

IN THE MATTER OF
AIG PROPERTY CASUALTY COMPANY
REGULATORY SETTLEMENT AGREEMENT
ON REPORTING OF MOTOR VEHICLE AT-FAULT ACCIDENTS TO
AFFECTED OPERATORS

This Regulatory Settlement Agreement (“Agreement”) is entered into as of this ___ day of December 2014 by and between AIG Property Casualty Company (the “Company”) and the Commissioner of the Massachusetts Division of Insurance (“the Division”).

A. Recitals

1. The Company maintains its home office in Harrisburg, Pennsylvania and at all relevant times has been a licensed insurance company in Massachusetts. On March 19, 2012, pursuant to authority in Massachusetts General Laws (“M.G.L.”) Chapter 175, Section 4, the Division called a comprehensive market conduct examination (“examination”) of the Company, formerly known as Chartis Property Casualty Company. The examination report is being issued concurrently with the execution of this Agreement. In accordance with 211 CMR 134, the Company is to report motor vehicle at-fault accident determinations, in which the Company has determined that fault is greater than 50% in accordance with 211 CMR 74.04, to the Merit Rating Board (“MRB”) and to vehicle operators determined to be at-fault in motor vehicle accidents (“At-fault Operators”). Concurrent with the reporting of the insurer’s at-fault determination for the At-fault Operator, the Company is required to provide notice of the At-fault Operator’s right to appeal the at-fault determination to the Massachusetts Board of Appeals (“BOA”) or a court of competent jurisdiction in accordance with M.G.L.

Chapter 175E, Section 7A. If the Company's at-fault accident determination is vacated by the Massachusetts BOA or a court of competent jurisdiction, the At-fault Operator's insurer is required to refund any additional premium collected as a result of the Company's at-fault determination, and the Company must report such vacated at-fault accident determinations to the same consumer reporting agencies to whom the original at-fault accident determinations were reported in accordance with M.G.L. Chapter 175E, Section 7A.

2. During the examination, the Division determined that the Company failed to report at-fault accident determinations to affected At-fault Operators and to report some at-fault accident determinations to the MRB. These reporting failures have occurred since the Company's entrance to the Massachusetts private passenger automobile market in 2009. Specifically, the Company failed to report 230 at-fault accident determinations to affected At-fault Operators and to provide the affected At-fault Operators with notices of their right to appeal those determinations in accordance with M.G.L. Chapter 175E, Section 7A. Further, the Company failed to report 65 at-fault accident determinations timely to the MRB in accordance with 211 CMR 134.

3. During the examination, the Division engaged in discussions with Company management with respect to the matters in this Agreement. The Company agreed to the corrective actions set forth in Section B, which seeks to provide notice to affected At-fault Operators of the Company's at-fault accident determinations, so as to reinstate such operators' rights to appeal their at-fault accident determinations in

accordance with M.G.L. Chapter 175E, Section 7A, and to report all claims to the MRB as required by 211 CMR 134. Further, the corrective action plan set forth in Section B will require settlement of potential claims to other affected parties, including the current private passenger automobile insurer of an At-fault Operator. Finally, the corrective action plan seeks changes in the Company's related business practices and monitoring efforts.

B. Plan of Corrective Action

1. Notice to Affected At-fault Operators

An affected At-fault Operator is a motor vehicle operator, who was determined by the Company to be at-fault for a motor vehicle accident in accordance with 211 CMR 134, and not notified of the Company's at-fault determination and the operator's corresponding right to appeal the Company's at-fault determination in accordance with M.G.L. Chapter 175E, Section 7A. For each affected At-fault Operator, the Company shall provide to each such operator the following information within 60 days of the execution of this Agreement, unless additional time is granted by the Division:

- a. A notice describing the Company's failure to report timely to the operator that he or she was determined to be at-fault in a motor vehicle accident. A description of the potential impact of the error on the operator's current and future policy premium,
- b. The surcharge notice required by 211 CMR 134 to be sent to the affected At-fault Operator, which includes the application and process to appeal the Company's at-fault determination. A statement that the operator must file an

appeal within 30 days of the date on the notice, and that the Company will reimburse the affected At-fault Operator for the \$50 appeal fee if he or she elects to appeal the Company's at-fault determination,

- c. If, in addition, the affected At-Fault Operator's claim was not reported to the MRB, the notice to the affected At-fault Operator will include a statement to this effect, and that the Company will report the claim to the MRB within 15 days of the execution of this Agreement, unless additional time is granted by the Division.
- d. In addition, if the affected At-fault Operator's claim was not reported to the MRB, and the affected At-fault Operator is not currently insured under a policy issued by the Company, the notice to the affected At-fault Operator will include a statement that the At-fault Operator's current private passenger automobile insurer may be notified by the MRB of this claim. Further, the Company will coordinate with the current insurer through the Division to ensure that, if the failure to report claims timely led to improper premiums for prior policy terms, the Company will compensate the insurer. The At-fault Operator is not responsible for any past premium inadequacy under these circumstances.

2. Changes in Business Practices and Monitoring Efforts

The Company shall institute and report to the Division all new business practices and monitoring efforts to address the errors noted in this Agreement.

- a. Within 60 days of the execution of the Agreement, unless additional time is granted by the Division, the Company shall develop and adopt new business practices to ensure that it timely and properly provides operators determined to be at-fault for accidents involving motor vehicles insured by the Company with proper notice of the Company's at-fault determination and the at-fault operator's right to appeal the Company's determination in accordance with M.G.L. Chapter 175E, Section 7A. Further, the Company shall develop and adopt new business practices to ensure that claim data is properly and timely reported to the MRB in accordance with 211 CMR 134.
- b. The Company's internal audit department or independent quality assurance function shall test the design and effectiveness of the new business practices noted in Section B, and issue a written report on their findings and any related recommendations to management, the Company's Board of Directors or a committee thereof, and to the Division by June 30, 2015, unless additional time is granted by the Division. If significant business practice issues are identified in the report, follow up audits by the internal audit department or quality assurance function will continue to be performed, with related reports issued, until no significant business practice issues remain.

C. Other Provisions

1. The Division will monitor the Company's compliance with this Agreement. The Division will conduct a re-examination of the issues addressed under this Agreement and any other issues identified in the examination within twenty-four (24) months after the execution of this Agreement. The Company shall be deemed in compliance with this Agreement unless the re-examination testing conducted within the aforementioned twenty-four (24) month period results in an error rate that exceeds three (3) percent. Such error rate shall be determined by use of a statistical credible sample, and that sample will be based on guidance contained in the current version of the *NAIC Market Regulation Handbook*.

2. The monitoring of the Company for compliance with the terms of this Agreement constitutes an ongoing examination. In accordance with M.G.L. Chapter 175, Section 4, the Division shall afford confidential treatment to the workpapers, recorded information, or documents provided by the Company as part of the ongoing examination.

3. All Division monitoring and examination costs, including interim reviews and testing, shall be borne by the Company in accordance with M.G.L. Chapter 175, Section 4.

4. The Company does not admit to any wrong doing or violation of law.

5. The Company agrees that all amounts paid or expenses incurred in complying with the terms and conditions of this Agreement shall not be included or recoverable as expenses in any rate filing filed with the Division or any other insurance regulatory agency.

6. This Agreement may be executed in counterparts. A true and correct copy of the Agreement shall be enforceable the same as the original Agreement. The provisions of this Agreement may be amended, modified, or expanded solely in writing by joint consent of the Division and the Company.

7. This Agreement shall be governed by and interpreted according to the laws of the Commonwealth of Massachusetts.

8. This Agreement represents the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any and all prior understandings, agreements, plans, and negotiations, whether written or oral, with respect to the subject matter hereof.

9. The Division releases and discharges the Company with respect to all fines, claims, sanctions or redress that could have been pursued as a result of the Company's past conduct addressed by the Plan of Corrective Action other than as set forth in this Agreement. Notwithstanding the foregoing, the Division's authority to investigate any assertion of the Company's noncompliance with law applicable to matters not within the scope of this Agreement, and to act thereon, shall not be limited in any way by this Agreement.

10. The Division retains the right to impose any regulatory penalty otherwise available by law, including fines, with respect to the Company's willful violation of this Agreement or other violation of law.

11. Except as set forth herein, nothing in this Agreement shall be construed to waive or limit the right of the Division to seek such other remedies or to otherwise waive or limit the continuing regulation of the Company in the normal course.

12. The parties hereto agree that time shall be of the essence with respect to the performance of this Agreement.

D. Remedies

1. Within 15 days of the execution of this Agreement, the Company shall pay a fine of \$22,500 to the Division. Also, after completion of the re-examination conducted within twenty-four (24) months of the execution of this Agreement, as referenced in Section C.1, the Commissioner may require an additional fine of up to \$22,500 in the event that the error rate exceeds the maximum tolerance level in Section C.1.

2. The Company shall be entitled to review and comment on any re-examination results in accordance with the current version of the *NAIC Market Regulation Handbook*.

AIG PROPERTY CASUALTY COMPANY

BY: _____

December 8, 2014


APPROVED BY SCOTT MILLER

MASSACHUSETTS DIVISION OF INSURANCE

BY: _____

Joseph G. Murphy, Commissioner

December __, 2014

D. Remedies

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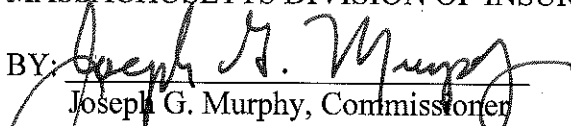
2. The Company shall be entitled to review and comment on any re-examination results in accordance with the current version of the *NAIC Market Regulation Handbook*.

AIG PROPERTY CASUALTY COMPANY

BY: _____

December __, 2014

MASSACHUSETTS DIVISION OF INSURANCE

BY: 
Joseph G. Murphy, Commissioner

December 9, 2014