



Illinois Department of Insurance

Bruce Rauner
Governor

Anne Melissa Dowling
Acting Director

December 6, 2016

Mr. John J. Lupica
President
ACE American Insurance Company
436 Walnut Street
Philadelphia, PA 19106

Re: ACE American Insurance Company, NAIC 22667
Market Conduct Examination Report Closing Letter

Dear Mr. Lupica:

On October 31, 2016, the Department sent your Company a draft copy of the examination report. On December 5, 2016, the Department received correspondence from James Clay, Vice President of Regulatory Affairs, indicating ACE American Insurance Company is in agreement with the findings contained in the report.

I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report is subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

The Department has completed the Market Conduct examination of ACE American Insurance Company and is closing its file on the exam. A copy of the verified Examination Report and redacted verified Examination Report are enclosed.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jack Engle".

Jack Engle, MCM
Assistant Deputy Director-Market Conduct and Analysis
Illinois Department of Insurance
320 West Washington- 5th Floor
Springfield, IL 62767
217-558-1058
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Enclosures

ACE AMERICAN INSURANCE COMPANY
EXAMINATION REPORT

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: November 16, 2015 through August 15, 2016

EXAMINATION OF: ACE American Insurance Company
NAIC Number: 22667

LOCATION: 436 Walnut Street
Philadelphia, PA 19106

PERIOD COVERED BY
EXAMINATION: November 1, 2014 to October 31, 2015
Complaints: April 1, 2014 to October 31, 2015

EXAMINERS: Linda Miller
Josephine Sitter
J. Joseph Cohen, Examiner-in-Charge

INDEX

	Page
I. SUMMARY	1
II. BACKGROUND	2
III. METHODOLOGY	3
IV. SELECTION OF SAMPLES	5
V. FINDINGS	6
A. Company Operations and Management	6
B. Complaints	6
1. Complaints – ILDOI	
2. Complaints – Consumer	
C. Producer Licensing	6
D. Risk Selection	6
1. Workers' Compensation Cancellations I	
2. Workers' Compensation Cancellations II	
3. Workers' Compensation Nonrenewals	
4. Workers' Compensation Rescissions	
E. Underwriting	7
1. Workers' Compensation New Business	
2. Workers' Compensation Renewals	
F. Claims	7
1. Workers' Compensation Claims Paid	
2. Workers' Compensation Claims Closed Without Payment (CWP)	

I. SUMMARY

A comprehensive market conduct examination of the Company's Workers' Compensation (WC) line of business was conducted.

The following table represents general findings, with specific details in each section of the report.

TABLE OF TOTAL VIOLATIONS						
Crit #	Statute/Rule	Description of Violations	Population	Files Reviewed	# of Violations	Error %
1	50 Ill. Adm. Code 926.50	The Company failed to maintain the required minimum information for ILDOI complaint records. (ILDOI WC Complaints)	7	7	1	14.29%
2	820 ILCS 305/8.2(d)(3)	The Company failed to have procedures in place to pay interest on late payments for Workers' Compensation medical bills; with 2 of the 7 claim TPAs not having this procedure. (WC Claims-Paid)	N/A	N/A	General Criticism	N/A
4	820 ILCS 305/6(b)	The Company failed to file with the Commission, in writing, the required report for employees out more than 3 scheduled work days. (WC Claims-Paid)	3,350	108	1	0.92%
5	820 ILCS 305/8.2(d)(1) and (2)	The Company failed to pay medical claims within 30 days of receipt, or, to provide notification to the provider describing any additional data needed for payment. (WC Claims-Paid)	3,350	108	1	0.92%
7	50 Ill. Adm. Code 919.30(c)	The Company failed to maintain documentation sufficient to reconstruct the Company's claim activity. (WC Claims-Paid)	3,350	108	1	0.92%

II. BACKGROUND

The Company was incorporated on November 1, 1945, under the laws of California, with operations conducted under the name of Allied Compensation Insurance Company. In 1961, the name of the Company was changed to Allied Insurance Company and underwriting powers were broadened to encompass all casualty, fire and allied lines. The name was changed in 1977 to INA Underwriters Insurance Company and again changed to CIGNA Insurance Company in 1983. In December 1986, the Company redomesticated from California to Pennsylvania and the current name was adopted in 1999, in accordance with ACE Group's acquisition of certain assets and companies of the CIGNA Corporation. During the examination period, the Company was a wholly-owned, indirect subsidiary of ACE Limited, the ultimate controlling entity in the insurance holding company system. Since the examination period, the group acquired the Chubb Corporation and the group now operates under the Chubb name.

ACE American Insurance Company's 2014 NAIC Annual Statement, Page 14 (Illinois), reports the following for the Workers' Compensation line of business:

	Line	Direct premiums written	Direct premiums earned	Direct losses paid	Direct losses incurred
16	Workers' Compensation	\$14,724,832	\$13,350,658	\$7,693,291	\$8,746,794

III. METHODOLOGY

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The scope of this market conduct examination involved the following general areas:

1. Operations and Management
2. Complaints
3. Producer Licensing
4. Risk Selection
5. Underwriting
6. Claims

The review of these categories was accomplished through examination of material related to Company operations and management, complaint files, producer lists, risk selection files, underwriting files and claim files, as well as interviews and Company responses to the requests in the Coordinator's Handbook, Information Requests and Criticisms. Each of the categories was examined for compliance with ILDOI regulations and applicable state laws.

The following method was used to obtain the required samples and to ensure a statistically sound selection. Surveys were developed from Company-generated Excel spreadsheets. Random statistical file selections were generated by the examiners from these spreadsheets. In the event the number of files was too low for a random sample, the sample consisted of the universe of files.

The Company's Workers' Compensation line of business was reviewed.

The Company was a subsidiary of ACE Limited during the examination. Another company in this group, Bankers Standard Insurance Company, was also examined in conjunction with ACE American. Since they do not generally share the same platforms, separate reports have been prepared.

Operations and Management

A review was conducted of the Company's underwriting and claims guidelines and procedures, policy forms, third party vendor oversight, internal audits, certificates of authority, previous market conduct examinations and annual statements. These documents were reviewed for compliance with Illinois statutes and the Illinois Administrative Code.

There were no exceptions noted.

Complaints

The Company was requested to identify all consumer and ILDOI complaints received during the examination period and to provide copies of the complaint register. No consumer complaints were identified by the Company. These documents were reviewed for compliance with Illinois statutes and the Illinois Administrative Code.

There was one exception noted.

Producer Licensing

The Company was requested to provide a list of all producers licensed to do business in Illinois and a list of those producers paid commission in Illinois during the examination period. The majority of producers placing business with the Company are brokers, rather than agents of the Company. In addition, all of the producers identified as terminated were brokers not under contract and/or were part of name changes, mergers or acquisitions and the Illinois notice provisions for terminations did not apply. A sample of the listed producers was reviewed in comparison to the State of Illinois licensing database and for compliance with Illinois statutes and the Illinois Administrative Code.

There were no exceptions noted.

Risk Selection

The Company was requested to provide a list of all policies in the following categories: Cancellations I (Company initiated cancellations), Cancellations II (cancellations for non-pay or at the insured's request), Nonrenewals and Rescissions. The sample files were reviewed to ensure that the policies were processed in compliance with Illinois statutes and the Illinois Administrative Code. The review included compliance with statutory requirements, the accuracy and validity of the reason(s) given for the action taken and any possible unfair discrimination.

There were no exceptions noted.

Underwriting

The underwriting review of applicants for coverage with the Company was based on the inception dates of new and renewal policies falling within the period under examination. The policies furnished by the Company were reviewed for rating accuracy, use of filed rates, use of filed forms, compliance with Company underwriting guidelines and to ensure that the coverage provided was as requested by the applicant. This business was also reviewed to determine if solicitations were made by duly licensed producers.

The Company was requested to manually rate five (5) randomly selected files from the New Business sample and the examiner manually rated the remainder of the New Business and Renewal samples to check for rating accuracy.

Much of the Company business is large national accounts. The universe for the examination was limited to Illinois domiciliaries rather than including all insureds that only have an Illinois exposure.

There were no exceptions noted.

Claims

Claims were requested based on the settlement occurring or the claim file being closed without payment during the period under examination. The universe was limited to claimants who were Illinois residents. All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of Illinois statutes and the Illinois Administrative Code. Denied claims and claims closed without payment were provided on separate spreadsheets and then combined with proportional sampling for the closed without payment review.

There were several exceptions noted.

IV. SELECTION OF SAMPLES

<u>Surveys</u>	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
COMPLAINTS			
ILDOI Complaints	7	7	100.00%
Consumer Complaints	0	0	N/A
PRODUCER LICENSING			
Producer Licensing	3,577	115	3.21%
RISK SELECTION			
Workers' Compensation Cancellations I	0	0	N/A
Workers' Compensation Cancellations II	24	24	100.00%
Workers' Compensation Nonrenewals	2	2	100.00%
Workers' Compensation Rescissions	0	0	N/A
UNDERWRITING (Insureds-Illinois domiciliaries)			
Workers' Compensation New Business	31	31	100.00%
Workers' Compensation Renewals	167	79	47.31%
CLAIMS (Claimants-Illinois residents)			
Workers' Compensation Claims Paid	3,350	108	3.22%
Workers' Compensation Claims Closed Without Payment (CWP)	1,052	107	10.17%

V. FINDINGS

A. COMPANY OPERATIONS AND MANAGEMENT

There were no criticisms in this review.

B. COMPLAINTS

1. Complaints – ILDOI

In one (1) instance of seven (7) complaints reviewed, for an error rate of 14.29%, the Company failed to maintain the minimum required information for complaints. This is a violation of 50 Ill. Adm. Code 926.50.

Claim Number	ILDOI Complaint #	Criticism
[REDACTED]	[REDACTED]	Complaint records not maintained

2. Complaints - Consumer

No complaints were reported.

C. PRODUCER LICENSING

There were no criticisms in this survey.

D. RISK SELECTION

1. Workers’ Compensation Cancellations I

No cancellations reported.

2. Workers’ Compensation Cancellations II

There were no criticisms in this survey.

3. Workers’ Compensation Nonrenewals

There were no criticisms in this survey.

4. Workers’ Compensation Rescissions

No rescissions reported.

E. UNDERWRITING

1. Workers' Compensation New Business

There were no criticisms in this survey.

2. Workers' Compensation Renewals

There were no criticisms in this survey.

F. CLAIMS

1. Workers' Compensation Claims Paid

The Company failed to have procedures in place to pay interest on late payments for Workers' Compensation medical bills; with two (2) of the seven (7) claim TPAs not having this procedure. This is in violation of 820 ILCS 305/8.2(d)(3).

In one (1) instance of 108 files reviewed, for an error rate of 0.92%, the Company failed to file with the Illinois Worker's Compensation Commission, in writing, the required report for employees out of work more than 3 scheduled work days. This is a violation of 820 ILCS 305/6(b).

Item #	Claim #	TPA	Date Loss Reported	Criticism
17	[REDACTED]	[REDACTED]	2/13/15	No Form 45 filed

In one (1) instance of 108 files reviewed, for an error rate of 0.92 %, the Company failed to pay medical claims within 30 days of receipt, or to provide notification to the provider describing any additional data needed for payment. This is a violation of 820 ILCS 305/8.2(d)(1) and (2).

Item #	Claim #	TPA	Date Loss Reported	Criticism
66	[REDACTED]	[REDACTED]	02/26/15	Medical expense- no payment or written notification

In one (1) instance of 108 files reviewed, for an error rate of 0.92 %, the Company failed to maintain documentation sufficient to reconstruct its claim activity. This is a violation of 50 Ill. Adm. Code 919.30(c).

Item #	Claim #	TPA	Date Loss Reported	Criticism
66	[REDACTED]	[REDACTED]	02/26/15	Medical expense denied-no denial letter in file

2. Workers' Compensation Claims Closed Without Payment (CWP)

There were no criticisms in this survey.

STATE OF ^{TEXAS} KENTUCKY)
COUNTY OF JEFFERSON) ss
^{BELAR}

J. Joseph Cohen, Examiner-in-Charge, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of ACE American Insurance Company NAIC #22667 and Bankers Standard Insurance Company NAIC #18279.

That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

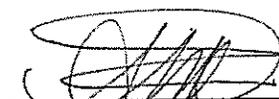
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.


Examiner-In-Charge

Subscribed and sworn to before me this 11th day of August, 2016.


Notary Public

