

**REPORT OF EXAMINATION**

**OF THE**

**MARKET CONDUCT AFFAIRS**

**OF**

**LOUISIANA FARM BUREAU CASUALTY INSURANCE COMPANY**

**BATON ROUGE, LOUISIANA**

**AS OF**

**DECEMBER 31, 2007**

**COMPANY CODE 40924**

**COMPANY ETS EXAM # LA071-M78**

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April 9, 2008

Honorable James J. Donelon  
Commissioner of Insurance  
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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

**LOUISIANA FARM BUREAU CASUALTY INSURANCE COMPANY**

**9516 Airline Highway  
Baton Rouge, LA 70815-5598**

on Louisiana homeowner claims incurred between August 28, 2005 to September 25, 2005 that were related to or caused by Hurricanes Katrina or Rita. The report of examination is herewith submitted.

## **FOREWORD**

In accordance with *LRS 22:1301, et seq.*, a targeted market conduct examination was conducted on the claims activity of Louisiana Farm Bureau Casualty Insurance Company on Louisiana homeowner claims incurred between August 28, 2005 to September 25, 2005 that were related to or caused by Hurricanes Katrina or Rita.

The examination was performed by test with all test results set forth in this report.

### **PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION**

The market conduct examination of Louisiana Farm Bureau Casualty Insurance Company, hereinafter referred to as ("Company"), was a targeted market conduct examination authorized by the Louisiana Department of Insurance ("Department"). The examination was targeted, in that not all examination procedures contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook were performed.

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

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the NAIC Guidelines. The NAIC Guidelines set the standard of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders. Portions of the *NAIC Market Regulation Handbook, Volume I* were used as a measure of compliance.

The ACL ("Audit Control Language") computer software program, a data manipulation and analysis program provided by the Department, was utilized in

this examination. Samplings of the data were utilized to test the Company's records and procedures for statutory compliance. The ACL program was used, when possible, to statistically 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.

Generally, a random or systematic sampling size of sixty (60) records was selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) was also used for all samples.

Failure to identify or criticize improper or non-compliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

## **COMPANY HISTORY**

The Company's charter was approved for recordation on January 30, 1981, and the Company was authorized to write business on June 23, 1981. The Company's certificate of authority grants the authority to write health and accident insurance and all lines of property and casualty insurance except title insurance. In 1994, the certificate of authority was amended to delete workers' compensation as an authorized line of business as the Company discontinued writing workers' compensation insurance.

The Company writes private passenger auto liability, homeowners, general liability, and allied lines (flood) insurance in the State of Louisiana. Business is marketed through a network of approximately two hundred fifty (250) exclusive agents. All premiums, loss expenses, assessments, and other liabilities are automatically reinsured entirely by its parent, Southern Farm Bureau Casualty Insurance Company (SFBCIC) domiciled in Ridgeland, Mississippi.

## CATASTROPHIC LOSS

On August 26, 2005, Governor Blanco declared a State of Emergency within the state of Louisiana for Hurricane Katrina. On September 20, 2005, Governor Blanco also declared a State of Emergency within the state of Louisiana for Hurricane Rita. Hurricanes Katrina (August 29, 2005) and Rita (September 24, 2005) resulted in some of the largest natural disasters to ever hit the United States resulting in a massive mandatory evacuation of a large metropolitan area (New Orleans, Louisiana), severe damage to large geographic areas that resulted in restricted access for thirty (30) to sixty (60) days, damage to infrastructure including land based and cellular telephone systems, gas, water and electric utility services, roads and highways and interruption of governmental services. These hurricane disasters also resulted in massive countrywide relocation of residents which prolonged the assessment of damages and recovery. Based on these facts and the magnitude of the destruction, it has been determined that insurance claims resulting from Hurricanes Katrina and Rita are considered a “catastrophic loss” as referenced in *LRS 22:658 A. (3)*. Therefore, insurers are required to initiate loss adjustment of a property damage claim within thirty (30) days of the reported catastrophic loss or when access to severely damaged areas is restricted, within thirty (30) days of access to the damage area.

The Company and its representatives encountered severe problems, impediments, road blocks and hindrances in servicing its customers and adjusting the catastrophic claims attributable to Hurricanes Katrina and Rita. The following are some of the situations and circumstances which lengthened the adjustment and settlement process for these catastrophe claims:

- a) Mandatory evacuation of large geographic areas;
- b) Relocation of customers throughout the continental United States;
- c) Poor or no telephone communication service (land based and cellular);
- d) Inability of catastrophe personnel to contact claimants due to the above;

- e) Restricted access to many of the damaged areas for up to thirty (30) and sixty (60) days;
- f) Curfews for damage zones;
- g) Disruption of gas, water and electric utility services;
- h) Disruption of essential governmental services provided by federal, state and local agencies;
- i) Lack of housing/hotels for catastrophe workers (field adjusters) resulting in long drive times into the damage zones;
- j) Restricted gasoline supplies available for catastrophe workers (field adjusters);
- k) Extensive damage to dwellings and their contents causing lengthy repair periods, multiple supplemental claims filed by claimants which in some cases resulted in multiple field adjuster inspections, numerous claim settlement checks paid on a claim, numerous voided/stop payment checks due to transitory addresses, etc.;
- l) Extended repair periods due to lack of building materials, qualified contractors and construction workers;
- m) Back to back hurricanes due to Hurricane Rita (September 24, 2005) which caused additional flooding and damage in the Hurricane Katrina danger zone;
- n) Re-evacuation of the New Orleans metropolitan area due to Hurricane Rita (September 24, 2005); and
- o) Unusual field adjuster logistical challenges due to lack of housing/hotels and gasoline, lengthy drive times, limited telephone service, restrictive scheduling, curfews, aggressive claimants, etc.

Due to the circumstances noted above, delays or lag times for adjusting Hurricane Katrina and Hurricane Rita claims were justifiability lengthened with valid cause.

The magnitude of claim damage as a result of these two (2) catastrophic events presented a unique challenge to any affected insurance company and the local, state and federal governments.

### **COMPANY'S CATASTROPHIC LOSS PROGRAM**

Normally, the Company's claims are adjusted in forty-nine (49) claim offices located throughout Louisiana. After Katrina, these claim offices remained open to assist in the processing of catastrophic ("Cat") claims as well as the regular claims (non-catastrophic) reported by its insureds. Immediately after Katrina, thirty (30) office personnel at the state office located at 9146 Airline Highway, Baton Rouge, Louisiana were trained to take loss notices via telephone and Internet access as well as processing requests for advance payments. After the evacuation of New Orleans, the Company realized that a massive number of people displaced would be in need of funds. The Company's goal was to provide immediate funds to its insureds who had suffered catastrophic losses.

If the insured had policy coverage in force on a dwelling and had property damage in the area affected by Katrina, the insured was eligible for a \$1500 advance; this advance payment would be treated as an Allowance for Living Expense ("ALE") payment, if applicable, or as an advance against the property loss based on the adjuster's inspection of the property loss.

Claim files were set up at the state office which contained an activity log, photos, estimate discs, and a payment request form. The data was batched and provided to the Cat Centers to print loss notices and organize the claim file by geographical areas.

Three (3) Cat centers were established in Louisiana: Gonzales at a parish office, Thibodaux at a claims office and Baton Rouge at CitiPlace, a training and disaster recovery facility. The Cat Office staffing varied, but each had a minimum of one District Claims Manager, a District Field Supervisor, clerical staff and claims adjusters. The Company allocated manpower based on claim volume,

accessibility to the area being worked and availability of food, lodging and gasoline.

Also, during this time, Company personnel located and provided generators to those Company offices without electrical power and then ran a daily gasoline courier service to those Company offices operating on generators.

After Katrina's landfall, the Company had forty-five (45) Louisiana Farm Bureau adjusters working where needed. Also, fourteen (14) Farm Bureau States sent approximately seventy-five (75) adjusters that came for two to three weeks and then were replaced by other adjusters from those states when they were available. With the advent of Rita less than thirty days (30) after Katrina's devastation, the Company elected to engage approximately one hundred and fifty (150) independent adjusters to assist primarily with the Rita claim losses.

The CitiPlace location also handled flood claims as the Company is a WYO carrier (Write Your Own flood policy). Through the WYO program, the same Standard Flood Insurance Policy ("SFIP") sold directly by the Federal Government is also sold by the participating WYO program private insurance companies.

The Federal Emergency Management Agency ("FEMA") promulgates the SFIP as authorized and directed by the *National Flood Act 42 U.S.C. sec. 4013*. By regulation, all flood insurance policies issued under the NFIP are subject to Federal statutes, Federal regulations, the Federal Insurance Administrator, and the terms and conditions of the SFIP. *See 44 C.F.R. Pt. 61, et seq.*

The SFIP itself and codified in Federal law states *“The policy and all disputes arising from the handling of any claim under the policy are governed exclusively by the flood insurance regulations issued by FEMA, the National Flood Insurance Act of 1968, as amended (42 U.S.C. 4001, et seq.) and Federal common law.”*

Therefore, all the Company’s activities, participation, and involvement in the NFIP, administered by FEMA, specifically, as it pertains to claims handling matters is beyond the jurisdiction of the Department, or any state government authority. Accordingly, it is beyond the scope of this targeted market conduct examination.

Due to the volume of flood claims, the Company contracted with Colonial Claims to handle these claims. The Company managed the claims process by approving payment of all flood losses and handling complaints or related problems.

### **COMPANY’S CLAIMS COMPLIANCE REVIEW**

In response to the Department’s request, the Company provided a CD of all Louisiana homeowner catastrophe claims incurred between August 28, 2005 and September 25, 2005 that were related to or caused by Hurricanes Katrina or Rita. The CD contained all claim payments, open (pending) claims and the majority of closed claims. Later, the Company provided a separate file of closed without payment claims as of December 31, 2007.

ACL was utilized to sample, analyze the claims database and extract the claim data into categories. Three (3) categories were sampled or extracted for review on all losses incurred between August 28, 2005 and September 25, 2005:

- Paid claims
- Open (pending claims), and
- Claims closed without payment

For paid and closed without payment claims, ACL was utilized to generate a statistical random sample size of sixty (60) claim records; however ACL only extracted four (4) open claims for review. These claim files were reviewed in order to determine compliance with the applicable statutes, rules, and regulations attributable to a catastrophic loss.

The Company provided hard copy claims files and access to its claims database necessary to document the claim activity for the selected claims. The following summarizes the findings attributable to the claims reviewed:

### **Paid Claims Review**

The review of the sample of sixty (60) paid claims was completed by reviewing and comparing the paper claim files to the Company's claims data base. During this review, twelve (12) exceptions were detected. The paid claims results are summarized for the report as follows:

#### **Average Time Lag for Claims**

- Company adjusters contacted the insured and/or inspected the property losses from the loss report date or area access date with an average time lag of sixteen (16) days for the sample of sixty (60) paid claims.

- From the inspection date of the property to the adjuster's proof of loss date of the claim, the Company's average time lag was eleven (11) days for the sample of sixty (60) paid claims.
- From the adjuster's proof of loss date to the issue date of the claim payment, the Company's average time lag was two (2) days for the sample of sixty (60) paid claims.
- From the loss report date to the issue date of ALE or advance checks, the Company's average time lag was eleven (11) days for twelve (12) claims for the sample of sixty (60) paid claims. ALE or advanced checks represented approximately twenty percent (20%) of the sample.

Based on the results of the sample of sixty (60) paid claims, it was detected that the Company had six (6) claims that were not inspected within thirty (30) days of the reported catastrophic loss or access date to the damage area and therefore not in compliance with **LRS 22:658 A. (3)**. For these six (6) claims, the Company's time lag to contact the insured or inspect the property were 34 days, 35 days, 38 days, 45 days, 51 days and 75 days.

Also, this review detected six (6) claims in which the Company's claim checks were issued more than thirty (30) days after the Adjuster's proof of loss date and therefore not in compliance with **LRS 22:658 A. (1)**. The Company's check issue date lags were 33 days, 40 days, 52 days, 55 days, 57 days and 146 days.

Three (3) of the above check issue time lags (52, 57 and 146) represented claim losses in which there was no remaining structure. The Company retained forensic engineers and conducted a failure analysis as an aid to determine the cause of the loss for proper settlement of the claim loss. These claims also involved a plaintiff's attorney and a public adjuster employed by the insured

which prolonged the claim adjudication process. In some instances, the Department's Mediation Program was utilized to settle the claims.

The above exceptions were not found to be arbitrary, capricious and with probable cause, as addressed in **LRS 22:658 B. (1)**. They were the results of internal processing delays due to the magnitude of claims and claim checks being administered at that time for the two hurricanes that occurred within less than thirty (30) days of each other within the state of Louisiana. Based on the review of the Company's claims records, the Examiner found these claims to be adjudicated timely under the circumstances and conditions that existed during this time period.

### **Open Claims Review**

ACL extracted only four (4) open claims from the Company's claim files as of December 31, 2007. These four (4) claims remain open as the result of litigation. Two (2) are individual suits and two (2) are part of class action suits. Subsequently, one (1) of the individual suits was settled on January 14, 2008.

During the fourteen (14) months following Hurricanes Katrina and Rita, the Company adjudicated 4,614 claims totaling \$43,714,189. According to the Company, the number of claims reaching the stage of litigation has been minuscule in comparison to the total number of claims adjudicated.

### **Claims Closed Without Payment Review**

The review of the sample of sixty (60) claims closed without payment was completed by reviewing and comparing the paper claim files to the Company's claims data base. This review was performed without exception and the closed without payment claims reviewed are summarized as follows:

<b>NO.</b>	<b>CATEGORY</b>
19	Duplicate claims
13	Peril not covered
12	Damages less than policy deductible
6	Minor-insured elected to withdraw claim
5	No damages detected by adjuster
3	No coverage
2	Lack of insured's interest in pursuing claim
60	Total

The closed without payment claims in the above mentioned sample were examined noting no unusual or improper claim handling and the claims practices utilized appeared adequate and in compliance with policy provisions, state statutes and regulations.

## **COMMENTS AND RECOMMENDATIONS**

The Company responded promptly to examination requests during the course of the targeted market conduct examination.

With the exception of the twelve (12) claim delays noted above, which were the results of internal processing delays due to the magnitude of claims at the time of the two hurricanes, the Company was found to be compliant with the state statutes, rules and regulations applicable to the handling of claims in a catastrophic loss situation.

## CONCLUSION

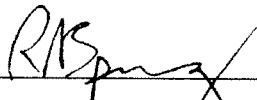
I, Richard A. Spong, do solemnly swear and affirm that I am an Examiner for the Commissioner of Insurance of the State of Louisiana, and that as such I was assigned to conduct an examination of the claim practices of

**LOUISIANA FARM BUREAU CASUALTY INSURANCE CO  
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.

I wish to thank the courteous cooperation of the Company's officers and employees during this examination process.

Respectfully submitted,

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

# **APPENDIX**

## APPENDIX I

### Louisiana Code Sections Applicable to Target Market Conduct Examination

**“LRS 22:636.2. Property, casualty, and liability insurance policies; cancellation and non-renewal provisions; non-renewal for rate inadequacy; certain prohibitions**

**A.(1)** Any insurer canceling or refusing to renew a policy providing property, casualty, or liability insurance on any property shall, upon written request of the named insured therein, mailed or delivered to the insurer within six months after the effective date of cancellation or expiration, specify in writing the reason or reasons for such cancellation or refusal to renew.

**D.** No insurer providing property, casualty, or liability insurance shall cancel or fail to renew a homeowner's policy of insurance or to increase the policy deductible that has been in effect and renewed for more than three years unless based on nonpayment of premium, fraud of the insured, a material change in the risk being insured, two or more claims within a period of three years, or if continuation of such policy endangers the solvency of the insurer. This Subsection shall not apply to an insurer that ceases writing homeowner's insurance or to policy deductibles increased for all homeowners' policies in the state. For the purposes of this Subsection, an incident shall be deemed a claim only when there is a demand for payment by the insured or the insured's representative under the terms of the policy. A report of a loss or a question relating to coverage shall not independently establish a claim.”

**“LRS 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*, *R.S. 22:657*, 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.

(2) All insurers issuing any type of contract, other than those specified in *R.S. 22:656, R.S. 22:657, and Chapter 10 of Title 23* of the Louisiana Revised Statutes of 1950, shall pay the amount of any third party property damage claim and of any reasonable medical expenses claim due any bona fide third party claimant within thirty days after written agreement of settlement of the claim from any third party claimant.

(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*.

(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.

**B.(1)** Failure to make such payment within thirty days after receipt of such satisfactory written proofs and demand there for or failure to 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, as provided in Paragraphs (A)(1) and (4), respectively, or failure to make such payment within thirty days after written agreement or settlement as provided in Paragraph (A)(2), when such failure is found to be arbitrary, capricious, or without probable cause, shall subject the insurer to a penalty, in addition to the amount of the loss, of twenty-five percent damages on the amount found to be due from the insurer to the insured, or one thousand dollars, whichever is greater, payable to the insured, or to any of said employees, or in the event a partial payment or tender has been made, twenty-five percent of the difference between the amount paid or tendered and the amount found to be due.”