

STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of) **STIPULATION**
AIU Insurance Company,) **and FINAL ORDER**
American Home Assurance Company,)
AIG Casualty Company,)
Commerce and Industry Insurance Company,)
Granite State Insurance Company,)
Illinois National Insurance Company,)
National Union Fire Insurance Company of Pittsburgh PA)
New Hampshire Insurance Company, and)
The Insurance Company of the State of Pennsylvania.) Case No. INS 07-05-006

STIPULATION

The Director of the Oregon Department of Consumer and Business Services (director) commenced this administrative proceeding, pursuant to Oregon Revised Statutes (ORS) 731.256 and 656.726, to take enforcement action against AIU Insurance Company, American Home Assurance Company, AIG Casualty Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Company, National Union Fire Insurance Company of Pittsburgh PA, New Hampshire Insurance Company, and The Insurance Company of the State of Pennsylvania (collectively referred to as AIG).

AIG desires to conclude this proceeding without a hearing by entering into this stipulation pursuant to ORS 183.415(5).

AIG waives all rights relative to an administrative hearing and judicial review thereof.

AIG stipulates that the director finds the following facts and makes the following conclusions. AIG neither admits nor denies the facts and conclusions. AIG agrees to take the following corrective actions, agrees to pay the unsuspending portion of the civil penalty, and acknowledges that the suspended portion of the civil penalty may be reinstated on certain conditions. AIG consents to the director issuing a final order incorporating this stipulation.

AIG stipulates that the stipulation and final order resolves only the matters set forth herein.

The person or persons signing this stipulation represent and warrant that they have the authority to enter into this stipulation and obligate each specified insurer to comply with its terms.

The purpose of this stipulation is to achieve compliance by AIG with the insurance and workers' compensation laws and regulations of Oregon.

Facts

1. AIG provides workers' compensation insurance to a significant number of employers in Oregon. Since 1985, AIG has failed to comply with certain Oregon insurance and workers' compensation laws.

2. AIG failed to collect, maintain, or provide sufficient and accurate information regarding Oregon premiums and claims experience that must be reported to the National Council on Compensation Insurance, Inc. (NCCI) for use by the director in developing workers' compensation rates for Oregon.

3. AIG transmitted erroneous information concerning its 2005 Oregon data call submissions used for Oregon rates effective January 1, 2006. The errors were of sufficient magnitude to make the information unusable for Oregon ratemaking.

4. AIG failed to report information on large risk rating plan (LRRP) policies for the period 1985 through 2005, or failed to provide data of sufficient quality for ratemaking purposes. As the third largest writer of workers' compensation insurance in Oregon, the AIG information becomes an integral part of the overall information used to develop workers' compensation rates in Oregon.

5. AIG filed inaccurate information regarding earned workers' compensation premiums in its annual financial documents from 1987 to 2005. These financial documents were used in both Oregon ratemaking and to determine AIG's correct Oregon Workers' Compensation Insurance Plan (OWCIP) assessments.

6. AIG failed to pay its correct OWCIP assessments which caused other insurers to pay excess OWCIP assessments.

7. From 1985 to 2005, AIG issued an unknown number of LRRP policies on a form or forms that AIG did not file with the director for approval prior to use. AIG continued to issue these unapproved policy forms with knowledge that the director would not approve such forms after NCCI withdrew a similar form filed with the director in 1993. Using these forms gave AIG an unfair advantage with respect to other workers' compensation insurers in Oregon and provided their policyholders with an unfair market advantage over other Oregon employers.

8. From 1987 through 2005, AIG:

- a. Failed to pay the correct Oregon workers' compensation premium assessments;
- b. Failed to timely file workers' compensation guaranty contracts and cancellations of guaranty contracts;
- c. Failed to timely and accurately process workers' compensation claims and pay benefits to injured workers; and
- d. Processed workers' compensation insurance claims at more than eight locations in Oregon.

9. AIG's failure to comply with Oregon laws has had the following harmful effects in Oregon:

- a. AIG caused NCCI to provide ratemaking information to the director that was incomplete or in error and incorrectly calculate the OWCIP assessments, and caused the director to incorrectly calculate the workers' compensation rates.
- b. AIG directly caused all other insurers who are authorized to provide workers' compensation insurance in Oregon and their insured employers to pay more than they should have for their OWCIP assessments.
- c. AIG's delay in filing timely guaranty contracts delayed the processing of claims and the payment of benefits to injured workers and caused the director to conduct unnecessary investigations of noncomplying employers, which resulted in inconvenience and increased costs to Oregon employers.
- d. AIG's failure to provide injured workers fair, adequate, and reasonable income benefits and sure, prompt, and complete medical benefits which created the

potential for significant harm and hardship on those injured workers and their families.

e. Lastly, AIG created confusion for employers and workers as a result of maintaining processing locations in excess of the number allowed by Oregon law, failing to file service agreements for all locations processing claims, and failing to provide notice when claims were moved from one service location to another.

Conclusions

AIG violated the following Oregon laws:

Oregon Revised Statutes (ORS) 737.225 or, in the alternative, ORS 737.230 by failing to collect or maintain required information; failing to provide, and/or providing incorrect or insufficient information to the NCCI about its Oregon premium and claims experience that are used in connection with Oregon's rates, rating plans, and rating systems.

ORS 656.730 and Oregon Administrative Rules (OAR) 836-043-0009(1) by failing to comply with the OWCIP by failing to pay its equitable apportionment of residual market assessments.

ORS 737.330(1) and 742.003 by issuing LRRP policies on a form or forms and at rates that AIG did not file with the director for approval prior to use.

ORS 656.612(1) by failing to pay the correct Oregon workers' compensation premium assessments.

ORS 656.407 and 656.427 by failing to file workers' compensation guaranty contracts and cancellations of guaranty contracts.

Multiple claims processing statutes, including ORS 656.210, 656.245, 656.262, and 656.268, and related administrative rules by failing to timely and accurately process workers' compensation claims and pay benefits to injured workers.

ORS 731.475(4)(b) by processing workers' compensation insurance claims at more than eight locations in Oregon.

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Action

Corrective Actions

1. Within thirty (30) days from the date of the final order, AIG shall reduce to eight or fewer, the number of locations each insurer of AIG uses to process Oregon workers' compensation claims. No later than 9/1/07, AIG shall submit to the director copies of the appropriate service agreements between each insurer and their service company indicating where the claims are being processed.

2. AIG shall not issue or renew any workers' compensation policy written on a policy form not approved by the director unless otherwise permitted by law.

3. AIG shall comply with ORS 737.225 and 737.230.

4. AIG shall comply with all of the standards and requirements contained in Exhibit A and shall use Exhibit B to report such compliance, both of which are hereby incorporated into this stipulation. AIG shall reimburse the director for the director's expenses connected with all audits referred to therein. Expenses include staff time, travel expenses (lodging, meals, parking, private or state car mileage charges), document copying, computer time, and other reasonable charges of like nature.

5. Regarding whether AIG owes any additional workers compensation premium assessment for the period from 1996 to 2005:

a. Within sixty (60) days from the date of the final order, AIG shall provide to the director the following information:

(1) In electronic spreadsheet form, the insurer, insured, policy number, policy effective date, and earned premium relative to the Oregon workers' compensation earned premium for each year from 1996 to 2005, including any reconciliations between the total earned premium and the total earned premium that was reported to the director in the each insurer's quarterly Premium Assessment Report and Oregon Exhibit of Premiums and Losses (Statutory Page 14).

(2) In electronic .pdf form, a copy of each specified insurer's workers' compensation quarterly Premium Assessment Report and the Statutory Page 14 for each year from 1996 to 2005.

b. After the director receives the information, the director shall determine whether AIG owes additional assessment based on the information and notify AIG in writing of the determination. If the director determines that AIG owes additional assessment, the notice shall include the amounts of assessment and interest, and an explanation of how the amounts were calculated.

c. If the director determines that AIG owes additional assessment, then within ten (10) days from the date AIG receives the notice, AIG shall pay the additional assessment and interest. If AIG disputes the amount of the additional assessment, AIG and the director shall confer but the director's decision shall be final, subject to the hearing rights provided pursuant to ORS chapter 183.

Assessment of Civil Penalty

Pursuant to ORS 731.988 and 656.745(2)(a), AIG is assessed a civil penalty in the amount of \$5 million for violations stipulated to above. \$1 million of the civil penalty is payable within 45 days from the date of the final order. The remaining \$4 million is suspended, and will either be withdrawn or reinstated upon the following conditions:

1. By September 30, 2008, the director shall issue an order withdrawing the suspended portion of the penalty, if the director, in the director's sole discretion, determines that AIG timely complied with all of the corrective actions required by this stipulation and timely paid the \$1 million portion of the civil penalty.

2. If AIG fails to comply with all of the corrective actions required by stipulation or fails to timely pay the \$1 million portion of the civil penalty, then any or all of the suspended portion of the civil penalty shall become payable, at the sole discretion of the director, within 30 days after AIG receives notice and an opportunity for a hearing as specified in ORS chapter 183. The only issue at any such hearing is whether AIG failed to comply with the terms of this document. AIG waives any right to contest the amount of civil penalty after a determination is made that AIG is not in compliance with the terms of this stipulation.

All payments of the workers' compensation premium assessment and civil penalty shall be paid in the form of a check made payable to the "Department of

Consumer and Business Services,” and sent to the Workers’ Compensation Division, 350 Winter Street NE, Room 27, Salem, OR 97301-3879.

Nothing in this stipulation:

1. Prevents the director from assessing penalties on individual claims pursuant to ORS 656.262(11), or assessing penalties under ORS 656.745(2), for violations of ORS chapter 656 or OAR chapter 436 occurring on or after January 1, 2006;
2. Releases AIG from the responsibility for any unpaid assessments or taxes;
3. Prevents the director from receiving money from any past or present multi-state regulatory settlement involving AIG, except to the extent that such regulatory settlement is based on the specific facts and violations of law set forth in this stipulation. Any money due Oregon concerning OWCIP assessments for the period from 1987 to 2005, plus interest, is excluded from this stipulation.

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Dated June 28, 2007

/s/ Paolo Grassi

[Signature of Representative]

Paolo Grassi

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

AIU Insurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

American Home Assurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

AIG Casualty Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

Commerce and Industry Insurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

Granite State Insurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

Illinois National Insurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

National Union Fire Insurance Company of
Pittsburgh PA

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

New Hampshire Insurance Company

Dated June 28, 2007

/s/ Kenneth V. Harkins

[Signature of Representative]

Kenneth V. Harkins

[Printed Name of Representative]

Vice President, General Counsel

[Printed Title of Representative]

The Insurance Company of the State of
Pennsylvania

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FINAL ORDER

The director incorporates herein the above stipulation, adopts it as the director's final decision in this proceeding pursuant to ORS 183.415(5), and orders that the action stated therein be taken.

Dated July 5, 2007 /s/ Cory Streisinger
Cory Streisinger
Director
Department of Consumer and Business Services

Attachments

Exhibit A – Standards for Compliance

Exhibit B – Oregon Compliance Report Card

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