

REPORT ON
THE MARKET CONDUCT EXAMINATION
OF

AIG National Insurance Company
NAIC Company Code: 36587

As of

June 30, 2007

State of Rhode Island
Department of Business Regulation
Insurance Division

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
233 RICHMOND STREET
PROVIDENCE, RHODE ISLAND 02903

IN THE MATTER OF:

AIG NATIONAL INSURANCE COMPANY

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DBR No.

08-094

Respondent.

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CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation ("Department") and the AIG National Insurance Company ("Respondent") as follows:

1. Pursuant to R.I. Gen. Laws § 27-13.1-4, the Department initiated a Market Conduct Examination ("Examination") in order to evaluate Respondent's compliance with applicable R. I. Gen. Laws and Rhode Island Insurance Regulations.
2. The Examination was completed and a report was issued on March 28, 2008.
On April 28, 2008 pursuant to R.I. Gen. Laws § 27-13.1-5(b), Respondent submitted written comments to the report.

WHEREFORE, based on the foregoing, Respondent and the Department have decided to resolve this matter without further administrative proceedings and hereby agree to the following resolution:

1. The Examination concluded that Respondent failed to comply with Rhode Island Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16 in all 16 company initiated nonrenewal notices issued during the period of examination from 1-1-06

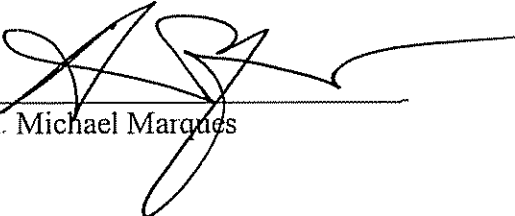
through 6-30-07. The nonrenewal notices failed to contain the mandatory Financial Security statement and notice to the insured of their possible eligibility for insurance through the Rhode Island Automobile Insurance Plan. The Department and Respondent agree that Respondent will pay an administrative penalty of five thousand dollars (\$5,000) as a result of these violations.

2. The Examination concluded that Respondent failed to comply with Rhode Island Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16 in all company initiated cancellation notices issued during the period of examination from 1-1-06 through 6-30-07. The cancellation notices failed to contain the mandatory Financial Security statement and notice to the insured of their possible eligibility for insurance through the Rhode Island Automobile Insurance Plan. The Department and Respondent agree that Respondent will pay an administrative penalty of five thousand dollars (\$5,000) as a result of these violations.


For all of the violations detailed herein, Respondent is ordered to pay an administrative penalty of ten thousand dollars (\$10,000).

Department and Respondent hereby consent and agree to the foregoing on this 30 day of April 2008.

Department of Business Regulation
By its Director,


A. Michael Marques

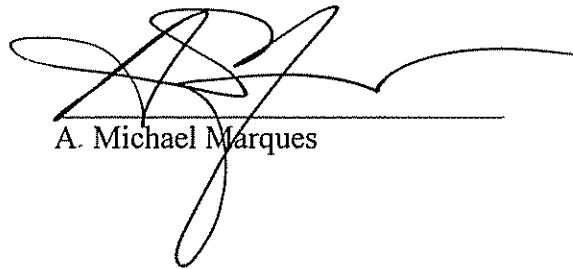
Respondent,



This agreement relates only to the examination of AIG National Insurance Company (NAIC Company Code 36587) and the issues discussed in the Report of Market Conduct Exam dated as of June 30, 2007 described herein and does not in any way relate to any other AIG Group company or issue. The Department is currently conducting an examination of other AIG Group Companies and this Consent Agreement does not in any way effect that examination or waive any rights of the Department as against any AIG Group Company.

May 6, 2008

Department of Business Regulation
By its Director,



A. Michael Marques

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Providence, Rhode Island

March 28, 2008

Honorable A. Michael Marques
Insurance Commissioner
State of Rhode Island

Commissioner:

In accordance with your instructions, and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

AIG NATIONAL INSURANCE COMPANY

Deerfield Corporate Center Two
13010 Morris Road, Suite 500
Alpharetta, GA 30004

Hereinafter referred to as the "Company". The examination was conducted at the Department of Business Regulation, Insurance Division, 233 Richmond Street, Providence, Rhode Island.

FOREWORD

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination has been omitted from the report if errors and/or improprieties were not evidenced.

SCOPE OF EXAMINATION

Authority for this examination is provided by R.I. Gen. Laws §27-13-1 and §27-13.1-3. The examination covered the period from January 1, 2006 through June 30, 2007, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, and procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed a review of the following areas: Cancellations and Nonrenewals. The line of business reviewed was Private Passenger Automobile.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurer's files.

PROFILE OF COMPANY

History

AIG National Insurance Company, Inc. (the Company) is a New York domiciled insurance company licensed to write property and casualty insurance. AIG National (formerly know as Abeille General Insurance Co., Inc.) commenced business as a United States Branch of a foreign insurer on September 4, 1975. On December 12, 1994, the Company was incorporated in the state of New York. The Company is a wholly owned subsidiary of New Hampshire Indemnity Company, Inc., which is a wholly owned subsidiary of New Hampshire Insurance Company, which is a wholly owned subsidiary of AIG Property Casualty Group Inc., which is a wholly owned subsidiary of American International Group, Inc.

The Company writes private passenger automobile insurance within the United States and is distributed primarily through the independent agency system.

Agents quote premium through a variety of methods including the use of comparative rating vendors or Company rating software. New business applications are primarily uploaded electronically from company software.

The Company uses a claims and underwriting system provided by a third party vendor.

Operations

The Company's Rhode Island direct written premium for the year 2006 was as follows:

<u>Line of Business</u>	<u>Written Premium</u>
Other Private Passenger Auto Liability	\$ 4,825,639
Private Passenger Auto Physical Damage	\$ 1,790,401
Total	\$ 6,616,040

Management

At December 31, 2006, the Officers of the AIG National Insurance were as follows:

Anthony P. Pavia, Jr.	President & Chief Executive Officer
Glenn A. Pfeil	Chief Financial Officer, Executive Vice President & Treasurer
Elizabeth M. Tuck	Secretary
Robert Mc Laughlin	Controller

At December 31, 2006, the Directors of the AIG National Insurance were as follows:

Merton B. Aidinoff	Esta L. Cain
Lucille N. Evans	Christopher B. Greene
Jacob E. Hansen	Michael F. Long
William D. Loucks, Jr.	Cecelia E. Norat
Anthony P. Pavia, Jr.	Glenn A. Pfeil
James A. Porcari, III	Donald W. Procopio
Mark E. Van Dam	Charles E. Williamson

PRIVATE PASSENGER AUTOMOBILE

Nonrenewals

A review of the Company's Rhode Island Private Passenger Automobile Nonrenewals practices for the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies and was in compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiner with a listing of 16 private passenger automobile nonrenewals, which were company initiated and selected for review.

Based on the examination work performed, the examiner noted that all 16 policy nonrenewal notices failed to contain the mandatory the Financial Security statement and notice of possible eligibility for replacement coverage through the Rhode Island Automobile Insurance Plan, in accordance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Recommendation #1: It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all personnel and third party vendors involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

Cancellations

A review of the Company's private passenger automobile cancellation practices during the period under examination was conducted to determine whether the Company complied with the applicable provisions of its private passenger automobile policies and was in compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The Company provided the examiner with a listing of 559 private passenger automobile cancellations, of which 66 were listed as company initiated. The examiner reviewed a sample of 38 company initiated cancellations notices, and noted that all of the samples failed to contain the mandatory Financial Security statement and the possible eligibility for replacement coverage through the Rhode Island Automobile Insurance Plan, in accordance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. The examiner was also informed that none of the company initiated cancellations notices on the listing contained the proper language.

Recommendation #2: It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise all company personnel and third party vendors involved in the processing of Rhode Island private passenger cancellations of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.

The company was unable to segregate the population for company-initiated nonrenewals and cancellations by reason code, as the processing area uses the same cancellation codes as typical underwriting cancellations. The actual notices have more specific reasons on them. The company acknowledged this finding and implemented a system change.

Recommendation #3: It is recommended that the Company not only provide the insured with a written notice stating the specific reason for cancellation or nonrenewal, but also be able to provide a complete listing of such notices, classified by reason code.

Rec. #	Recommendations	Page #
1	<p>It is recommended that the Company monitor their private passenger automobile nonrenewal processing to ensure compliance with R.I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise company personnel and third party vendors involved in the processing of Rhode Island private passenger automobile nonrenewals of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.</p>	7
2	<p>It is recommended that the Company monitor their private passenger automobile cancellation processing to ensure compliance with R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16. In addition, the Company should advise company personnel and third party vendors involved in the processing of Rhode Island private passenger cancellations of the requirements of R. I. Gen. Laws §31-47-4 and Rhode Island Insurance Regulation 16.</p>	8
3	<p>It is recommended that the Company not only provide the insured with a written notice stating the specific reason for cancellation or nonrenewal, but also be able to provide a complete listing of such notices, classified by reason code.</p>	9

CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Assisting the undersigned in the conduct of this examination was Ronald R. Radtke, Senior Market Conduct Examiner.

Respectfully submitted,



Dorothy E. Wendoloski
Senior Insurance Examiner
Rhode Island Insurance Division