

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

LAFAYETTE INSURANCE COMPANY

NEW ORLEANS, LOUISIANA

AS OF

December 31, 2000

NAIC CODE 18295

TABLE OF CONTENTS

SUBJECT PAGE

Salutation...1

Foreword...2

Purpose and Scope of Market Conduct Examination...3

Company Overview...4

 Company History...4

 Territory and Plan of Operations...4

 Antifraud Policy...5

 Certificate of Authority...5

 Comments and Recommendations from Previous Reports...5

 Affiliated Companies...6

Complaints Review... 6

Producer Review...7

Marketing and Sales Review...9

Policyholder Service Review...9

Underwriting and Rating Review...10

Claims Review...13

Comments and Summary of Recommendations...15

Conclusion...17



OFFICE OF THE COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

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

June 15, 2001

Honorable J. Robert Wooley
Acting Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

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

LAFAYETTE INSURANCE COMPANY

NEW ORLEANS, LOUISIANA

as of December 31, 2000 and the report of examination is herewith submitted.

FOREWORD

A market conduct examination was performed of the activities of LAFAYETTE INSURANCE COMPANY from January 1, 1998 through December 31, 2000.

The market conduct examination is, in general, a report by exception. This means that references in the examination report to procedures and/or files subject to review may be omitted if no improprieties or errors were noted. The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance was utilized in this examination. Unless otherwise stated, the NAIC Market Conduct Examiners' Handbook, Volume II was used as a measure of compliance.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of LAFAYETTE INSURANCE COMPANY, hereinafter referred to as ("Company"), was a routine market conduct examination conducted in conjunction with the financial examination with both being authorized by the Louisiana Department of Insurance.

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

- Company Overview,
- Complaint and Grievance Review,
- Producer Review,
- Marketing and Sales Review,
- Policyholder Service Review,
- Underwriting and Rating Review and
- Claims Review.

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 standards of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders.

COMPANY OVERVIEW

Company History

The Lafayette Insurance Company was originally incorporated on November 23, 1869. It was re-incorporated on November 21, 1894, under the provisions of the laws of the State of Louisiana. The Company is the oldest insurance company operating under a Louisiana Charter in the state of Louisiana. The Company derived its name from the fact that it was originally located in the "Faubourg Lafayette" section of New Orleans. It was named after the famous French General Marquis de Lafayette who visited the city of New Orleans in 1825.

By amendment to the Articles of Incorporation on May 29, 1951, the name of the Company was changed from Lafayette Fire Insurance Company to Lafayette Insurance Company, and its objects and purposes were restated to permit it to write all classes of insurance except title, life and accident and health.

Territory and Plan of Operations

As of December 31, 2000, the Company had certificates of authority to operate as an insurer in the following states:

Arkansas	Mississippi
Iowa	Nebraska
Louisiana	Oklahoma
Tennessee	

The majority of the Company's business was produced in the State of Louisiana through independent agents. Virtually all of the remaining business was produced in

either Arkansas or Mississippi. The Company markets most forms of property and casualty insurance products for both personal and commercial needs. The commercial accounts include both small individual and larger multi-faceted risks.

Antifraud Policy

The Company provided a Fraud/Arson Manual that provided procedures and methods of operations for handling alleged arson/theft fraud claims.

The Company did not provide any written antifraud procedures or guidelines that would enable employees to perform their daily functions in accordance with the goals and direction of management.

Certificate of Authority

The Company's Certificate of Authority was issued with an effective date of March 14, 1983 and authorized the Company to transact vehicle, liability, workmen's compensation, burglary and forgery, glass, fidelity and surety, fire and extended coverage, steam boiler and sprinkler leakage, marine and transportation (inland marine).

Comments and Recommendations from Previous Reports

In the financial examination report as of December 31, 1995 conducted by the Louisiana Department of Insurance, the Company was criticized for not maintaining its complaints for review and not being able to provide documentation supporting that its agents were properly licensed and appointed.

During this examination the Company provided a complaint register with supporting complaint files. In addition, a listing of all appointed agents was provided.

Affiliated Companies

The following organizational chart shows the Company's position within the holding company system and reflects ownership by indenture.

- United Fire & Casualty Company
 - United Life Insurance Company
 - United Credit Corporation
 - Lafayette Insurance Company
 - Insurance Brokers & Managers
 - Addison Insurance Company
 - UFC Premium Finance Company
 - Addison Insurance Agency
 - American Indemnity Financial Corporation
 - American Indemnity Lloyds
 - American Indemnity Company
 - Texas General Indemnity Company
 - American Fire & Indemnity Company
 - American Computing Company

Mr. Scott McIntyre, Jr., Chairman of United Fire & Casualty Company owns or controls 15.39% of the stock of the Parent and his mother, Mildred McIntyre owns or controls 11.40% of the stock. Also, General Accident Insurance Company of America owns or controls 20.18% of the stock of United Fire & Casualty Company.

COMPLAINT REVIEW

Louisiana Revised Statute 22:1214(17) states "complaint" shall mean *any written communication* received by the insurer from the Department of Insurance.

A sample of 50 complaints filed with the Department between 1998 and 2000 were reviewed. Complaints generally are the result of the insured's misunderstanding of the policy provisions, denials of claims, delays in claim payments or dissatisfaction with the insurer's claims practices.

The Company maintained two complaint registers: one in the Underwriting Department and one in the Claims Department. The complaint registers were reviewed

and compared to the Department's listing of complaints. The following discrepancies were noted during this review:

- The registers did not contain 15 complaints; only 3 were found during this review
- The register maintained in the Underwriting Department did not contain the line of business or the disposition of the complaint as required by LSA-RS 22:1214(17)
- Correspondence relating to the complaint was not maintained in 3 complaint files
- Neither register totaled the number of complaints as required by statute

It is recommended that the complaints be consolidated into one complaint register under the control of one department in order to provide better control of the complaint handling function. Complaint documentation should be maintained in a separate complaint file for future examinations. The complaint register could aid the Company in detecting any patterns or trends from its daily operations.

The Company responded to 49 out of 50 sampled complaints within the required 30 day time period. It was noted that thirteen of the sampled 50 complaints dealt with the January 23, 2000 hailstorm in the New Orleans area.

PRODUCER REVIEW

The Company's list of 136 active agents was compared to the Department's list of appointed agents in order to determine if the Company's agents have been properly appointed. Although the Company had properly submitted appointments for its agents, seven agents appointed in 1999 did not appear on the Department's agent renewal listing for 2000-2001. When advised of this finding, the Company immediately submitted appointments for these seven agents.

One agency was using a different trade name other than the one registered with the Department. The Company requested this agency to register its new trade name with the Department.

During the period under examination the Company had no formal procedure for the investigation of its agents during the application process. During this review the Company was reminded of the DOI's Bulletin #99-01 dated June 1, 1999 referencing "Consent for Prohibited Person to engage in Insurance Business". This Bulletin was a notification to all persons and entities engaged in or contemplating being engaged in the business of insurance in this state, that the Louisiana Department of Insurance has enacted guidelines and requirements for granting written consent to engage in the business of insurance for individuals who are considered "prohibited persons" under The Violent Crime Control and Law Enforcement Act of 1994, Title 18 U.S. Code, Sections 1033 and 1034.

The Company stated the producer application had been revised to include a question relating to Prohibited Persons. Also, the Company will begin criminal background checks through the Louisiana State Police.

According to the Company, no agents were terminated for any prohibited acts during the period under examination. A review of all agent debit balances as of December 31, 2000 indicated that all balances were current and in accordance with the agent's contract.

Insurance Brokers & Managers ("IB&M"), wholly owned by the Company, is a managing general agency specializing in personal lines property coverage. It does not solicit or write business on behalf of the Company and has its own agency force.

MARKETING AND SALES REVIEW

The Company does not engage in any advertising via radio, TV, newspaper advertisements, or telephone book advertisements. Agents are provided with brochures that provide product information and newsletters that provide general information and updates concerning the company. The company also provides pencils, pens, post-it notes, and calendars containing the company name and logo to the agents for their own use.

United Fire & Casualty, the parent company, sponsors and provides an Internet site and the Lafayette Insurance Company is listed as a member of the United Fire Group. Agents are able to obtain quotes from the Internet site and inquire about Direct Bill policies and the status of claims. Consumers are able to review general information about the Company and its products and are able to find an agent located in their area.

This review was performed without exception.

POLICYHOLDER SERVICE REVIEW

A sample of 50 policies was selected from the new business commercial and personal samples used during the Underwriting and Rating Review. The policy due dates were compared against the dates the premium notices and billing notices were mailed. Three premium notices were mailed late based on the procedures provided by the Company.

A time study was performed on this sample of 50 policies to determine the lag time between the application date and the policy issue date. The applications were processed and new policies were issued in approximately 42 days for the commercial

lines policies and 22 days for the personal lines policies. By combining these results commercial and personal line policies were issued on an average of 31 days.

UNDERWRITING AND RATING REVIEW

A sampling of 100 commercial line policy files and 100 personal line policy files was selected in order to review the application forms, policy forms, timeliness in responding to correspondence and a general review of the file. A systematic sampling was selected from a listing provided by the Company for the years 1998, 1999 and 2000.

The review indicated that the files were adequately maintained. Such information as description of business, credit reports, sprinkler system checks, fire extinguisher checks and onsite inspection of property plus pictures were maintained in the file. If the Company made recommendations to improve the risk, a response was required from the applicant indicating what actions were taken.

During this review, it was noted that Acord applications with revision dates of 4/92, 1/95 and 1/96 were used. When asked, the Company responded that they did not require the agent to submit the most current revision of the Acord application form. Since the most current revision of the Acord application contained more detail relating to the Notice of Insurance Information Practices for the consumer and fraudulent acts by the applicant, it is recommended that the Company require the agents to use the most current revision of the Acord application.

The new business applications were reviewed for timeliness and completeness. During the review of the sample, it was detected that five of the commercial policy files and six of the personal policy files could not be found.

Seven commercial files did not contain applications and the applicants had not signed 21 of the applications. The Underwriting Manager stated that the Company does not pursue getting the applicant's signature on commercial policies because there is usually some negotiation between the Company, the agent and the applicant. Since the agent normally shops quotes from several different companies, the Company stated that it would be inconvenient to ask the applicant to sign each application. Also, five sampled personal line files did not contain applications and four other applications were not signed by the applicant.

When asked to provide an explanation as to how the Company checks the validity of VIN numbers on the applications, the Company stated that the VIN number, make, model and year of the vehicle are entered into the Company's policy system and the VIN is automatically checked against the Company database. If it doesn't match, the Company asks the agent to obtain a copy of the vehicle registration certificate.

A sample of 100 cancellations and 50 non-renewals was selected from listings provided by the Company. Five sampled policy files did not contain a copy of the cancellation notice. The Company stopped putting copies of the notices in the files in August 2000, however, two of these five files were cancelled prior to this date. The computer system contains a record of the cancellation and returned check. Proof of mailing is available and is maintained at the home office in Cedar Rapids, Iowa.

Some cancellation notices contain the statement "If not tendered, excess premium will be refunded on demand." This appears to be in conflict with LSA-R.S. 22:637 B. The Company said they would review this with their legal department. The Company stated that they issue refunds upon cancellation of a policy and do not wait for the insured

request the refund. The statement on the cancellation notice appears confusing and it is recommended that the statement be revised.

A small sample was selected from the cancellations in order to determine the amount of the refund. This sample revealed that refunds were calculated correctly and refunded in a timely manner.

A sample of 36 policies was selected from the new business to verify that the producers were properly licensed and appointed. The writing agents were compared to the list of appointed agents provided by the Department. All of the sampled agents had been properly appointed.

The Company's policy forms were reviewed and compared against those filed with the DOI. It appears that the forms currently utilized by the Company have been approved by the DOI. The following exceptions were noted: Form CA7039 (11/96) was not submitted for Departmental approval apparently in error. The Company could not provide an approval form for four policy schedule forms. The Company agreed to submit these policy forms for Department approval.

A random sample of 19 policies was selected from the new business to determine if the rates charged are in accordance with filed rates. The declaration page and rate calculation was obtained from the company and was compared with the filed rates. No discrepancies were noted in the check of the rates.

During the examination of the January 2000 hailstorm claims, it became apparent that many homes in the New Orleans area were underinsured. For many years Lafayette did not attempt to establish an insurable amount on the Homeowner's or Dwelling Fire policies. They felt it was best left to the agents and the customer to determine. In many

cases, the amount of insurance was determined by the purchase price of the property. To force the customer to buy more insurance to cover the replacement cost of the property would have been cost prohibitive to the customer. It also may have created a moral hazard that the company was not willing to accept.

This philosophy changed with the hailstorm of January 2000. It became apparent that the slate and asbestos roofs on many of the properties created coinsurance problems. In June 2000, the Company notified their agents that they would require all homeowners new business to be properly insured to value.

In addition, the Company began a program of reviewing their entire book of business to establish proper values. This review by the Company began in January 2001 and should be completed by the end of 2002.

CLAIMS REVIEW

The Company provided a listing of paid claims for the year 2000 in an electronic file. The ACL Program was utilized to generate a sampling of 100 claims. The review of this sampling indicated that claims were paid promptly and in accordance with policy provisions.

ACL generated the following reports by line of business for year 2000 claims. These reports are based on the actual number of paid claims processed and represent approximately 70% of all paid claims.

HOMEOWNER'S CLAIMS

62 %	were paid within 30 days
12 %	were paid within 60 days
5 %	were paid within 90 days
21 %	were paid 91 days or later

EXTENDED COVERAGE CLAIMS

66 % were paid within 30 days
13 % were paid within 60 days
5 % were paid within 90 days
16 % were paid 91 days or later

A systematic sampling of 56 open and closed litigated claim files was selected for review from listings provided by the Company for the years 1998, 1999 and 2000. There were no indications that the Company's claim handling of these files encouraged litigation, as it appeared claims were paid in accordance with policy provisions.

The Company provided a listing of denied claims for 1998, 1999 and 2000. From this listing, a systematic sampling of 100 claims was selected for review. These denials appeared to be in accordance with policy provisions and regulation. Crawford and Company who has handled a majority of the appraisal services for the Company wrote some of the denial letters. There is no written agreement between Crawford and the Company therefore Crawford has no authority to deny claims. It is recommended that the Company handle all claim denials.

Home office personnel have conducted internal audits of the claims process. The audit reports for 1998, 1999 and 2000 were reviewed and all contained many review worksheets and were very detailed with a good summary report.

On January 23, 2000, the New Orleans area was hit by an unusually intense hailstorm, which generated numerous claims. The Claims Manager for the Company provided us with the following statistics concerning this hailstorm:

As of March 13, 2001:

Total number of claims received:	4,681
Total number closed:	4,094
Total number open:	587
Total closed without payment:	683
Number closed below deductible:	303
Number denied:	380

The hailstorm also generated a number of claim complaints that were filed with the Department. The Company tabulated these complaints through year-end 2000 and compiled the following figures:

Total number of Claims:	4,364
Total number of Complaints:	22
Percentage of Complaints to Claims:	<1%

The complaints were placed into the following categories:

Denial of claim:	3
Repair vs. replacement of asbestos roofs:	5
Replacement cost provision:	7
Decking and layer problems:	3
Scope of damage:	3
Cost of roof:	1

It appears that most of these complaints have been resolved and the Company is currently working with the Department to close the remaining open complaints.

COMMENTS AND SUMMARY OF RECOMMENDATIONS

It is recommended that the complaints be consolidated into one complaint register under the control of one department in order to insure adequate maintenance and timely handling of complaints. See Complaint Review, page 6.

Although the examination indicated that its producers were properly appointed, the Company is reminded that the renewal listing provided by the Department should be

compared yearly against the Company's active producers to verify that the Department properly recorded all previous appointments. Because it is a criminal offense for anyone to willfully permit a prohibited person to conduct insurance activities, it is highly recommended that the Company investigate its agents during the application process. See Producer Review, page 7.

It is recommended that the Company require the agents to submit the most current revision of the Acord application. If revisions were deemed necessary on this application form, it appears it would be in the best interest of the Company to try and utilize the latest revision.

Some cancellation notices contain the statement "If not tendered, excess premium will be refunded on demand." This appears in conflict with LSA-R.S. 22:637 B. This statement appears confusing and it is recommended that the Company's Legal Department address this issue. See Underwriting and Rating Review, page 10.

Finally, during the period under examination the Company did not utilize out cards to record the name of the individual who pulled a folder from the Company's files. Consequently, individuals were observed searching for files during the course of the examination. Also, it was noted that the Company had some difficulty finding all of the files for various samplings. However, the Company is in process of scanning all of its new records to a program named Image RIGHT. The Company estimates it will take approximately a year to scan old records. Once this project is successfully completed the search for files should be eliminated.

CONCLUSION

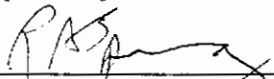
I, Richard A. Spong, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

LAFAYETTE INSURANCE COMPANY
NEW ORLEANS, 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.

Richard S. Robison, Louisiana Insurance Compliance Examiner, also participated in this examination and joins the undersigned in acknowledging the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,



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