

**LIMITED SCOPE REPORT OF EXAMINATION**

**OF THE MARKET CONDUCT AFFAIRS**

**OF**

**LAFAYETTE INSURANCE COMPANY**

**METAIRIE, LOUISIANA**

**AS OF**

**JUNE 27, 2007**

**NAIC ETS EXAM NO. LA071-M71**

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July 16, 2007

Honorable James J. Donelon  
Commissioner of Insurance  
P O Box 94214  
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Sir:

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

**LAFAYETTE INSURANCE COMPANY**  
**2800 VETERANS BOULEVARD, SUITE 253**  
**METAIRIE, LOUISIANA 70005**

as of July 16, 2007 and the report of examination is herewith submitted.

## **FOREWORD**

A targeted market conduct examination was performed on the claims handling activities of Lafayette Insurance Company hereinafter referred to as (“Company”), for policyholders affected by Hurricanes Katrina and Rita.

## **SCOPE OF EXAMINATION**

In accordance with **LSA-R.S. 22:1301 D.**, the target market conduct examination of the Company was authorized by the Louisiana Department of Insurance (“Department”) to examine the Company’s handling of claims resulting from Hurricanes Katrina and Rita.

The purpose of this examination was to assure equitable treatment of Louisiana policyholders and claimants by the Company and to assure compliance by the Company with Louisiana statutes, rules, directives, bulletins and regulations, as well as the Company’s own procedures and guidelines. The examination included, but was not limited to, the claims practices in Louisiana for policies affected by Hurricanes Katrina and Rita.

The Audit Command Language (“ACL”) Program, a data manipulation program, provided by the Department was utilized in this examination. Sampled items were utilized to test the Company’s records and procedures. ACL was used to generate random samples of sixty (60) claims records for review of open, closed with payment, and denied claims. The sampled items selected for review were randomly selected from claim data files provided by the Company. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) was used for all samples.

The time period for this examination was defined as August 29, 2005, (the date Hurricane Katrina made landfall), through the present. The examination was performed by test and all tests applied during the examination are included in this report.

## BACKGROUND

Lafayette Insurance Company was purchased in 1979 by the United Fire Group based in Cedar Rapids, Iowa. The Company's offices in Metairie were converted to the New Orleans regional office to deal with claims handling and management. In 1999, United Fire Group purchased American Indemnity Financial Corporation in Galveston, Texas. It became the Lone Star regional office for United Fire Group.

Taken from the Company website, "*On August 29, 2005, Hurricane Katrina made landfall in New Orleans, Louisiana, devastating much of the north-central Gulf Coast before dissipating on August 31. Hurricane Katrina was the costliest catastrophe in the history of United Fire Group to date, exceeding \$210 million in losses and loss settlement expenses net of reinsurance.*" Within a month, on September 24, 2005, the Company was affected by Hurricane Rita which made landfall in Johnson Bayou, Louisiana.

In speaking with Company officials during the week on-site, the Company relayed that the Metairie offices were completely shut down after Hurricane Katrina. Staff and managers were relocated within ten (10) to fourteen (14) days to the Lone Star regional office in Galveston to start with processing and adjusting claims related to Katrina. During the time between Katrina and Rita, claims were being reported to Cedar Rapids or Galveston and claim files were prepared and adjusting firms were hired to help with the adjusting claim process for Katrina. When Hurricane Rita started to gather strength and head towards the Texas-Louisiana coastline, the Metairie claim staff and managers once again found themselves evacuating within the month from the Lone Star regional office in Galveston for approximately five (5) to six (6) days. The next step for the affected employees, if Galveston had been affected like Metairie, would have been to evacuate to Cedar Rapids, Iowa and process claims from the parent Company's home office, which did not happen.

After Hurricane Rita dissipated, the Metairie office became functional within approximately four (4) to six (6) weeks with a few litigation staff and one (1) customer service representative. The Metairie office staffing greatly depended on whether or not the employee had a dwelling to come back to in the New Orleans area. About every

week, two (2) to three (3) employees would come back to work in Metairie, depending on where they were living at the time.

## **APPLICABLE STATUTES AND STANDARDS**

The following statutes were used as a benchmark to determine compliance with the Louisiana Insurance Code.

### **“RS § 22:658 - Payment and adjustment of claims, policies other than life and health and accident; personal vehicle damage claims; penalties; arson-related claims suspension”**

*A (1). All insurers issuing any type of contract, other than those specified in R.S. 22:656, 657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest. The insurer shall notify the insurance producer of record of all such payments for property damage claims made in accordance with this Paragraph.*

*A (3). Except in the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim and of a claim for reasonable medical expenses within fourteen days after notification of loss by the claimant. In the case of catastrophic loss, the insurer shall initiate loss adjustment of a property damage claim within thirty days after notification of loss by the claimant. Failure to comply with the provisions of this Paragraph shall subject the insurer to the penalties provided in R.S. 22:1220.*

*A (4). All insurers shall make a written offer to settle any property damage claim, including a third-party Claim, within thirty days after receipt of satisfactory proofs of loss of that claim.”*

### **“RS § 22:1214 – Methods, acts and practices which are defined herein as unfair or deceptive”**

The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:

- 14. Unfair claims settlement practices. Committing or performing with such frequency as to indicate a general business practice any of the following:
  - (b) Failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.**

- (d) Refusing to pay claims without conducting a reasonable investigation based upon all available information.*
- (e) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed.*
- (f) Not attempting in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear.”*

## **EXAMINATION FINDINGS BASED ON CLAIMS FILE REVIEW**

The following examination findings are disclosed for the Company and details the exceptions found during the claims file review. The sampled claims files were reviewed to determine:

- The timeliness of the initiation of the adjustment process
- The timeliness of initiation of on-site inspections of damaged property
- The timeliness of initial claims payments
- The adequacy of documentation contained in the claims files

Louisiana statutes and regulations, as well as the Company’s Procedures Guide for Claims provisions were utilized as a benchmark for compliance. Three (3) random samples of sixty (60) claims relating to open, closed with payment, and denied claims were selected from a listing provided by the Company for policies affected by Hurricanes Katrina and Rita. Records furnished to the Department by the Company indicate that approximately eleven thousand (11,000) Katrina related claims and seventeen hundred (1,700) Rita related claims were handled by the Company.

### ***Open Claims Review***

Upon examination, the Company had **four (4)** claims that were not adjusted within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (3)**.

Upon examination, the Company had **one (1)** claim that was not paid within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (1) & (4)**.

The Company's claims manual does not specifically address the timeliness of on-site inspection of damaged property after the initial contact between the field claims adjuster and the claimant was made. The manual was generic in nature and did not specifically address a time constraint for non-catastrophic versus catastrophic procedures. The general consensus from speaking with Company officials in the Metairie office was that adjustment should be initiated within twenty-four (24) hours after initial contact with the claimant. It was found that **fifty-nine (59)** claims did not have timely site inspections performed by claims adjusters if the general consensus guideline was used, which was twenty-four (24) hours. In light of the catastrophic events, the mandatory evacuation date for the parishes in the affected areas was considered, given the problems that arose with adjusters not being able, in some cases, to reach the properties that were affected for a few weeks. While not in violation of the Louisiana Insurance Code, it is recommended the Company place specific guidelines in the Company's claims manual to address the length of time the adjuster should take in making an initial inspection from the initial contact date. It is understood by the Department the magnitude of the two (2) hurricanes, but the claims manual should address procedures specific to catastrophes for the future.

Open claim files reviewed were adequately documented when the on-site review was performed.

#### ***Closed with Payment Claims Review***

Upon examination, the Company had **seven (7)** claims that were not adjusted within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (3)**.

Upon examination, the Company had paid all claims sampled within the thirty (30) day time period as set forth in **LSA-R.S. 22:658 A (1) & (4)**.

The Company's claims manual does not specifically address the timeliness of on-site inspection of damaged property after the initial contact between the field claims adjuster and the claimant was made. The manual was generic in nature and did not specifically address a time constraint for non-catastrophic versus catastrophic procedures. The general consensus from speaking with Company officials in the Metairie office was

that adjustment should be initiated within twenty-four (24) hours after initial contract with the claimant. It was found that **fifty-four (54)** claims did not have timely site inspections performed by claims adjusters if the general consensus guideline was used, which was twenty-four (24) hours. In light of the catastrophic events, the mandatory evacuation date for the parishes in the affected areas was considered, given the problems that arose with adjusters not being able, in some cases, to reach the properties that were affected for a few weeks. While not in violation of the Louisiana Insurance Code, it is recommended the Company place specific guidelines in the Company's claims manual to address the length of time the adjuster should take in making an initial inspection from the initial contact date. It is understood by the Department the magnitude of the two (2) hurricanes, but the claims manual should address procedures specific to catastrophes for the future.

Open claim files reviewed were adequately documented when the on-site review was performed.

***Denied Claims Review***

This review determined that claims denied without payment were handled in accordance with applicable statutes and regulations. The following table shows the reasons for the closure or denial of the claims:

<u>Reason for Closure or Denial</u>	<u>Number of Claims</u>
Damages were below the deductible.	42
No damage covered from peril.	12
Insured withdrew claim.	<u>4</u>
Total	60

***Complaint Review***

A judgmental sampling of complaints was selected from the Louisiana Department of Insurance's CRAFT complaint log and compared to the Company responses and claim files. Department records show a total of one hundred seventy-eight

(178) complaints were filed with the Department relating to Hurricanes Katrina and Rita. Fifteen (15) sampled items were reviewed. "Read Only" access was given to the reviewer for the compliant files, claim system log notes and the scanned image claim files. It was found that in all fifteen (15) complaints, the Company responses were supported by the claims information reviewed in the files.

## COMMENTS AND RECOMMENDATIONS

It is recommended that the Company implement procedures for the timely adjustment and payment of claims constant with the intent of **LSA-R.S. 22:658 A (1), (3) & (4)**.

It is recommended that the Company place specific guidelines in the Company's claims manual to address the length of time between the adjuster making an initial inspection and the initial contact date, whether it is from a catastrophic or non-catastrophic event. The Company's claims manuals should also address specific procedures for handling catastrophes in the foreseeable future.

## CONCLUSION

I, Jonathan C. Landry, do solemnly swear and affirm that I am a contract examiner for the Commissioner of Insurance of the State of Louisiana and that, as such, I was assigned to conduct a targeted examination of the market conduct activities of

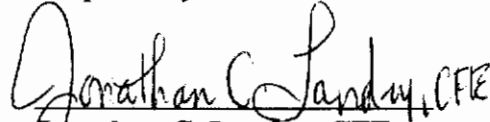
### LAFAYETTE INSURANCE COMPANY

### METAIRIE, 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.

The examiner in charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process.

Respectfully submitted,

  
**Jonathan C. Landry, CFE**  
Louisiana Department of Insurance