



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

125 South Webster • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

AIU Insurance Company
70 Pine Street
New York, NY 10270

dated May 19-23, 2003, and served upon the company on March 1, 2005, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 30th day of March, 2005.

Jorge Gomez
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**AIU INSURANCE COMPANY
NEW YORK, NEW YORK**

MAY 19-23, 2003

TABLE OF CONTENTS

I. INTRODUCTION	1
II. PURPOSE AND SCOPE.....	5
III. CURRENT EXAMINATION FINDINGS.....	6
POLICY FORMS.....	6
POLICYHOLDER SERVICE & COMPLAINTS	8
MARKETING, SALES & ADVERTISING	8
PRODUCER LICENSING.....	9
UNDERWRITING	12
PRIVACY PROCEDURES.....	12
IV. CONCLUSION.....	13
V. SUMMARY OF RECOMMENDATIONS.....	14
VI. ACKNOWLEDGEMENT.....	16



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

September 19, 2003

Bureau of Market Regulation
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
(608) 266-3585 • (800) 236-8517 (WI Only)
Fax: (608) 264-8115
E-Mail: marketreg@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Jorge Gomez
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted in-office desk market conduct examination was conducted May 19 to May 23, 2003 of:

AIU INSURANCE COMPANY
New York, New York

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

AIU Insurance Company is a nondomestic company domiciled in the state of New York. It was incorporated in 1913 and commenced business in Wisconsin in 1915. AIU (American International Underwriting) Insurance Company is part of the American International Group (AIG). AIU serves its customers through direct mail solicitation. Solicitation activity also occurs via the internet. The company's corporate headquarters is located in New York, New York.

The company was licensed in 48 states plus the District of Columbia in 2001 and 2002. The company wrote business in all of the states in which it was licensed. AIU was not licensed in Hawaii and Wyoming. The following table summarizes the total national premium written in 2001 and 2002 as compared to the total direct premium written in Wisconsin.

National Direct Premium Earned to Wisconsin Direct Premium Written

Year	National Direct Premium Written	Wisconsin Direct Premium Written	Wisconsin as a Percentage of the National Premium
2002	\$454,680,968	\$3,798,977	0.83%
2001	390,880,000	3,773,541	0.96

The majority of the premium earned by the company in the United States in 2001 and 2002 was for private passenger automobile insurance. For Wisconsin, over 99% of its premium earned was in private passenger auto liability and auto physical damage.

The following tables summarize the premium earned and incurred losses in Wisconsin for 2002 and 2001 broken down by line of business.

Wisconsin Direct Premium and Loss Summary

2002				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$ 0		\$ 0	
Homeowners/Farmowners	0		0	
Commercial Multiple Peril	0		(2,979)	
Worker's Compensation	21,842	0.57%	(157,925)	
Private Passenger Auto	3,792,171	99.43	2,731,266	72.02%
Commercial Auto	0		0	
All Others	(103)		(32,706)	
Total	\$3,813,910	100.00%	\$2,537,656	66.53%

2001				
Line of Business	Premium Earned	% of WI Total	Losses Incurred	Pure Loss Ratio
Fire & Allied Lines	\$	0.00%	\$	
Homeowners/Farmowners		0.00	264,642	
Commercial Multiple Peril		0.00	(3,971)	
Worker's Compensation	163,838	4.34	33,332	20.34%
Private Passenger Auto	3,603,033	95.48	2,456,126	68.17
Commercial Auto		0.00		
All Others	6,670	0.18	(12,615)	
Total	\$3,773,541		\$2,737,514	72.54%

The Office of the Commissioner of Insurance received 46 complaints against the company between January 1, 2001, and February 28, 2003. As of February 28, 2003, three complaints had been received for 2003. In addition, the total number of complaints received in 2002 increased by 26% from the number of complaints received in 2001. The company received the majority of its complaints in the personal auto line of business. The company has been on the above-average complaint list for the personal auto line of business since 1999. The company's ranking on this list, where a number one ranking means the company had the largest complaint to premium ratio, was as follows: #1 in 1999, #2 in 2000, #1 in 2001 and #1 in 2002. The majority of complaints in 2001 and 2002 focused on the company's billing procedure, which resulted in insureds being turned over to a collection agency. A complaint is defined as, "a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." The following table categorizes the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint. The following tables summarize the complaints received broken down by coverage type and reason type.

2002					
Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	14	2	1	22	
Commercial Vehicle					
Com Prop & Liability					
Home/Farmowners					
Commercial Liability					
Worker's Comp			1		
Fidelity & Surety					
All Others					
Total	14	2	2	22	

2001					
Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	11			5	13
Commercial Vehicle					
Com Prop & Liability				1	
Home/Farmowners					
Commercial Liability					
Worker's Comp				1	
Fidelity & Surety					
All Others					
Total	11			7	13

II. PURPOSE AND SCOPE

A targeted in-office desk examination was conducted in the personal auto line to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2001 through February 28, 2003. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination. The examination was limited to a review of policyholder service, marketing, sales and advertising (including a limited review of e-commerce), producer licensing, underwriting practices, policy forms and rates, and privacy procedures.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. CURRENT EXAMINATION FINDINGS

Policy Forms

The company is an ISO subscriber for personal automobile forms. The examiners reviewed all of the 56 forms it employs in the personal automobile line.

The examiners found that forms UMWI (2/93) and UMWI (11/01), Wisconsin Uninsured and Underinsured Motorists Coverage Selection of Limits; MPWI (12/00) and MPWI (11/01), Wisconsin Medical Payments Coverage Options; and APP-WI-1/01, Automobile Insurance Application were not filed with and approved by the Commissioner. Notices to a policyholder of the availability of coverage such as provided by s. 632.32 (4m) (a) 1, Wis. Stat., are not considered forms subject to filing and approval. However, forms that become part of an application or the application process should be filed with and approved by the Commissioner. Per s. 631.20 (1), Wis. Stat., policy forms and endorsements, including applications, are to be filed with and approved by the Commissioner prior to use.

- 1. Recommendation:** It is recommended that the company file with and gain approval of the Commissioner prior to using application forms in order to comply with s. 631.20 (1), Wis. Stat.

The examiners found that forms UMWI (2/93) and UMWI (11/01), Wisconsin Uninsured and Underinsured Motorists Coverage Selection of Limits, state the minimum limits required for underinsured motorists as \$25,000 bodily injury per person and \$50,000 bodily injury per accident. Section 632.32 (4m) (d), Wis. Stat., provides that the minimum limits for underinsured motorists coverage are \$50,000 bodily injury per person and \$100,000 bodily injury per accident.

- 2. Recommendation:** It is recommended that the company amend forms UMWI (2/93) and UMWI (11/01), Wisconsin Uninsured and Underinsured Motorists Coverage Selection of Limits, to correctly state the minimum limits required for underinsured motorist coverage to be \$50,000 bodily injury per person and \$100,000 bodily injury per accident in order to comply with s. 632.32 (4m) (d), Wis. Stat.

The examiners found that forms CRN-WI (1/01) and CRN-WI (1/01) (a), Altered Policy Terms or Premium (Wisconsin), state, "You have the right to cancel your policy prior to the renewal or anniversary date of the policy. If you elect to cancel the policy, return premium or additional premium charges will be calculated proportionately on the basis of the old premiums." Section 631.36 (5) (a), Wis. Stat., states in part, "If the insurer notifies the policyholder within 60 days prior to the renewal date, the new terms or premiums do not take effect until 60 days after the notice is mailed or delivered, in which case the policyholder may elect to cancel the renewal policy at any time during the 60-day period. The notice shall include a statement of the policyholder's right to cancel. If the policyholder elects to cancel the renewal policy during the 60-day period, return premiums or additional premium charges shall be calculated proportionately on the basis of the old premiums." The wording on the forms does not comply in situations where the required notice is mailed less than 60 days prior to the policy renewal date. The policyholder has the right to cancel at any time during the 60-day period and receive a prorated refund, based upon the premium amount existing before the change.

- 3. Recommendation:** It is recommended that the company amend forms CRN-WI (1/01) and CRN-WI (1/01) (a), Altered Policy Terms or Premium (Wisconsin), to comply with s. 631.36 (5) (a), Wis. Stat., for situations where the required altered policy terms or premium notice is mailed or delivered to the policyholder less than 60 days prior to the policy renewal date.

The examiners found that the form used by the company to notify the policyholders of their right to file a complaint with the Commissioner states the group company name rather than the individual insurance company's name. Per s. Ins 6.85 (4) (a), Wis. Adm. Code, the notice of a person's right to file a complaint with the Commissioner requires the notice to state the name of the insurance company, not the group name.

- 4. Recommendation:** It is recommended that the company amend its notice of a person's right to file a complaint, form number WI-001 (1/93), to state the name of the individual insurance company, not the group name, in order to comply with s. Ins 6.85 (4) (a), Wis. Adm. Code.

Policyholder Service & Complaints

The company utilizes call centers staffed by employees to respond to policyholder requests. Complaints are handled by the company's Policy-Department of Insurance Complaint Unit (DOI Complaint Unit), Policy-Consumer Complaint Unit, and a Claims Unit that handles both Department of Insurance and consumer complaints.

The company explained in its response to the Policyholder Service and Complaints Interrogatory that it submitted policyholders to a collection agency without prior appropriate warning. It appears the reason the company appeared on OCI's above-average complaint list was the fact policyholders were sent to collection agencies for nonpayment of earned premium. Policyholders were not provided with advanced warning through a letter or notice language.

- 5. Recommendation:** It is recommended the company create and maintain a system whereby the policyholder is given information about past due amounts and a notice of possible referral to a collection agency if past due amounts are not paid. The company shall submit a plan to OCI within 90 days of the adoption of the report stating how it will comply with this recommendation; in order to ensure compliance with the s. 628.34 (1), Wis. Stat., as it refers to misrepresentation by incompleteness of information provided to the policyholder.

Marketing, Sales & Advertising

The examiners reviewed the company's responses to the interrogatory on marketing and sales. The examiners learned the company utilizes two marketing systems in Wisconsin. One system is a direct mail program. The company explained that it purchases mail order lists of consumer names and mails solicitation material. The other marketing system utilizes the AIG group Internet site. The Web site is used for marketing and selling automobile insurance for the company. The examiners reviewed the company's responses to the Electronic Commerce Interrogatories. The company stated the Internet is primarily used to generate leads and quotes for auto insurance. The Internet site offers consumers e-mail and a method it calls "Live Chat" if consumers have questions. The company explained that although it offers an on-line purchase functionality, it is used infrequently. The examiners did not find exceptions to pursue from its limited review of marketing and sales procedures.

Producer Licensing

AIU Insurance Company is a direct marketer and writer of personal automobile insurance. The company utilizes call centers to receive solicitation inquiries. All call centers handle Wisconsin business.

In response to the request for a list of all individuals representing the company as of the end of the examination period, the company provided a list of individuals who were licensed and appointed by the company. The list provided by the company was compared to a list of individuals appointed to represent the company, pursuant to s. Ins 6.57 (1), Wis. Adm. Code, generated by the examiners using information from OCI's database.

From the review of the list submitted by the company, the examiners found three instances where the company system indicated an individual was an active agent representing the company as of the end of the examination period. However, OCI records showed that the agent license for each of these individuals had been cancelled by OCI effective February 15, 2002, 379 days prior to the end of the examination period, for failure to pay the biannual licensing fee. The company advised the examiners that the license for each of these individuals was allowed to lapse because the individual was in a unit that did not require that he or she maintain an agent license.

From the same company list, the examiners found one instance where the company system indicated that the individual was an active agent representing the company as of the end of the examination period. However, OCI records showed that the agent appointment for this individual was terminated, pursuant to s. Ins 6.57 (2), Wis. Adm. Code, effective August 23, 2003, 190 days prior to the end of the examination period. The company advised that the individual no longer represented the company; however, the database used by the company to track its agents was not updated correctly to show the termination of the agents' appointment.

To further review the company's records about agents, the examiners compared the list of producers received from the company to OCI records in order to review the accuracy of

licenses and appointments. The examiners found 320 instances where OCI records showed that an individual represented the company as of the end of the examination period; however, the individuals were not included on the list provided by the company of individuals that represented the company. The effective date of the appointments made pursuant to s. Ins 6.57 (1), Wis. Adm. Code, for these individuals ranged between August 6, 1980, and February 5, 2003. The company explained that its database of agents was not updated to show agents who no longer represented the company, were new agents for the company, or were appointed agents not on the company's agent list.

As stated above, the company system did not accurately record individuals who were terminated or appointed to represent the company. The company advised the examiners that it reviews the Annual Renewal Billing, sent by OCI, to check for cancellations. However, as listed above, it was found the company failed to notice the difference between its records and OCI Annual Renewal Billing records. The company was therefore unable to investigate the reason(s) for the differences in its agent records and the annual billing in order to promptly terminate or appoint the agents in accordance with s. Ins 6.57 (2), Wis. Adm. Code, and s. Ins 6.57 (1), Wis. Adm. Code. Without an accurate database of appointed agents, it would not be able to retain appropriate records and effectively monitor agents submitting business, in order to comply with s. Ins 6.57 (5), Wis. Adm. Code, s. Ins 6.57 (6), Wis. Adm. Code, and s. Ins 6.80 (5) (a), Wis. Adm. Code.

- 6. Recommendation:** It is recommended that the company carefully review and compare the Annual Renewal Billing and the agent validation information originated by OCI to the company records; promptly initiate an investigation into the reason(s) an agent does not appear on the Annual Renewal Billing when the company shows the individual as an active agent appointed to represent the company or does not appear as an agent in the company records when the agent is listed on the OCI billing records; and take the appropriate action to rectify the situation, to ensure compliance with s. Ins 6.57, Wis. Adm. Code.
- 7. Recommendation:** It is recommended that the company develop and implement detailed comprehensive procedures that allow for the accurate tracking of individuals representing the company to ensure compliance with ss. Ins 6.57 (1), (2), (5) and (6) and 6.80 (5) (a), Wis. Adm. Code, and s. 601.42, Wis. Stat.

During the comparison of company to OCI agent records, the examiners found six instances where the company system indicated that an individual was an active agent representing the company as of the end of the examination period. However, OCI records showed that the individuals were not listed with the company in accordance with s. Ins 6.57 (1), Wis. Adm. Code. The company reported that five of the six individuals transacted business for the company during the period under review.

- 8. Recommendation:** It is recommended that the company implement a system that will not allow individuals to engage in the business of insurance on behalf of the company until the individual has been appointed to represent the company in order to ensure compliance with ss. Ins 6.57 (1) and (5), Wis. Adm. Code.

The company explained they utilize employees at call centers to communicate with consumers that call, in response to mail solicitations. The employees enter information into the system that automatically underwrites and rates the risk and calculates the premium. Anyone providing information on insurance coverages or giving advice on insurance-related topics must be licensed as in intermediary/agent. Furthermore, the examiners determined the company had the position that employees are exempt from licensing as provided under s. 628.02 (b) 1, Wis. Stat. The company information showed that even though the employees may not receive compensation from the direct sale of an insurance product, employees may and do perform functions of an intermediary by responding to questions, offering suggestions, and completing

application information. Any act of an employee that solicits, negotiates or places insurance, advises other persons about insurance needs and coverages falls under the definition of intermediary as per s. 628.02 (1), Wis. Stat. The company has agreed to appoint its call center employees.

- 9. Recommendation:** It is recommended the company develop and implement a program to have all employees that respond to consumer inquiries regarding the purchase of insurance or advising about insurance be properly licensed as required by s. 628.02 (1), Wis. Stat.

Underwriting

The examiners conducted a desk review of the underwriting guidelines and information submitted through the interrogatories. No underwriting files were reviewed. The company stated that new business is processed by reviewing the application, quote, MVR and CLUE reports. The Underwriting department has a 60-day timeframe to process a new policy. The company utilizes credit information through the use of a scoring system to determine how to rate a policy. For renewals, a policy packet and declaration page are sent to the insured. The company processes the renewal of an insured's policy after payment has been received by the company.

Privacy Procedures

The examiners reviewed the company's policy and procedures regarding privacy of consumer information. Information was requested and received from the company through its answers to the examination's interrogatories. The company explained that a printed copy of the current privacy notice is mailed to the last known address of the customer every six months with their renewal package. Also, a privacy notice will be mailed to any insured that requests a copy. No exceptions were noted during this limited review of privacy procedures.

IV. CONCLUSION

A total of nine recommendations were made as a result of this targeted examination. They related to the need for the company to modify certain policy forms, provide appropriate notice about possible involvement by a collection agency, and to develop and implement various producer licensing procedures.

The company needs to implement a system to ensure applications are filed and approved by the Commissioner prior to using the forms.

The company needs to amend forms to comply with s. 631.36 (5) (a), Wis. Stat., for situations where the required altered term or premium notice is mailed/delivered to a policyholder less than 60 days prior renewal date.

The company needs to create and maintain a system whereby the consumer receives a timely notification of a possible involvement of a collection agency if premium is not paid.

Pursuant to s. Ins 6.57, Wis. Adm. Code, the company needs to implement and maintain a program to ensure that all “employees,” engaged in the business of soliciting or advising about insurance, are appropriately licensed as intermediaries.

The company needs to maintain a system to verify the accuracy of its agent database and compare its information to that available from OCI records. This is to assure that the company’s agents are properly appointed, terminated, and licensed.

V. SUMMARY OF RECOMMENDATIONS

Policy Forms

- Page 6 1. It is recommended that the company file with and gain approval of the Commissioner prior to using application forms in order to comply with s. 631.20 (1), Wis. Stat.
- Page 6 2. It is recommended that the company amend forms UMWI (2/93) and UMWI (11/01), Wisconsin Uninsured and Underinsured Motorists Coverage Selection of Limits, to correctly state the minimum limits required for underinsured motorist coverage to be \$50,000 bodily injury per person and \$100,000 bodily injury per accident in order to comply with s. 632.32 (4m) (d), Wis. Stat.
- Page 7 3. It is recommended that the company amend forms CRN-WI (1/01) and CRN-WI (1/01) (a), Altered Policy Terms or Premium (Wisconsin), to comply with s. 631.36 (5) (a), Wis. Stat., for situations where the required altered policy terms or premium notice is mailed or delivered to the policyholder less than 60 days prior to the policy renewal date.
- Page 7 4. It is recommended that the company amend its notice of a person's right to file a complaint, form number WI-001 (1/93), to state the name of the individual insurance company, not the group name, in order to comply with s. Ins 6.85 (4) (a), Wis. Adm. Code.

Policyholder Service & Complaints

- Page 8 5. It is recommended the company create and maintain a system whereby the policyholder is given information about past due amounts and a notice of possible referral to a collection agency if past due amounts are not paid. The company shall submit a plan to OCI within 90 days of the adoption of the report stating how it will comply with this recommendation; in order to ensure compliance with the s. 628.34 (1), Wis. Stat., as it refers to misrepresentation by incompleteness of information provided to the policyholder.

Producer Licensing

- Page 11 6. It is recommended that the company carefully review and compare the Annual Renewal Billing and the agent validation information originated by OCI to the company records; promptly initiate an investigation into the reason(s) an agent does not appear on the Annual Renewal Billing when the company shows the individual as an active agent appointed to represent the company or does not appear as an agent in the company records when the agent is listed on the OCI billing records; and take the appropriate action to rectify the situation, to ensure compliance with s. Ins 6.57, Wis. Adm. Code.
- Page 11 7. It is recommended that the company develop and implement detailed comprehensive procedures that allow for the accurate tracking of individuals representing the company to ensure compliance with ss. Ins 6.57 (1), (2), (5) and (6) and 6.80 (5) (a), Wis. Adm. Code, and s. 601.42, Wis. Stat.

- Page 11 8. It is recommended that the company implement a system that will not allow individuals to engage in the business of insurance on behalf of the company until the individual has been appointed to represent the company in order to ensure compliance with ss. Ins 6.57 (1) and (5), Wis. Adm. Code.
- Page 12 9. It is recommended the company develop and implement a program to have all employees that respond to consumer inquiries regarding the purchase of insurance or advising about insurance be properly licensed as required by s. 628.02 (1), Wis. Stat.

VI. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

<u>Name</u>	<u>Title</u>
Laura Andreasson	Insurance Examiner
Rebecca Rebholz	Insurance Examiner
Drew Hunkins	Insurance Examiner
Rhonda Peterson	Insurance Examiner
Jane Kovacik	Insurance Examiner
Jo LeDuc	Insurance Examiner

Respectfully submitted,

Gary C. Morris
Examiner-in-Charge