

MARKET CONDUCT REPORT ON EXAMINATION

OF

American International Insurance

Company of Delaware

AS OF

March 30, 2007

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July 17, 2008

SALUTATION

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn,

In compliance with the instructions contained in Certificate of Examination Authority Number 07.709 and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

American International Insurance Company of Delaware

Hereinafter referred to as "the Company" or as "AIIC". AIIC is incorporated under the laws of the State of Delaware. The on-site phase of the examination was conducted at the following location:

- One AIG Center, Wilmington, DE 19803

The examination is as of March 30, 2007.

Examination work was also done off premises and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers, these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. Rather, this review is aimed at determining if there is a detectable pattern to the complaints the Company has received from all sources.

The second component is an analysis of the management of the various business areas subject to market conduct examination through a review of the written procedures of the Company. This review includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of its measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then directed on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed, to some extent, by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by exception rather than a report by test. This means that only those areas where a Recommendation for corrective action is made are detailed in this report.

HISTORY AND PROFILE

American International Insurance Company of Delaware is a member of American International Group, Inc. AIIC began writing new private passenger automobile insurance on January 1, 2002, pursuant to NJ Order CO118, which suspended the withdrawal proceedings of American International Insurance Company of New Jersey. This order permitted AIIC-NJ to restructure its business and authorized AIIC-DE to write private passenger automobile insurance in New Jersey.

AIG Marketing, Inc. ("AIGM") is a member company of American International Group, Inc. ("AIG") and operates as the managing general agent for American International Insurance Company of Delaware. AIIC does not have any employees. The employees that actually manage, control and administer the book of business on AIIC paper are all AIGM employees.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in Chapter XIII of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook. The primary methodology utilized in this examination is a review and analysis of the procedures used by the Company to manage its operations. This is further described in the introduction to the "Review of Procedures" section.

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "Generic" review is conducted through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner. This type of review is generally accompanied by a confirmation process to assure the veracity of responses made to inquiries.

A "Sample" review is conducted through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which the sample was drawn.

An "Electronic" review is conducted through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically evaluates 100% of the records of a particular type.

The complaints pattern review is conducted using all three methodologies described above. The non-complaint procedures are reviewed using a "Generic" analysis methodology.

The Introduction to the Review of Procedures section of this report describes the basis for the analysis methodology. Each procedure reviewed is described and the result of the review is provided under the appropriate procedure. Each procedure is supported by 18 Del. C. §318(a) and 18 Del. C. §508(b). In some cases, there is additional specific statutory support; however, these have not been enumerated. The reference source for each procedure found in the NAIC Market Conduct Examiners Handbook (*NAIC MCEH Reference*) is noted. It is also noted that in most cases, there is no direct statutory requirement that an insurer have a written procedure for each of the procedures tested in this examination. However, the absence of a written procedure with adequate measurements and controls will place into question whether the examinee is meeting the requirements of the aforementioned code references.

Each procedure is accompanied by the examiners' "Observations." In some cases a "Recommendation" for corrective action is made. Reference, Observations and Recommendations are reported with the appropriate Standard.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with two exceptions. Those exceptions are the Standards that state:

- “The Company is licensed for the lines of business that are being written,” and
- “The Company cooperates on a timely basis with the examiners performing the examination.”

Standard A 07

NAIC's Market Conduct Examiners Handbook - Chapter XV, §A, Standard 7 & Chapter XVII §A, Standard 7

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b)

Comments: The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s certificate of authority.

Results: **Pass.**

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules.

Recommendations: None.

Standard A 09

NAIC's Market Conduct Examiners Handbook - Chapter VIII §A, Standard 9

The Company cooperates on a timely basis with the examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3

Comment: The review for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute it is also conducive to completing the examination in a timely fashion and thereby minimizing costs.

Results: **Pass**

Observations: During the course of the examination the Company provided responses to interrogatories in a timely fashion. Incomplete responses were supplemented in a timely fashion.

Recommendations: None.

B. COMPLAINTS/GRIEVANCES

Observations: Evaluation of the Standards in this business area is based on the Company's response to various information requests (IR items) and complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints which it has received since the date of its last examination ..." The statute also requires that "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "...any written communication primarily expressing a grievance."

The examiner reviewed complaints provided by AIIC. The total number of complaints received for the period 2005 through 2007 was 555. A random sample using the current date as the selection method produced a population of 52. The selected sample was reviewed for patterns indicating market conduct issues. No concentration of complaint topics concerning a particular market conduct sensitive area was noted.

Recommendations: None.

REVIEW OF PROCEDURES

The management of well-run companies generally requires some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow in this section and those following. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

On each procedure for which information was requested, the examiners asked for sufficient data to conclude that:

- Persons affected were utilizing the procedure.
- The Company provides adequate training to persons affected by the procedure.
- The procedure was performing as intended.

- Management exercises oversight and control of the process addressed by the written procedure.
- Management utilizes the results of its measurement structures.
- Management implemented any revisions during the past three years based on the results of findings in its measurement structures.

The following list itemizes all Procedures that were reviewed.

Procedures Reviewed but with No Recommendations:

Procedure 01 – Internal and External Audit
Procedure 02 – Assertion of Privilege
Procedure 05 – Anti-Fraud
Procedure 07 – Managing General Agent (MGA) Oversight and Control
Procedure 08 – Vendor Oversight and Control
Procedure 09 – Customer and Consumer Privacy Protection
Procedure 10 – Production of Business
Procedure 11 – Complaint Handling
Procedure 13 – Advertising, Sales and Marketing
Procedure 14 – Agent Produced Advertising
Procedure 15 – Producer Training
Procedure 20 – Producer Selection, Appointment and Termination
Procedure 21 – Producer Defalcation
Procedure 22 – Prevention of Use of Persons with Felony Conviction
Procedure 24 – Premium Billing
Procedure 26 – Policy Issuance
Procedure 27 – Reinstatement
Procedure 28 – Credible Coverage
Procedure 30 – Premium Determination and Quotation
Procedure 31 – Policyholder Disclosures
Procedure 32 – Underwriting and Selection
Procedure 33 – Rate and Form Filing
Procedure 34 – Terminations
Procedure 35 – Underwriting File Documentation
Procedure 40 – Staff Training
Procedure 43 – Claim Handling
Procedure 44 – Internal Claim Audit
Procedure 45 – Claim File Documentation
Procedure 46 – Subrogation and Deductible Reimbursement
Procedure 48 – Catastrophe Claim Handling

SUMMARY

American International Insurance Company of Delaware is a member of American International Group, Inc. AIIC began writing new private passenger automobile insurance on January 1, 2002, pursuant to NJ Order CO118, which suspended the withdrawal proceedings of American International Insurance Company of New Jersey. This order permitted AIIC-NJ to restructure its

American International Insurance Company of Delaware

business and authorized AIIC-DE to write private passenger automobile insurance in New Jersey.

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

CONCLUSION

The examination was conducted by Peter Schaeffer, and is respectfully submitted,



Peter K. Schaeffer
Supervisor
Delaware Insurance Department