

LIMITED SCOPE REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

ANPAC LOUISIANA INSURANCE COMPANY

SPRINGFIELD, MISSOURI

AS OF

AUGUST 24, 2007

NAIC ETS NO. LA071-M72

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August 24, 2007

Honorable James J. Donelon
Commissioner of Insurance
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Sir:

Pursuant to statutory provisions and in compliance with your instructions, a targeted market conduct examination has been made of the affairs of

ANPAC LOUISIANA INSURANCE COMPANY

1949 EAST SUNSHINE STREET

SPRINGFIELD, MISSOURI 65899

as of August 24, 2007 and the report of examination is herewith submitted.

FOREWORD

A targeted market conduct examination was performed on the claims handling activities of ANPAC Louisiana Insurance Company, hereinafter referred to as (“Company”), for policyholders affected by Hurricanes Katrina and Rita. Fieldwork was performed at the Company’s administrative offices located at 1949 East Sunshine Street, Springfield, Missouri.

SCOPE OF EXAMINATION

In accordance with **LSA-R.S. 22:1301 D.**, the target market conduct examination of the Company was authorized by the Louisiana Department of Insurance (“Department”) to examine the Company’s handling of claims resulting from Hurricanes Katrina and Rita.

The purpose of this examination was to assure equitable treatment of Louisiana policyholders and claimants by the Company and to assure compliance by the Company with Louisiana statutes, rules, directives, bulletins and regulations, as well as the Company’s own procedures and guidelines. The examination included, but was not limited to, the claims practices in Louisiana for policies affected by Hurricanes Katrina and Rita.

The Audit Command Language (“ACL”) Program, a data manipulation program, provided by the Department was utilized in this examination. Sampled items were utilized to test the Company’s records and procedures. ACL was used to generate random samples of sixty (60) claims records for review of open, closed with payment, and denied claims. The sampled items selected for review were randomly selected from claim data files provided by the Company. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) was used for all samples.

The time period for this examination was defined as August 29, 2005, the date Hurricane Katrina made landfall, through the present. The examination was performed by test and all tests applied during the examination are included in this report.

BACKGROUND

The Company was incorporated on April 26, 2000 as a domestic stock property and casualty insurer and commenced business on November 1, 2001. The Company is authorized to provide for a variety of property and casualty coverage needs, including automobile, homeowners, umbrella, boat, recreational vehicles, motorcycle, other personal lines insurance and agri-business insurance. The Company maintains a regional claims office located in Mandeville, Louisiana and a regional sales office in Baton Rouge, Louisiana. In relation to ownership of the Company, the immediate parent is American National Property And Casualty Company ("ANPAC"), a property and casualty insurance company with home offices located in Springfield, Missouri and was incorporated in 1973. ANPAC is a subsidiary of American National Insurance Company ("ANICO") of Galveston, Texas. ANICO is a life and health insurance company that has been in business since 1905.

On August 29, 2005, Hurricane Katrina made landfall in New Orleans, Louisiana, devastating much of the north-central Gulf Coast before dissipating on August 31. Hurricane Katrina was a costly catastrophe for the Company. The storm exceeded \$75 million in losses and loss settlement expenses net of reinsurance. Within a month, on September 24, 2005, the Company was affected by Hurricane Rita which made landfall in Johnson Bayou, Louisiana. The Company's losses and loss adjustment expenses was just under \$2 million net of reinsurance.

In speaking with Company officials during the week on-site, it was mentioned that the Mandeville claims office was non-operational for several weeks most, notably because of the staff and managers were unable to return to the affected area in St. Tammany parish after Hurricane Katrina. Several key claims managers from the Springfield office, during the extended Labor Day weekend, came to Baton Rouge and opened a catastrophe claims office at the same location as the regional sales office for the Company. The Mandeville staff and managers were able to work from the Baton Rouge office handling claims. The Company's catastrophe claims center was set up to handle additional living expense payments, provide another way for claims to be reported and assign claims to outside adjusters to scope damages. Around the same time, the

Company's primary outside adjusting firm based in Springfield, Missouri also opened a catastrophe center to handle the volume of assignment of claims from the Company. The two (2) offices were in close proximity to one another and offered somewhat of a synergy of efforts to handle the crisis at hand. It was noted in discussions that once the claims were assigned primarily to the independent adjusting firm, the firm contacted claimants from their own catastrophe center in a matter of a few days.

During the time between Hurricanes Katrina and Rita, claims were being reported to both Springfield and Baton Rouge, and claim files were prepared and adjusting firms were hired to help with the claim adjustment process for Katrina. When Hurricane Rita started to gather strength and head towards the Texas-Louisiana coastline, the claim staff and managers found themselves with the possibility of evacuating within the month, which fortunately did not happen.

After Hurricane Rita dissipated, the catastrophe office became fully functional shortly afterwards and outside adjusters and claims personnel were faced with handling the sizable task of scoping damages related to the two (2) hurricanes. It was mentioned by Company claims management in Springfield that before the end of 2006, ninety-five (95%) percent of all claims were closed in the claims management system.

APPLICABLE STATUTES AND STANDARDS

The following statutes were used as a benchmark to determine compliance with the Louisiana Insurance Code.

“LSA R.S. § 22:658 - Payment and adjustment of claims, policies other than life and health and accident; personal vehicle damage claims; penalties; arson-related claims suspension

A (1). All insurers issuing any type of contract, other than those specified in R.S. 22:656, 657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest. The insurer shall notify the insurance producer of record of all such payments for property damage claims made in accordance with this Paragraph.

A (3). *Except in the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim and of a claim for reasonable medical expenses within fourteen days after notification of loss by the claimant. In the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim within thirty days after notification of loss by the claimant. Failure to comply with the provisions of this Paragraph shall subject the insurer to the penalties provided in R.S. 22:1220.*

A (4). *All insurers shall make a written offer to settle any property damage claim, including a third-party Claim, within thirty days after receipt of satisfactory proofs of loss of that claim."*

"LSA R.S. § 22:1214 – Methods, acts and practices which are defined herein as unfair or deceptive

The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

14. *Unfair claims settlement practices. Committing or performing with such frequency as to indicate a general business practice any of the following:*
- (b) Failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.*
 - (d) Refusing to pay claims without conducting a reasonable investigation based upon all available information.*
 - (e) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed.*
 - (f) Not attempting in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear."*

EXAMINATION FINDINGS BASED ON CLAIMS FILE REVIEW

The following examination findings are disclosed for the Company and details the exceptions found during the claims file review. The sampled claims files were reviewed to determine:

- The timeliness of the initiation of the adjustment process
- The timeliness of initiation of on-site inspections of damaged property
- The timeliness of initial claims payments
- The adequacy of documentation contained in the claims files

Louisiana statutes and regulations, as well as the Company's Procedures Guide for Claims provisions were utilized as a benchmark for compliance. Three (3) random samples of sixty (60) claims relating to open, closed with payment, and denied claims were selected from a listing provided by the Company for policies affected by Hurricanes Katrina and Rita. Records furnished to the Department by the Company indicate that approximately twelve thousand five hundred (12,500) Katrina related claims and one thousand (1,000) Rita related claims were handled by the Company.

Open Claims Review

Upon examination, the Company had **one (1) claim** wherein contact with the insured by the adjuster was not made within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (3)**. The Company's standard was for independent adjusters to make contact with the insured within twenty-four (24) hours after receiving notification of claim assignment. The sixty (60) sampled open claims reviewed had an average of five (5) days from the time the independent adjuster received the claim assignment to when the adjuster initially contacted the claimant to scope damages. In light of catastrophic events, the Company's standard of twenty four (24) hours is commendable but was not attained.

Upon examination, the Company paid all claims sampled within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (1) & (4)**.

The Company's electronic propriety process and claims manuals were reviewed. Per the process manual, independent adjusters are required to make timely contact with the claimant but do not specify the time frame. A meeting was held by the examiner with Company claims management to address the time frame. Company claims management provided the examiner with a hurricane pricing schedule that included the Company's expected standards that are provided to the independent adjuster while handling the Company's outside scoping of damages. A twenty-four (24) hour contact with the claimant after the independent adjuster is assigned was noted, as well as guidelines for on-site inspection to be initiated within seventy-two (72) hours after initial contact with the claimant. It was found that **fifty-eight (58)** claims did not have timely site

inspections performed by independent claims adjusters based on the Company's seventy-two (72) hour standard contained in the process manual. The average number of days elapsing prior to on-site inspection was thirty-nine (39) for this sample. In light of the catastrophic events, the mandatory evacuation date for the parishes in the affected areas was considered given the problems that arose with adjusters not being able, in some cases, to reach the properties that were affected for a few weeks. It is not surprising the average was determined to be thirty nine (39) days given these events. While not in violation of the Louisiana Insurance Code, it is recommended the Company place specific guidelines in the Company's process and claims manual to address the length of time the adjuster should take in making an initial inspection from the initial contact date. It is understood by the Department the magnitude of the two (2) hurricanes, however, the process and claims manuals should address procedures specific to catastrophes for the future.

The Company provided the following additional information:

"In addition to evacuation dates for the parishes in the affected areas and the adjusters not being able to reach certain properties as was mentioned, the State also mandated certain grids to be inspected within certain time frames. We would like to state that this had a major impact on our claims process. Often times these mandates were on short notice and the independents had to reschedule their workloads/appointments and inspections of the property to meet State requirements. This caused additional delays due to availability of the insured and independent adjuster."

Open claim files reviewed were adequately documented when the on-site review was performed.

Closed with Payment Claims Review

Upon examination, the Company had **one (1) claim** wherein contact with the insured by the adjuster was not made within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (3)**. As mentioned before, the Company's standard is for independent adjusters to make contact with the insured within twenty-four (24) hours after receiving notification of claim assignment. The sixty (60) sampled closed with

payment claims reviewed had an average of three (3) days from the time the independent adjuster received the claim assignment to when the adjuster initially contacted the claimant to scope damages. In light of catastrophic events, the Company's standard of twenty four (24) hours is commendable but was not attained.

Upon examination, the Company paid all claims sampled within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (1) & (4)**.

As previously mentioned, the Company's electronic propriety process and claims manuals were reviewed. Per the process manual, independent adjusters are required to make timely contact with the claimant but do not specify the time frame. A meeting was held by the examiner with Company claims management to address the time frame. Company claims management provided the examiner with a hurricane pricing schedule that included the Company's expected standards that are provided to the independent adjuster while handling the Company's outside scoping of damages. A twenty-four (24) hour contact with the claimant after the independent adjuster is assigned was noted, as well as guidelines for on-site inspection to be initiated within seventy-two (72) hours after initial contact with the claimant. It was found that **fifty-seven (57)** claims did not have timely site inspections performed by independent claims adjusters based on the Company's seventy-two (72) hour standard contained in the process manual. The average number of days elapsing prior to on-site inspection is thirty-eight (38) for this sample. In light of the catastrophic events, the mandatory evacuation date for the parishes in the affected areas was considered given the problems that arose with adjusters not being able, in some cases, to reach the properties that were affected for a few weeks. It is not surprising the average was determined to be thirty eight (38) days given these events. While not in violation of the Louisiana Insurance Code, it is recommended the Company place specific guidelines in the Company's process and claims manual to address the length of time the adjuster should take in making an initial inspection from the initial contact date. It is understood by the Department the magnitude of the two (2) hurricanes, however, the process and claims manuals should address procedures specific to catastrophes for the future.

The Company provided the following additional information:

“In addition to evacuation dates for the parishes in the affected areas and the adjusters not being able to reach certain properties as was mentioned, the State also mandated certain grids to be inspected within certain time frames. We would like to state that this had a major impact on our claims process. Often times these mandates were on short notice and the independents had to reschedule their workloads/appointments and inspections of the property to meet State requirements. This caused additional delays due to availability of the insured and independent adjuster.”

Closed with payment claim files reviewed were adequately documented when the on-site review was performed.

Denied Claims Review

This review determined that claims denied without payment were handled in accordance with applicable statutes and regulations. The following table shows the reasons for the closure or denial of the claims:

<u>Reason for Closure or Denial</u>	<u>Number of Claims</u>
Damages were below the deductible.	25
Insured withdrew claim	15
Duplicate claim	10
Damages not covered by an in-force policy	7
Lapse in coverage	1
Claim handled by another company	1
No contact from insured.	<u>1</u>
 Total	 60

Complaint Review

A judgmental sampling of complaints was selected from the Louisiana Department of Insurance’s CRAFT complaint log and compared to the Company responses and claim files. Department records show a total of fifty-seven (57) complaints were filed with the Department relating to Hurricanes Katrina and Rita. All fifty-seven (57) complaints were located on the Company’s complaint log. Fifteen (15) sampled

items were reviewed. "Read Only" access was given to the examiner for the compliant files, claim system log notes and the scanned image claim files. It was found that in all fifteen (15) complaints, the Company responses were supported by the claims information reviewed in the files.

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company implement procedures for the timely adjustment of claims consistent with the intent of **LSA-R.S. 22:658 A (3)**.

It is recommended that the Company place specific guidelines in the Company's process and claims manual to address the length of time between the adjuster making an initial inspection and the initial contact date, whether it is from a catastrophic or non-catastrophic event.

CONCLUSION

I, Jonathan C. Landry, do solemnly swear and affirm that I am a contract examiner for the Commissioner of Insurance of the State of Louisiana and that, as such, I was assigned to conduct a targeted examination of the market conduct activities of

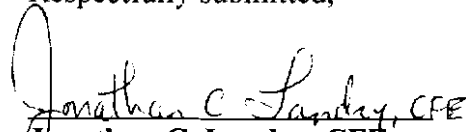
ANPAC LOUISIANA INSURANCE COMPANY

SPRINGFIELD, MISSOURI

That I made such examination and the above and foregoing is a true and correct copy of my report of such Company and the same is true and correct to the best of my knowledge, information and belief.

The examiner in charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process.

Respectfully submitted,


Jonathan C. Landry, CFE
Louisiana Department of Insurance