

32298

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

NATIONAL UNION FIRE INSURANCE COMPANY

OF LOUISIANA

BATON ROUGE, LOUISIANA

AS OF

December 31, 1997

NAIC CODE 32298

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September 17, 1998

Honorable James H. Brown
Commissioner of Insurance
P O Box 94214
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Sir:

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

**NATIONAL UNION FIRE INSURANCE COMPANY
OF LOUISIANA**

at its Home Office

4150 South Sherwood Forest Boulevard.

Baton Rouge, Louisiana 70816

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

FOREWORD

This Market Conduct Examination Report covered the insurance activities of National Union Fire Insurance Company of Louisiana hereinafter referred to as National Union Fire or 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 National Union Fire Insurance Company of Louisiana was conducted by the Louisiana Department of Insurance, hereinafter referred to as the Department or DOI, 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 operations were consistent with the public interest.

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

1. Complaints
2. Marketing and Sales
3. Producer Licensing
4. Policyholder Service
5. Underwriting and Rating
6. Claims

COMPANY OVERVIEW

COMPANY HISTORY

The Company was organized in October 1988 as a domestic stock property and casualty insurer. The Company's Articles of Incorporation were filed with the Department on November 30, 1988.

Both the Company and its parent, National Union Fire Insurance Company of Pittsburg, Pennsylvania, are members of the American International Group of companies (AIG) ultimately controlled by C. V. Starr & Co., Inc.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the states of Alabama, Arkansas, Louisiana, Mississippi, Texas, and West Virginia. It currently has applications for certificates of authority in the states of Georgia and Tennessee.

As an affiliate of AIG, the Company has been used primarily to write personal lines of insurance in the state of Louisiana. The Company plans on expanding to the southeastern part of the United States in order to write both commercial and personal lines of insurance.

Agency Management Corporation, an affiliate, under a Managing General Agent's agreement produces all of the Company's direct personal lines and all commercial lines writings in states other than Louisiana. All of the Company's Louisiana

direct commercial line writings are produced by the parent under an inter-company General Management Agreement.

The business written is simultaneously ceded. The Company cedes all its commercial lines written in the state of Louisiana to the parent through a one hundred per-cent (100%) quota share reinsurance agreement. The Company cedes all its personal lines written in other states to Audubon Insurance Company through a one hundred percent (100%) quota share reinsurance agreement.

PARENT, SUBSIDIARIES, AND AFFILIATES

The Company, a Louisiana corporation, is 100% owned (except for 110 shares issued to directors) by National Union Fire Insurance Company of Pittsburgh, Pennsylvania. The Company and its parent are members of the American International Group of companies, which are ultimately controlled by C. V. Starr & Co., Inc.

American International Group, Inc. (AIG) is a United States based international insurance organization and an underwriter of commercial and industrial coverages. Its member companies write property, casualty, marine, life and financial services insurance in approximately 130 countries and jurisdictions, and are engaged in a range of financial services businesses.

An organizational chart showing ownership of the Company and its corporate affiliates has been included in the work papers of this examination.

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 had 24 complaints filed against it for the four-year period under examination.

Although the Company did not maintain a detailed complaint register as required by statute for the period under examination, a complaint register was being implemented during 1998.

Also, in April 1998 the Executive Department distributed revised complaint procedures. This distribution restated the procedures for handling consumer complaints and revised the handling of complaints for various plans, such as the Louisiana Fair Plan.

This review revealed that the Company took adequate steps to promptly resolve complaints in accordance with applicable statute, and policy provision.

MARKETING AND SALES REVIEW

The Company did not engage in any advertising during the period under examination.

This review was performed without exception.

PRODUCER REVIEW

Agency Management Corporation, as a MGA, has full authority through its designated agents to receive and accept proposals for insurance covering such classes of risks that the Company has authority to write. Also, Agency Management was authorized to collect, receive and receipt premiums on insurance tendered by agents of Agency Management and accepted by the Company.

A review of the Company's Louisiana producers revealed that all of these agencies were properly licensed and appointed for the period ended December 31, 1997.

It should be noted that the prospective producers are fully investigated before hiring. Consequently, producer terminations are primarily due to a lack of production.

POLICYHOLDER SERVICE REVIEW

Agency Management Corporation also performs policyholder functions for the Company.

A random sampling of renewal business files were reviewed in order to test the Company's compliance with statutes regarding billings, cancellations and timely responses to policyholder questions.

This review was performed without exception.

UNDERWRITING REVIEW

An Underwriting Review was performed without exception.

CLAIMS REVIEW

Agency Management, the Company's MGA, was authorized to pay all claims and loss adjustment expenses and to deduct such payments from premiums written by Agency Management that are due to the Company.

Primarily, adjusters from Agency Management performed the loss adjustments for the Company. However under certain circumstances, such as a claim reported in a remote area, independent adjusters are routinely assigned.

Random samplings of 1995, 1996, and 1997 claims were extracted from the Company's claim files. These samplings consisted of open, closed and denied claims.

The review of these samplings indicated that an adjuster was promptly assigned to a notice of a claim. The claim files indicated that adjusters prepared detailed reports of their assessments of losses.

Correspondence maintained in the claim files also indicated that the adjusters routinely resolved claims in a timely and professional manner.

A time study of these sampled claims indicated that clean claims, in which liability could readily be determined, were paid in an average of twenty-five (25) days.

The Company's prompt and efficient claim handling practices appeared to have contributed to the relatively small number of complaints filed against the Company during the period under examination.

This review indicated that claims were paid in accordance with statute and policy provisions.

REINSURANCE

ASSUMED

The Company does not assume reinsurance.

CEDED

The Company cedes one hundred percent (100%) of written business to its parent and an affiliate. The ceded business consists of personal and commercial lines that include fire, allied lines, general liability, inland marine, multiple perils and any other lines that may be agreed upon.

National Union Fire Insurance Company of Pittsburgh, Pennsylvania assumes the Company's entire direct commercial lines premium written in Louisiana. Audubon Insurance Company assumes all direct personal lines premium written in all states other than Louisiana.

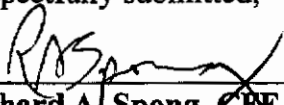
The reinsurers are liable for payment of 100 percent of the Company's net claims and claims expenses incurred in the adjustment of the claims.

CONCLUSION

Acknowledgment is made of the courteous cooperation of the Officers and Employees of the Company during the examination.

I, the undersigned, hereby certify that a Market Conduct Examination has been made of National Union Fire Insurance Company of Louisiana, 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

NATIONAL UNION FIRE INSURANCE COMPANY


OF LOUISIANA

BATON ROUGE, 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) NANCY MICHELL

in and for the State of Louisiana

My commission expires at death