

**REPORT OF EXAMINATION**

**OF THE**

**MARKET CONDUCT AFFAIRS**

**OF**

**IMPERIAL FIRE AND CASUALTY**

**INSURANCE COMPANY**

**OPELOUSAS, LOUISIANA**

**AS OF**

**December 31, 1997**

**NAIC CODE 44369**

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COMMISSIONER OF INSURANCE  
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January 12, 1999

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 limited market conduct examination has been made of the affairs of

**IMPERIAL FIRE AND CASUALTY INSURANCE COMPANY**

at its Home Office  
444 South King Street  
Opelousas, Louisiana

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

## ***FOREWORD***

A limited market conduct examination was performed of the insurance activities of Imperial Fire and Casualty Insurance 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, Volume II* was used as a measure of compliance.

## **SCOPE OF EXAMINATION**

The examination of Imperial Fire and Casualty Insurance Company, hereinafter referred to as Company or IFAC, was conducted by the Louisiana Department of Insurance (LDOI) 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 operation was 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. Complaint Review
3. Producer Licensing
4. Underwriting and Rating
5. Claims Review

## **COMPANY OVERVIEW**

### **COMPANY HISTORY**

On April 4, 1990, the Company was organized as a stock property and casualty insurer under the laws of the State of Louisiana. Imperial Management Corporation was organized for the sole purpose of acquiring all rights, title and interest to the Company from Imperial Holding Corporation.

On July 13, 1990, Imperial Holding Corporation had acquired the Company's charter out of liquidation from the Commissioner of Insurance, as liquidator for the U. S. Indemnity Assurance Group. The Company's charter was obtained under the grandfather rule requiring \$1,000,000 in capital and surplus for a stock insurance company.

The Company's Certificate of Authority dated October 18, 1990 authorizes it to transact the business of health and accident, vehicle, liability, workers' compensation, burglary and forgery, glass, fidelity and surety, fire and extended coverage, steam boiler and sprinkler leakage, crop and livestock, and inland marine within the State of Louisiana.

### **TERRITORY AND PLAN OF OPERATIONS**

During the period under examination the Company marketed its insurance products only in the State of Louisiana in accordance with the Company's Certificate of Authority.

On July 1, 1996, a Certificate of Compliance and a Privilege Tax License was issued to the Company from the State of Mississippi. This Certificate of Compliance authorizes the Company to transact the business of fire and allied lines, industrial fire,

casualty, fidelity, surety, worker's compensation, boiler and machinery, plate glass, inland marine, accident and health, auto liability, and guaranty within the State of Mississippi.

The Company plans on implementing a marketing program in Mississippi during 1999 that will be similar to its Louisiana marketing program.

On July 10, 1996, a Certificate of Authority was issued to the Company from the State of Texas. This Certificate of Authority authorizes the Company to transact the business of fire, Automobile-liability and physical damage, fidelity and surety, and reinsurance on all lines authorized to be written on a direct basis.

Imperial General Agency of Texas, Inc., a subsidiary of the Company, has a managing general agency contract with State and County Mutual Fire Insurance Company from the State of Texas. The Company had no direct writings in the State of Texas.

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

The Company, a Louisiana corporation, is 100% owned by Imperial Management Corporation. The following schedule shows the Company relationship to other members in the holding company system. Ownership is denoted by indentation.

#### **Imperial Management Corporation**

Imperial Adjustment Corporation

Liberty Printing of Opelousas, Inc.

#### **Imperial Fire & Casualty Insurance Company**

Gulf States Life Insurance Company

Imperial General Agency of Texas, Inc.

Imperial Holding Corporation

Acadiana Cable Advertising, Inc.

North-South E.B.R. Connection, Inc

Century 21-Sasser & Associates, Inc.

### **ANTIFRAUD POLICY**

The Company has no formal antifraud policy. However, the Company showed evidence that it does take legal action on cases of claim fraud when detected.

### **DISASTER PLAN**

The Company does have a valid disaster plan in place. Back-up tapes of the Company's daily insurance activities are maintained at off-sight premises. Computer equipment used by the Company is standard in the industry so maintenance and enhancements are readily available. Also, the Company has a reciprocal agreement with another company in case of computer down time.

### **YEAR 2000 COMPLIANCE**

In regards to the Year 2000 Compliance issue, there can be problems with operating systems, software system, and embedded systems. The Company has identified and addressed all of the year 2000 problems associated with these systems.

The accounting system was designed and written in house in compliance with the year 2000 requirements. All entry fields and aging techniques that utilize four digit years have been tested to be year 2000 compliant. The software package, Clarion for Windows, was developed and produced by Topspeed Corporation of Pompano Beach, Florida. Information detailing that Clarion for Windows is Year 2000 compliant can be found on Topspeed's web page (<http://www.topspeed.com>).

## **AGREEMENTS**

The Company has an agreement with Opelousas Underwriters, Inc. whereby the Company's products are marketed through Opelousas Underwriters' producers throughout Louisiana. In addition, Opelousas Underwriters performs underwriting functions and services the Company's renewal business.

The Company has an agreement with Imperial Adjustment Corporation, an affiliate, to perform all of the Company's auto claim functions.

Both Opelousas Underwriters' and Imperial Adjustment Corporation's employees work in house at the Company's home office.

## **PRIOR EXAMINATION REPORTS**

The Louisiana Department of Insurance conducted an examination of the Company as of December 31, 1993.

This examination report did not contain any recommendations relating to the Company's market conduct activities.

## ***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 provided a properly formatted complaint register for the period under examination as required by **LSA-R.S. 22:1214 (17)**. However, in comparing the Company's complaint register to the LDOI's complaint listing, it was noted that the Company failed to provide a complete listing of complaints for the period under examination. The Company acknowledged that some complaints had been purged from its records.

A review of the Company's complaints indicated that the Company took prompt and adequate steps to finalize and dispose of any complaints in accordance with applicable statutes, rules and regulation, and policy language.

### ***PRODUCER REVIEW***

A review of the Company's producer records indicated that approximately 165 of its active agents were not appointed. The Company agreed to review these findings and seek appointments for all active agents. Earlier in 1998 the Company had secured appointments for approximately 189 agents.

The Company's failure to appoint any agent who is soliciting business for it is in conflict with **LSA-R.S. 22:1114 B (2)** that states in pertinent part as follows:

**“Any insurer lawfully authorized to transact business in this state shall appoint as its agents any person or persons holding a license under the provisions of this part. No solicitation of insurance may be made by any agent prior to notification of the insurer that his appointment has been recorded by the commissioner of insurance...”**

During the course of the examination the Company provided documentation evidencing its intent to update its agent records in order to verify that all of its active agents are appointed. The Company also believes that some of the unappointed agents detected during the examination are inactive or are the result of name discrepancies.

### ***UNDERWRITING AND RATING REVIEW***

A sampling of 30 new business auto applications for the period under examination were reviewed to determine if proper rating factors were used and to verify that premiums calculated were in accordance with filed rates. This review was performed without exception.

During the summer of 1998 the Company filed an amended private passenger automotive policy jacket. A LDOI disapproval letter dated July 31, 1998 advised the Company of a number changes required before the filing could be approved. When asked, the Company stated it would resubmit a revised filing with the LDOI by the February 8, 1999 deadline.

### ***CLAIMS REVIEW***

A random sampling of paid auto claims was pulled from the Company's claim register. Every first claim number for the 5<sup>th</sup> and 10<sup>th</sup> of each month for the period January 1995 through December 1997 was requested. This would provide 72 claims for the review. After reviewing 50 cases with no exceptions it was determined that it was not necessary to review the remaining claim sampling.

A systemic sampling of 20 pending auto claims that represented approximately every 50<sup>th</sup> pending claim from the listing was reviewed without exception.

A review of the Company's auto claim files revealed that the Company investigated claims timely, responded to claim correspondence promptly and paid claims according to policy provisions and applicable statutes, rules and regulation. "Clean claims" which are those claims in which liability is easily determined and usually do not include bodily injury were adjudicated on an average of 25 days. Claim files were adequately documented for this review.

Although the examination was conducted as of December 31, 1997 the Company agreed to let the examiner review some of their 1998 denied claims as authorized by Act 1476. Act 1476, titled *Omnibus Premium Reduction Act of 1997*, is part of a set of legislative reforms effective in 1998 which is intended to reduce motor vehicle insurance costs in Louisiana. One of the principle features of the Act is the "limitation of recovery" provision, a/k/a "no pay, no play", which sets a recovery threshold for uninsured injured motor vehicle owner and operators. Specifically, motor vehicle insurers will no longer be required to pay for the first \$10,000 of bodily injury or the first \$10,000 of property damage to an uninsured motor vehicle owner and operator due to the negligence of insured drivers. This will result in a reduction of liability losses and loss adjustment expenses to motor vehicle insurers.

A small sampling of these "no pay, no play" denied claims were reviewed. This claim files revealed that the Company timely verified coverage with the claimant's insurance company. If it appeared that no coverage was in effect, the Company contacted these claimants by phone and certified letter to confirm that they did not have compulsory

motor vehicle liability security as required by R.S. 32:866 (A) (1). The usual claim investigations continue until confirmation by the Company that no insurance coverage was in effect. Once confirmed, the Company by certified letter advised the claimant of the claim denial and the provisions of Act 1476 that mandated the denial.

### ***COMMENTS AND RECOMMENDATIONS***

It is recommended that the Company implement procedures that will insure that its active producers will be properly appointed with the Louisiana Department of Insurance.

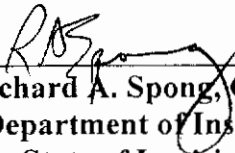
Also, it is recommended that the Company implement procedures to insure that all complaints filed with the LDOI against the Company are contained in the Company's complaint register.

## **CONCLUSION**

Acknowledgment is made of the courteous and prompt cooperation of the officers and employees of the Company during the examination.

I, the undersigned, hereby certify that a limited market conduct examination has been made of Imperial Fire and Casualty 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

**IMPERIAL FIRE AND CASUALTY INSURANCE COMPANY**

**OPELOUSAS, 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)**

**in and for the State of Louisiana**

**My commission expires** \_\_\_\_\_.