

**REPORT OF EXAMINATION**

**OF THE**

**MARKET CONDUCT AFFAIRS**

**OF**

**AUDUBON INSURANCE COMPANY**

**BATON ROUGE, LOUISIANA**

**AS OF**

**December 31, 1997**

**NAIC CODE 19933**

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JAMES H. "JIM" BROWN  
COMMISSIONER OF INSURANCE  
STATE OF LOUISIANA

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May 15, 1998

Honorable James H. Brown  
Commissioner of Insurance  
P O Box 94214  
Baton Rouge, Louisiana 70804-9214

Sir:

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

**AUDUBON INSURANCE COMPANY**

at its Home Office at

4150 South Sherwood Forest Blvd.

Baton Rouge, Louisiana 70816

as of December 31, 1997 and the report of examination is herewith submitted.

## ***FOREWORD***

This Market Conduct Examination Report covered the insurance activities of Audubon Insurance Company, hereinafter referred to as Audubon or Company, for the period from January 1, 1994 through December 31, 1997.

The Market Conduct Examination is, in general, a report by exception. This means that references in the examination report in regards to procedures and/or files subject to review may be omitted if no improprieties or errors were noted.

Otherwise stated, the NAIC Market Conduct Examiners' Handbook was used as a measure of compliance.

## **SCOPE OF EXAMINATION**

The examination of Audubon Insurance Company, was conducted by the Louisiana Department of Insurance, hereinafter referred to as the Department or DOI, in accordance with the laws of the State of Louisiana and the guidelines set forth by the National Association of Insurance Commissioners.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws and Regulations in order to determine if the Company's operations were consistent with the public interest.

The examination included, but was not limited to, the following areas of the Company's operations:

1. Complaints
2. Marketing and Sales
3. Producer Licensing
4. Policyholder Service
5. Underwriting and Rating
6. Claims

## **COMPANY OVERVIEW**

### **COMPANY HISTORY**

The Company was organized in April 1945 as a domestic stock property and casualty insurer under the name of Commercial Fire and Casualty Company. The Company's Articles of Incorporation were amended January 31, 1950 to change the name to Audubon Insurance Company. Currently the Company, together with 39 other insurers, is a member of the American International Group of companies (AIG) ultimately controlled by C. V. Starr & Co., Inc.

### **COMPANY OPERATIONS**

The Company's amended Louisiana Certificate of Authority, dated March 2, 1988, authorizes it to transact the business of vehicle, liability, workers compensation, burglary and forgery, glass, fire and extended coverage, marine and transportation (inland marine), miscellaneous, and fidelity and surety.

### **PARENT, SUBSIDIARIES, AND AFFILIATES**

The Company, a Louisiana corporation, is 100% owned by NHIG Holding Corporation, which is owned by American International Group, Inc., (AIG) and ultimately controlled by C. V. Starr & Co., Inc.

An organizational chart showing ownership of the Company and its corporate affiliates has been included in the examination work papers.

## **PRIOR EXAMINATION REPORTS**

The Louisiana Department of Insurance conducted a financial examination as of December 31, 1993. The Market Conduct Section of this report recommended that the Company eliminate the duplication of claim numbers in its current claim system.

During this examination the Company responded it is in the process of installing a new claim processing system that will automatically assign claim numbers that will include the year of loss as part of the claim number. This method of assigning claims numbers should eliminate any duplicate claim numbers.

## **CONSUMER COMPLAINTS REVIEW**

The NAIC defines a complaint as a written communication primarily expressing a grievance. Louisiana Revised Statute LRS-R.S. 22:1214(17) states "complaint" shall mean any written communication received by the insurer from the Department of Insurance.

Complaints routinely filed with the Department generally consisted of complaints due to the insureds' misunderstanding of the policy provisions, delays in handling insureds' requests, delays in payments due to insureds or claimants, or dissatisfaction with the insurer's claims practices.

The Company had few complaints for the period under examination. A random sampling of 22 complaints was selected for review. This sampling represented approximately 24% of the Company's *total* complaints filed with the Department for the four-year period under examination.

The Company was unable to provide some of the sampled complaints apparently due to miscommunications between departments in which some complaints after resolution were not being returned to the Executive Division. Consequently, a supplement sampling was selected for those missing complaints.

The Company did not maintain a detailed complaint register as required by statute, however, the Company promptly implemented one during the course of the examination

Although the Company had complaint procedures in place, the Executive Department distributed revised procedures. This distribution restated the procedures for handling consumer complaints and revised the handling of complaints for various plans, such as the Louisiana Fair Plan.

This review revealed that the Company took adequate steps to promptly resolve complaints in accordance with applicable statute, and policy provision.

### ***MARKETING AND SALES REVIEW***

This review was performed without exception.

### ***PRODUCER REVIEW***

Effective January 1986, the Company entered into a managing general agency agreement with Agency Management Corporation, a subsidiary. In this agreement Agency Management through its designated agents was given full authority to receive and accept proposals for insurance covering such classes of risks that the Company has authority to write. Also, Agency Management was authorized to collect, receive and receipt premiums on insurance tendered by agents of Agency Management and accepted by the Company.

A review of the Company's Louisiana producers revealed that all of these agencies were properly licensed and appointed for the period ended December 31, 1997. However, one agent, who was terminated for cause, was not reported to the Department as required by LSA-R.S. 22:1114 B (7).

It was recommended to the Company to revise its agent termination procedures relating to agency terminations with cause and to provide the Department with full details of the circumstances surrounding this agency's termination. The Company promptly responded to these recommendations.

It should be noted that the Company fully screens its producers before hiring and has had little experience in terminating an agency for reasons other than for lack of production.

### ***TERRITORY AND PLAN OF OPERATION***

The Company is properly licensed in the following states:

Alabama	Arkansas
Florida	Georgia
Kentucky	Louisiana
Mississippi	Montana
New Mexico	*New York
South Carolina	Tennessee
Texas	West Virginia

\* Reinsurance only

The Company was admitted to West Virginia during the period under examination.

The Company markets insurance covering fire, allied lines, multiple perils, including comprehensive dwelling policies, inland marine, auto liability, physical damage, general liability, workmen's compensation, burglary and glass.

The Company's future business goals in its Louisiana Standard Division is to develop commercial lines programs by business class and market mid-size to larger commercial lines accounts, primarily casualty driven in coastal areas.

During 1998 the Company will introduce or increase marketing emphasis throughout its total distribution system on the following product lines:

- Mobile Home
- Motor Home
- Motorcycles
- Expanded Personal Auto Tiers
- Four Wheel Recreational Vehicles

These products will be marketed either through its independent agents or its MGAs.

### ***POLICYHOLDER SERVICE REVIEW***

Agency Management Corporation, through its agencies, performs many policyholder functions for the Company. The agencies maintain such related documentation in their files.

A random sampling of renewal business files from selected lines of business for the period under examination was reviewed in order to test the Company's compliance with statutes regarding billings, timely responses to policyholder questions relating to coverage, and applicable refunds on canceled policies.

This review was performed without exception.

## ***UNDERWRITING REVIEW***

A limited Underwriting Review was performed without exception.

## ***CLAIMS REVIEW***

Agency Management, the Company's MGA, was authorized to pay all claims and loss adjustment expenses and to deduct such payments from premiums written by Agency Management that are due to the Company. Primarily adjusters from Agency Management performed the loss adjustments. However under certain circumstances, such as a claim reported in a remote area, independent adjusters were assigned.

A random sampling of 1995, 1996, and 1997 claims were extracted from the Company's claim files. This sample consisted of open, closed and denied claims from some of the Company's major lines of business.

The review of this sampling indicated that an adjuster or adjusters were promptly assigned to a notice of a claim. The claim files indicated that adjusters prepared detailed reports of their assessments of losses. Correspondence maintained in the claim files also indicated that the adjusters routinely resolved claims in a timely and professional manner.

A time study of these sampled claims indicated that clean claims were paid in an average of nineteen (19) days while claims that resulted in slow responses from insureds or settlements with claimants took an average of one hundred and fifty-six (156) days.

The Company's prompt and efficient claim handling practices appeared to have contributed to the relatively small number of complaints filed against the Company during the period under examination.

This review indicated that claims were paid in accordance with statute and policy provisions.

## ***COMMENTS AND RECOMMENDATIONS***

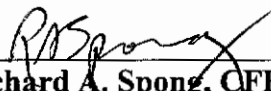
The Company before the completion of this examination addressed recommendations included in this report.

## **CONCLUSION**

Acknowledgment is made of the courteous cooperation of the Officers and Employees of the Company during the examination.

I, the undersigned, hereby certify that a Market Conduct Examination has been made of Audubon Insurance Company, and the preceding report of examination results are true to the best of my ability.

Respectfully submitted,

  
\_\_\_\_\_  
**Richard A. Spong, CFE, AIE**  
**Department of Insurance**  
**State of Louisiana**

**STATE OF LOUISIANA**


**PARISH OF EAST BATON ROUGE**

**BEFORE ME**, the undersigned authority personally came and appeared Richard A. Spong, who after being first duly sworn according to law, deposes and says that he is an Examiner for the Commissioner of Insurance of the State of Louisiana and that as such he was assigned to make an examination of the affairs and condition of the

**AUDUBON INSURANCE COMPANY**

**BATON ROUGE, LOUISIANA**

**that he made such examination as of December 31, 1997 and the above and foregoing is a true and correct Copy of such Company and the same is true and correct to the best of his knowledge, information and belief.**



**RICHARD A. SPONG, CFE, AIE**

 **, NOTARY PUBLIC**  
(PRINT NAME) **NANCY MITCHELL**

**in and for the State of Louisiana**

**My commission expires at death.**