

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

PATTERSON INSURANCE COMPANY

BOSSIER CITY, LOUISIANA

AS OF

December 31, 2000

NAIC CODE 25330

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
Comments and Recommendations from Previous Reports...	5
Affiliated Companies...	5
Complaints Review...	6
Producer Review...	7
Marketing and Sales Review...	7
Policyholder Service Review...	8
Underwriting and Rating Review...	9
Claims Review...	11
Comments and Recommendations...	13
Conclusion...	14



JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

P.O. Box 94214
Baton Rouge, Louisiana 70804-9214
Phone (225) 342-8900
Fax (225) 342-3078
http://www.doi.state.la.us

October 11, 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

PATTERSON INSURANCE COMPANY

BOSSIER CITY, 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 PATTERSON 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 PATTERSON 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

Patterson Insurance Company was incorporated as Louisiana Indemnity Company, a capital stock corporation, on May 12, 1986. The Company commenced business July 1, 1986 under the laws of the state of Louisiana.

The Company was formed as a property and liability insurance company in the writing and servicing of the following types of business:

Vehicle	Fidelity and Surety
Liability	Fire and Extended Coverage
Worker's Compensation	Steam Boiler and Sprinkler Leakage
Burglary and Forgery	Crop and Livestock
Glass	Marine and Transportation (Inland Marine)

The Company was originally organized and named Louisiana Indemnity Company and operated as a wholly owned subsidiary of Siblings Financial Corporation. In 1992 Patterson Insurance Group, Inc. ("PIG") acquired the assets of Sibling Financial Corporation and became the parent company of Louisiana Indemnity Company.

In 1993 the name of the Company was changed to Patterson Insurance Company and it currently operates under this name.

Territory and Plan of Operations

The Company marketed primarily private passenger auto, homeowners/dwelling, fire and commercial auto in Louisiana through approximately 500 independent producers. In Arkansas and Mississippi, the Company primarily marketed private passenger auto.

Antifraud Policy

During the period under examination, 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.

Comments and Recommendations from Previous Reports

A recommendation was made in the prior Louisiana Financial Examination that the Company print its form number on its application page. A similar recommendation is contained in this report.

Affiliated Companies

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

Insurance Investments Holdings, LLC
 Patterson Insurance Group
 Patterson General Agency
 Arkansas Insurance Managers
 Patterson Insurance Network
 Peoples General Agency
 Patterson Insurance Company
 Patterson Finance Company
 Paragon Insurance Company

COMPLAINT REVIEW

This review was conducted in accordance with the provisions of Louisiana Revised Statute 22:1214(17) which states as follows:

22:1214

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

(17)

"Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. For purposes of this Paragraph, "complaint" shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance."

A sample of fifty (50) complaints filed with the Department between 1998 and 2000 were reviewed. Complaints filed by insureds 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 has an adequate complaint handling procedure and inputs all complaints into an in-house developed "AS400" database system. The Company responded to complaints on a timely basis.

The Company complaint register complies with all requirements of the statute with the exception that twenty-two (22) complaints were missing from the Company's complaint register.

PRODUCER REVIEW

As of December 31, 2000 the Company had approximately five hundred (500) agents marketing its products in Louisiana. Because the Company's database did not contain the Department's agent license number, a match by agent name usually will generate false "no matches". Consequently, the ACL Program was used to extract a random sampling of sixty (60) active agents from the Company's agent listing.

A review of the sampling of 60 agents resulted in follow-up questions on 16 of the sampled agents. Further review indicated that the Company had thirty-three (33) agents or agencies that were rejected appointments on its May 2001 renewal listing because the agent or agency had not renewed their license in a timely manner.

Once the examiners advised the Company of the agent rejections, appointments were promptly resubmitted to the Department in order to comply with **LSA-R.S. 22:1113 (A)(3)**.

MARKETING AND SALES REVIEW

The Company uses television advertisements for Patterson Insurance Network in the Baton Rouge and Hammond areas, but does not use any radio, newspaper or telephone book advertisements.

The theme of the television advertisements is that Patterson Insurance is easy to do business with and that business is solicited from all types of drivers.

The Company set up a website on the Internet during the period under examination. The website lists products by state, provides information on the various products, contains an organizational chart of the various subsidiaries, provides

background information about the Company and presents recent financial information. An agent area and a program to allow a customer to find an agent's location are future enhancements for inclusion on the Company's website.

The Company provides its agents with a variety of brochures on the different insurance products offered by the Company. These brochures provide information on the available types of coverage, optional coverages, program highlights, discounts and payment plans.

The Company provided an example of their underwriting guidelines that are provided to the agents. It provides detail for auto coverages, unacceptable operators (applicants), unacceptable coverages, unacceptable vehicles, driver classifications, discounts, payment methods and premium financing.

The Company provides a monthly newsletter titled *The Patterson Post* to the agents. It contains information about the Company and provides monthly features such as tips on claim reporting and updates on availability of new forms.

This review was performed without exception.

POLICYHOLDER SERVICE REVIEW

A sampling of one hundred (100) new business files was reviewed. Out of those, thirty-one (31) files contained renewal notices. Renewal notices were mailed timely in accordance with the Company's procedures that state that the renewal notices should be mailed to the insured 20 days before policy expiration.

Insured requested cancellations were handled in a timely manner. In general, all correspondence from the insured was answered in a timely manner.

UNDERWRITING AND RATING REVIEW

The ACL Program was used to extract a random sampling of one hundred (100) new business files from the years 1998, 1999 and 2000. From this sample, application forms were reviewed for completeness, policy forms were reviewed for approvals and premium calculations were verified.

From the review of this sampling the following was detected:

- Two (2) of the applications were not signed by the applicant.
- Six (6) of the applications were not signed by the agents.
- One (1) Uninsured Motorist form was not signed.
- Some computer-generated applications used by the agents did not contain a "Warranty and Driver Restriction Endorsement section. Although an endorsement form should be used in such cases, it was noted that the file did not always contain one.
- The preprinted applications did not contain a form number and contained different wording than the approved application form PI-10.

A time study of the sampling reviewed that applications were processed and new policies were issued in approximately 5.3 days.

Although the Company stated that their personnel were instructed to manually write-in the form number on computer-generated applications that are submitted by field agents, it is important that the application, which becomes part of the contract, reflects form number PI-10 which was the form approved by the Department.

Approximately fifteen (15) policies were selected from the sampling of one hundred (100) policy files in order to verify premium calculations, rates for private passenger auto and homeowner policies. This review indicated rates used by the Company had been filed with the Department.

It was noted that out of the one hundred (100) new business policies sampled, 62% were subsequently cancelled. Most of these were cancelled for nonpayment of premiums. This finding was provided to the Company during the course of the examination.

A random sample of twenty-six (26) policy files from the new business sample were selected in order to verify that properly approved policy forms were used. The Company uses Acord applications and ISO policy forms for their Homeowner's coverage. The Department had pre-approved these forms.

All policy forms reviewed from the sampling of twenty-six (26) files had been approved by the Department except forms E115 10/93 Commercial Vehicle Limitation Endorsement and A401 9/93 Named Non-Owners Coverage. The Company could not provide evidence of approval for these forms and stated that they have been in use for many years.

A random sample of twenty-five (25) policies was selected from the new business sample to verify that the producers were properly licensed and appointed. Six (6) agencies were detected that did not have their trade names registered with the Louisiana Secretary of State and the Louisiana Department of Insurance.

ACL was used to select a sample of sixty (60) cancelled policies and sixty (60) non-renewed policies from lists provided by the company. The files were reviewed to determine if they contained the cancellation and non-renewal notices and to determine the reason for the cancellation or non-renewal. These reviews indicated the Company processed cancelled and non-renewed policies according to policy provisions and statutory requirements.

A sample of policies was selected from the cancellations to determine if the unearned premiums were correctly calculated and returned to the appropriate party in a timely manner.

The refunds of the unearned premiums were all calculated on the pro-rata basis as required by **LSA-R.S. 22:636 D**. The refunds were returned to the appropriate party within one month. The files contained check stubs to document the refund of premiums.

A cancellation charge of \$25 was charged on two (2) of the policies reviewed. The Company stated that this cancellation charge is not charged if the cancellation is due to Company request, flat cancellation or if the premium is financed. The cancellation charge was implemented in October 2000.

CLAIMS REVIEW

The majority of the claims are received by mail. Claims are entered into the Company's "AS400" claim system. On a daily basis, the claims supervisor assigns claims to various adjusters. The Company uses contract appraisers.

A sample of sixty (60) paid claims was randomly selected by use of the ACL Program for the years 1998, 1999 and 2000. The Company has established reserve procedures and appears to closely follow these guidelines. This sampling was reviewed without exception.

The ACL Program was used to generate the following reports for collision and property damage paid claims for 2000. These reports that are based on claim count measure the time required to adjudicate its claim activity for 2000.

COLLISION CLAIMS

56%	Paid within 30 days
20%	Paid within 60 days
7%	Paid within 90 days
17%	Paid 91 days or later

PROPERTY DAMAGE CLAIMS

38%	Paid within 30 days
22%	Paid within 60 days
9%	Paid within 90 days
31%	Paid 91 days or later

The Company began maintaining records of their denied claims during 2000. The Company provided a listing of denied claims for 2000 and part of 2001. A systemic sampling of thirty (30) denied claims, representing 10% of this file, was selected for review. This sampling was reviewed without exception.

The claim files sampled during this review were well documented. According to the Company's records twelve (12) employees have 20 years or more of auto or property claims experience.

COMMENTS AND SUMMARY OF RECOMMENDATIONS

The Company's complaint register was missing twenty-two (22) complaints during the period under examination. The Company responded that the missing complaints were the result of internal handling. It is recommended that procedures be implemented to insure that all future complaints against the Company are properly included in its complaint register. Complaint Review, page 6.

It is recommended that the Company add to its agent database the Department's licensing number. This additional data will allow an expedited review of the Company's active agents for future examinations. Also, this additional data should assist the Company in reconciling its active agent appointments with the Department's renewal appointment listing. It is recommended that the Company implement procedures to insure that all agents representing the Company are properly appointed and that all agencies have properly registered trade names. See Producer Review, page 7.

It is recommended that the Company implement stricter procedures that will insure that all applications for insurance are signed by the applicant and the writing agent. In addition, it is recommended that the Company determine if policy forms E-115 and A-401 should be submitted to the Department for approval. Finally, the Company should take steps to have the form number PI-10 included on its computer-generated application submitted by field agents. See Underwriting Review, page 9.

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

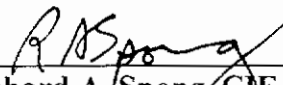
PATTERSON INSURANCE COMPANY

BOSSIER CITY, 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