OVERNIGHT DELIVERY

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of Insurance Commissioner
State of Washington
5000 Capitol Blvd.
Tumwater, WA 98501

RE: AIU INSURANCE COMPANY MARKET CONDUCT EXAMINATION REPORT

Dear Mr. Odiorne:

Your letter dated December 22, 2005 addressed to Ms. Esta Cain has been referred to me for response.

We will address the issues presented in the Report in the order they were presented.

I. General Examination Practices.

A. Standard #1 - The Company does business in its own legal name.

1. The claims forms and letters in question have been corrected and the claims representatives can no longer use any letters or forms that have not been previously approved. With regard to the letters for policies, these were all corrected starting in December of 2004 and being completed in July of 2005.

II. Agent Activities.

A. Standard #1 - The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.

1. As we have previously discussed, the representatives in question were licensed agents in their home states and operated under the supervision of a Washington licensed agent in a Washington licensed agency. They were full-time salaried employees of the licensed agency and handled incoming calls from consumers that had been solicited directly by the underwriting company. When the calls came in, the representative input information given to them by the consumer into the Company's on-line real time computer system and the system calculated the quotation of rates. The representatives then relayed this information to the consumer. The Company provided scripted information to the representative to use in answering questions. If a consumer asked a question that the representative could not answer based on this provided information, the licensed supervisor handled the call or provided the information to the representative.

   However, in early 2004, the Company began the process to license all representatives that handle Washington calls. This project was completed in March of 2004 and since then, all calls from the State of Washington have been handled by non-resident Washington licensed representatives.

B. Standard #2 - The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.

   1. The agents in question were not appointed due to human error. It is Company's policy to appoint all agents before any business is written. Procedures have been reinforced.

III. Rate and Forms Filings.

A. Standard #1 - Policy forms and applications, where required, have been filed and approved by the OIC prior to use.

   1. The Company believes that the forms in question, LP-1 11-89 and Lessor AI1 1-28, would have been filed as it is Company's procedure to file all forms as required by Washington law. However, Company was not able to locate a filing for these forms. They have now been filed and approved and re-implemented in November, 2005.

   2. The Company will re-file this form immediately as the filing that was contemplated to be filed at the end of the third quarter of 2005 was delayed.

B. Standard #2 - Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates,

class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.

1. The appropriate department has been contacted to advise and reinforce that discounts should not be given when not applicable.

2. The earthquake coverage was rated in the wrong territory in error. The appropriate department was notified.

C. Standard #3 - The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverages and limits.

1. Company could not verify this issue from the information provided and its files and would appreciate any additional information to help do so.

Lastly, we noted in our review of the report that on page 17, the Underwriting and Rating chart lists Standard #3 as a "FAIL" and based on the narrative for this issue found on page 10, it should be a "PASS". We would appreciate this being corrected.

We thank you for the opportunity to respond to these issues and look forward to our continued dialogue.

Very truly yours,

MAURA C. POPP
Associate General Counsel