

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

GREAT CENTRAL FIRE INSURANCE COMPANY

OAKDALE, LOUISIANA

AS OF

DECEMBER 31, 1995

NAIC COMPANY CODE 43621

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COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

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BATON ROUGE, LOUISIANA 70804-9214
(504) 342-5900

May 13, 1996

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 provisions, a market conduct examination has been made of the affairs of

GREAT CENTRAL FIRE INSURANCE COMPANY

at its Home Office at

137 East 6th Avenue

OAKDALE, LOUISIANA 71463

as of December 31, 1995 and the report of examination is herewith submitted.

FOREWORD

This Market Conduct Examination Report reflects the insurance activities of Great Central Fire Insurance Company for the period from January 1, 1993 through December 31, 1995.

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.

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

SCOPE OF EXAMINATION

The examination of Great Central Fire Insurance Company, hereinafter referred to as GCFIC or Company, was conducted by the Louisiana Department of Insurance (Department) in accordance with the laws of the State of Louisiana and the guidelines set forth by the National Association of Insurance Commissioners.

This examination covered the period of January 1, 1993 through December 31, 1995. The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations and 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. Company Overview
2. Policyholder Treatment
3. Policy Form Review
4. Claims Practices
5. Rate Review
6. Agent Review

COMPANY OVERVIEW

COMPANY HISTORY AND OPERATIONS

The Company was incorporated on December 15, 1980, under the name Great Central Fire Insurance Company to engage in the business of fire and extended coverages. The Company's Certificate of Authority dated February 3, 1981 authorized the Company to transact industrial fire business in the state of Louisiana.

Currently, the Company issues single and/or dual interest insurance certificates that protects debtors and extenders of credit against loss of collateral by fire and/or fire related hazards. Since this type of coverage is not considered industrial business it would appear that the Company is not properly capitalized. According to LSA-R.S. 22:71 A., the Company is required to have paid-in capital of \$650,000 and minimum surplus of \$350,000 to transact miscellaneous business in the State of Louisiana.

It is recommended that the Company increase its capital to comply with LSA-R.S. 22:71 A., or discontinue writing credit property insurance.

PARENT, SUBSIDIARIES, AND AFFILIATES

The following shows via indentations the relationship of the Company to its parent Great Central Life Insurance Company.

Great Central Life Insurance Company (owns 64%)
Great Central Fire Insurance Company

PRIOR EXAMINATION REPORTS

There were no prior market conduct examinations of the Company.

COMPANY AUTHORIZATIONS

A review of the Company's certificate of authority revealed that the Company had secured a license to operate in the State of Louisiana for the years under examination.

MARKETING

POLICY FORMS AND FILINGS

A review was made by the Department of policy forms used by the Company. The Department recommended revisions to the Company's Form GC101 and that a form number be added to the Company's credit property group certificate policy.

During the course of the examination the Company was provided with a sample policy for single and dual interest which provided a more detailed explanation of policy benefits. The Company indicated its intention of utilizing this policy form.

A review of the Company's marketing of non-filing insurance revealed that the Company should provide the insured with a certificate of coverage approved by the Department.

schedule of rates as well as all other compensation whatever which each insurer will pay its respective local within this state for the ensuing calendar year, provided that the said rate of commission, as well as all other compensation to be paid by each insurer shall be uniform and equal as to all of the local agents of said insurer throughout this state."

On January 26, 1996, the Company responded to the Department concerning LSA-R.S. 22:1459. Although the Company is willing to comply with this code section, the Company expressed concern over its possible inability to compete in this insurance market unless all Louisiana insurers writing credit property were at the same time required to comply with this statute.

POLICYHOLDER TREATMENT

UNDERWRITING REVIEW

The Company relies on the finance companies and other lenders to perform any field underwriting.

CONSUMER COMPLAINTS

The Company had no complaints against it during the period under examination.

CREDIT PROPERTY CLAIMS REVIEW

A random sampling of forty-two credit property claims was selected from the period January 1, 1993 through December 31, 1995. This sampling represented approximately twenty percent (20%) of the claims for the period under examination.

The Company has an agreement with most finance companies or other lenders (creditor/agent) that in the event of a credit property claim, the creditor/agent will adjudicate the claim.

As a result of this agreement the finance companies were asked to provided the completed claims files for review as the Company's claim files were incomplete.

Forty-two questionnaires were prepared and mailed to the finance companies representing the random sampling. The following is a summary of the responses to the questionnaires.

Original sampling	42
Files reported lost	-1
Files purged by lender	-1
No response from lender	-4
Insufficient data received for complete review	<u>-8</u>
Number of files available for review	28

Of the claim files reviewed twelve contained fire reports which did not indicate that a total loss of the collateral property had occurred.

As previous mentioned the agreement the Company has with each extender of credit (creditor/agent) requires the creditor/agent to adjudicate claims on policies written by them.

The creditor/agent issues a check to the Company for the amount of the claim based on its determination of the loss. This check is booked by the Company as a credit to its commission expense account. The Company than issues a claim check or checks equal to the amount of the creditor's check back to the creditor and debtor/insured. The creditor/agent is agreeable to reimbursing the Company for its claims losses because the creditor/agent generally receives a ninety percent (90%) commission on all credit property premium it produces.

The Company's credit property policy, although somewhat ambiguous, provides single and dual interest coverages against loss of collateral to the extender of credit and the purchaser. The Company's liability under these policies is in part determined by the condition (actual cash value) of the collateral property at the time of loss.

During the review of this claims sampling it was noted that only two claim files contained calculations which indicated that the Company's claim liability was determined based on the cash value of the collateral at the time of loss. In general the finance companies determined either the gross pay-off (no consideration for unearned items) or net loan pay-off; the loan pay-off subtracted from the initial amount of coverage was determined to be the amount due to the debtor/ insured. In these cases the amount of the check issued to the Company represented the initial amount of insurance stated on the certificate. The Company then issued checks to the creditor/ agent and debtor/insured which equaled the amount of the check received by the creditor/agent. The calculation of payments to the creditors and debtors in most of these cases is the same method used to settle credit life level term claims.

Twelve of these claim files revealed that loan pay-offs due to the creditor were calculated by the creditor/agent without any consideration for unearned finance charges or unearned premiums for other coverages effective with the date of the loan.

As a result of the Company allowing the creditors to perform its claim functions for credit property claims, the Company's claim files were in some instances incomplete or not located. Failure to maintain adequate claims records is addressed in LSA-R.S. 22:1214 as an unfair practice. Specifically LSA-R.S. 22:1214 (16) states:

"Failure to maintain marketing and performance records. Failure of an insurer to maintain its books, records, documents, and other business records in such an order that data regarding complaints, claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance commissioner. Data for at least the current calendar year and the two preceding years shall be maintained."

It is the Company's usual practice to send claim checks payable to the second beneficiary back to the lender for delivery. During this review it was noted that several of these claim checks were still outstanding since 1994.

This review revealed that in general the creditor/agents calculated payments for single and dual interest claims which exceeded the Company's claims liability when these losses were calculated in accordance with the Company's policy provisions.

NON-FILING CLAIMS REVIEW

The Company's records indicated a small number of non-filing claims. None of these claim files contain any documentations which explained the basis for a claim.

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company revise certain policy forms as detailed in this report under POLICY FORMS AND FILINGS on page 5.

It is recommended that the Company establish procedures which will insure that the finance companies or other lenders have at least two properly licensed and appointed agents per location representing the Company. See AGENTS' LICENSING AND OTHER PROCEDURES, page 6.

It is recommended that the Company revise its commission agreements in order to comply with LSA-R.S. 22:1459 A. See AGENTS' LICENSING AND OTHER PROCEDURES on page 6.

It is recommended that the Company revise its agreement with its creditor/agents so that the Company will be responsible for all claim functions. In addition, claim files should be maintained in a manner which will be in compliance with LSA-R.S. 22:1214 (16). See CREDIT PROPERTY CLAIMS REVIEW, page 7.

The Company offers non-filing coverage to creditors which protects the creditor's interest in the collateral used to secure the loan. The Louisiana Insurance Code Title 22 and the Louisiana Consumer Credit Law Title XII do not appear to address this type of insurance coverage.

The charge for this non-filing coverage is generally \$20

and replaces the fee paid to a clerk of court to file the loan instrument as a public record. This coverage protects the creditor/insured from damage as a result of being prevented from obtaining possession of the collateral property and/or enforcing its rights under such loan instrument solely as the result of the failure of the creditor to record or file the loan instrument with the proper public officer or public office.

It is recommended that the Company design a certificate of insurance for this non-filing coverage. Also it is recommended that the Company establish claims procedures for this coverage so that the Company can properly determine its liability in the event of a loss and maintain claims files which will be in compliance with LSA-R.S. 22:1214 (16). See NON-FILING CLAIMS REVIEW page 10.

During a review of claims several claims checks were detected as being classified as outstanding on the Company's books. It is recommended that the Company establish procedures to insure that any outstanding claims checks are promptly investigated and replacement checks issued if required. A separate bank account for claims would make a review of claims checks much easier.

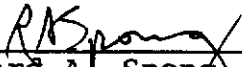
Finally, the Company should establish procedures which will result in the Company's records being maintained separately from Great Central Life Insurance Company's records.

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 Great Central Fire 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

GREAT CENTRAL FIRE INSURANCE COMPANY

OAKDALE, LOUISIANA

That he made such examination 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
EXAMINER

_____, NOTARY PUBLIC
(PRINT NAME)

in and for the State of Louisiana

My commission expires _____.