



LOUISIANA DEPARTMENT OF INSURANCE

P.O. Box 94214
BATON ROUGE, LOUISIANA 70804-9214
PHONE (225) 342-5900
FAX (225) 342-3078
<http://www.idi.la.gov>

CERTIFIED MAIL
RETURN RECEIPT REQUESTED
CERTIFIED RECEIPT NUMBER 7002046000260939008

March 4, 2005

Mr. Robert S. Greer, Jr., President/CEO
LEMIC Insurance Company
9543 Fenway Avenue
Baton Rouge, LA 70809-1411

Re: Market Conduct Examination – Louisiana Operations Only
NAIC #: 10708
Our File #: MCD-04-019

Dear Mr. Greer:

Enclosed are copies of the adopted Examination Report of your Company. This report is now a public document.

Please send a detailed written corrective action plan addressing the recommendation found in the examination report. If the Company has already implemented the recommendation, please indicate that in your response and include the date that the corrective action was taken.

Should you have any questions, please feel free to contact me at (225) 342-9173.

Sincerely,

Larry Hawkins

Larry Hawkins
Director
Market Conduct Division
Office of Financial Solvency

LH: me

Enclosure

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

LEMIC INSURANCE COMPANY

BATON ROUGE, LOUISIANA

AS OF

December 31, 2003

NAIC CODE 10708

NAIC ETS EXAM # MCD-04-019

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November 2, 2004

Honorable Robert Wooley
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 the

LEMIC INSURANCE COMPANY
BATON ROUGE, LOUISIANA

as of December 31, 2003 and the report of examination is herewith submitted.

FOREWORD

In accordance with **LSA-R.S. 22:1301 D.**, a market conduct examination was conducted on the activities of LEMIC INSURANCE COMPANY from January 1, 2001 through December 31, 2003. The examination was performed by test and all tests applied are included in this report.

The examination started at the Company's location in Baton Rouge, Louisiana and was completed in Mandeville, Louisiana at the offices of F. A. Richard & Associates, Inc. (FARA) and Alternative Risk & Insurance Concept (ARIC), the Company's TPA and MGA, respectively.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of LEMIC Insurance Company, hereinafter referred to as ("LEMIC") or ("Company"), was a limited routine market conduct examination authorized by the Louisiana Department of Insurance, hereinafter referred to as ("LDOI") or ("Department"). The examination was limited, in that not all examination procedures recommended by the National Association of Insurance Commissioners were performed.

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

- Company Overview,
- Complaints,
- Producer Licensing and Appointments,
- Marketing and Sales,
- Underwriting and Rating,
- Claims and
- Consumer Privacy Policy.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of Insurance Commissioners ("NAIC") Guidelines. The NAIC Guidelines set the standard of conduct for a workers' compensation insurer and promote a program of fair treatment of policyholders. Portions of the NAIC Market Conduct Examiner's Handbook, Volume I were used as a measure of compliance.

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance was utilized in this examination. Samplings were utilized to test the Company's records and procedures for statutory compliance. The ACL Program was used, when possible, to automatically generate a random sampling of data records. "Random" is a theoretical concept meaning that all items in a population or file, before selection, have an equal chance of appearing in the sampling. In instances in which ACL was not used, a systematic (sequential) sampling of certain company record listings or a manual random sampling was performed.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for most samples. Based on a review of the sampling's error rate, additional samplings may be required.

COMPANY OVERVIEW

COMPANY HISTORY

LEMIC Insurance Company, prior to converting to a mutual insurer was a Self Insurance Fund (“SIF”) and operated from 1982 to 1998 as a SIF under the name of Louisiana Employers Safety Association (“LESA”).

Effective January 1, 1998, LESA converted to a Louisiana domiciled mutual property and casualty insurance company and changed its name to Louisiana Employers Mutual Insurance Company. The Company’s original Articles of Incorporation under the name of Louisiana Employers Mutual Insurance Company were dated February 2, 1997.

Under a plan of reorganization, approved by the policyholders on December 29, 1998, the Company’s Articles were amended and restated on July 27, 1999, changing the name to Louisiana Employers-Managed Insurance Company. The Company was converted into a mutual holding company structure pursuant to LSA-R.S. 22:1004.1 and changed the Company from a mutual to a subsidiary stock company wholly owned by the mutual holding company. The July 27, 1999 amendment authorizing the Company to issue a maximum of one thousand (1,000) shares of no par, common capital stock. This amendment required that a majority of the issued stock be owned by a mutual insurance holding company. The plan of reorganization and conversion to a mutual holding company structure was approved by the LDOI on August 23, 1999.

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2003, the Company provides workers' compensation coverage to employers located in Louisiana, Mississippi and Arkansas.

The Company is licensed in Louisiana to write the following lines of business:

Vehicle Workmen's Compensation
Liability Fire & Extended Coverage

YEAR LA PREMIUMS WRITTEN*

2001	\$ 11,514,249
2002	18,943,131
2003	22,022,254

*Schedule T of the Annual Statements

PARENT, SUBSIDIARIES AND AFFILIATED COMPANIES

LEMIC is a Louisiana stock insurance company which is wholly owned by Employers Mutual Insurance Holding Company, Inc. ("EMIHC").

SERVICE AGREEMENTS

LEMIC has a service agreement with F. A. Richard and Associates, Inc. ("FARA") in which FARA is responsible for providing claims service administration, processing claim payments and performing policyholder (employer) payroll audits and loss control inspections. This agreement covers the service period from January 1, 2002 through December 31, 2004, inclusive, and will automatically be extended for a period of one (1) year upon the same terms and conditions provided in this agreement.

FARA also provides additional services for medical case management, utilization review and pre-certification. FARA is paid a fee for utilization savings through its preferred provided organization.

Alternative Risk and Insurance Concepts Agency, Inc. ("ARIC") performs as A general agent for LEMIC. Under the terms of this agreement, ARIC is the exclusive agent for the purpose of underwriting, issuance and delivery of policies and endorsements. This agreement covers the service period from January 1, 2002 through December 31, 2004, inclusive.

FARA is properly licensed as a Third Party Administrator, ("TPA") as required by LSA-R.S. 22:3041 and as a Medical Necessity Review Organization ("MNRO") as required by LSA-R.S. 22:3073.

RECOMMENDATIONS FROM PRIOR EXAMINATION REPORTS

There were no market conduct issues from the previous Louisiana Financial Examination Report as of December 31, 1999, that required any follow-up during this examination.

COMPLAINT REVIEW

This review was conducted in accordance with the provisions of **LSA-R.S. 22:1214 (17)**.

The Company only had three (3) complaints during the period under examination. The Company's responses to the Department on these complaints were timely and appeared adequate. No formal complaint procedures were provided.

During the examination the Company provided a complaint register for the three (3)-year period, which was in compliance with the above Louisiana Statute.

PRODUCER REVIEW

ARIC provided a CD of its active producers as of April 30, 2004. ACL was utilized to select a random sampling of seventy-five (75) active producers for review. This review revealed that all sampled producers held current appointments with LEMIC.

A judgmental sampling of ten (10) newly hired producers was selected for review. This review indicated that once the producer signed a contract with ARIC, an appointment was timely submitted to the Department in accordance with **LSA-R.S. 22:1144 B (1)**.

ARIC provided three (3) producers that were terminated during the period under examination. These appointments were canceled timely in accordance with **LSA-R.S. 22:1145 B**. No producers were terminated during the period under examination for causes addressed in **LSA-R.S. 22:1142**.

ARIC provided appointment procedures for hiring and terminating producers which appeared adequate.

MARKETING AND SALES REVIEW

The Company's advertising consists of small items such as pens and pencils, golf balls, carrying bags and similar items for name recognition.

The Company's does not offer any sales training to its independent contractor producers. A Company marketing representative is available to explain the interactive tool on the website. This interactive feature allows the producer, by use of an access code, to secure current rates for marketing the Company's products.

UNDERWRITING AND RATING REVIEW

ARIC provided underwriting guidelines that appeared adequate. The underwriting process requires that a detailed application be provided by the producer. The application is reviewed and is either rejected with specific reasons, is held pending answers to additional underwriting questions or a quote is offered. The quote sheet must be signed and returned to ARIC before coverage is bound.

NCCI policy forms, rules and advisory costs are utilized by ARIC. Policies can not be written outside of LEMIC's underwriting guidelines without review from senior management of ARIC or an officer of LEMIC. Underwriting guidelines are available to producers online and in hard copy form.

The Company provided a CD containing all new business policies issued in 2001, 2002 and 2003 to Louisiana residents. ACL was utilized to select a random sampling of sixty (60) new business policies from the three (3) years under examination.

A review of this sampling indicated that applications were complete, signed and dated by the applicant and the writing producer. The sampled applications were processed timely.

A sampling of approximately twenty (20) applications was selected from the initial sampling of sixty (60) new business policies in order to verify classification codes. These sampled ratings were verified with rates filed with the Department without exception.

ARIC did not maintain complete declined application files/records during the period under examination. They did maintain a computer database of submissions which include the proposed insured, the producer submitting the application, the received date

of the application, the date the application was rejected and the reason the application was rejected.

ARIC provided a CD of a small listing of non renewals for 2003. A sampling of thirty (30) were selected at random by ACL for review. The files were well documented and the reasons for non-renewal and date of notification to the insured were in accordance with applicable statutes, rules and regulations.

CLAIMS REVIEW

FARA provided claim guidelines that appeared adequate for the proper processing of claims in accordance with policy provisions, statutes and regulations.

The majority of claim forms are faxed to FARA by clients. A review of a sampling of paid claims revealed a fax date along with a separate date stamp. FARA stated that claim numbers are unique without any gaps in the sequential order of the claim numbers.

The Company provided a CD of paid claims for 2003 and once this CD of paid claims was reconciled with LEMIC's annual statement, ACL was utilized to select a random sampling of sixty (60) paid claims. A review of these sampled claims revealed claims were paid timely and in accordance with policy provisions, statutes and regulations. A time study of these sampled paid claims revealed that claims were paid on an average of eight (8) days.

The CD of 2003 paid claims did not contain a received date of the claim in its database and consequently ACL could not be utilized to perform an accurate time study of all 2003 paid claims. However, the received date of the sixty (60) paid claims that

were reviewed were found in the claims files. The importance of including a received date in their claim's database was discussed with FARA.

FARA has developed its own claim system. Detailed claims data was accessible by monitor by a user friendly program.

FARA does not maintain its claims closed without payment in a separate category. It should be noted that employers usually require employees to report any accident no matter how minor. Consequently, FARA receives many claims primarily for informational purposes which would evidently be closed without payment.

FARA provided a CD of approximately eighty (80) denied claims for 2003. ACL was utilized to select a random sampling of forty (40) denied claims. These forty (40) denied claims appeared to be denied in accordance with policy provisions, statutes and regulations.

During this claim review claims closed without payment and denied claims were detected in the paid claims review. It is recommended that FARA consider more definition in its claim system that will insure a separate claim population of paid, denied and closed without payment claims.

CONSUMER PRIVACY POLICY REVIEW

A review of Privacy Procedures provided by FARA and its affiliate ARIC indicated both are in compliance with the Louisiana Department of Insurance Regulation ***76 / PRIVACY OF CONSUMER FINANCIAL INFORMATION***, which governs the privacy of consumer financial information.

LEMIC is exempt from this Regulation as they write only commercial business.

COMMENTS AND RECOMMENDATIONS

It should be noted this was the first routine market conduct examination of the Company. Response time to examination requests by the Company's TPA and MGA were timely.

CLAIMS REVIEW

It is recommended that FARA consider more definition in its claim system that will insure a separate claim population of paid, denied and closed without payment claims.

CONCLUSION


I, Richard A. Spong, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

LEMIC INSURANCE COMPANY

BATON ROUGE, LOUISIANA

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

Respectfully submitted,



Richard A. Spong, CIE, CFE
Louisiana Department of Insurance