

May 27, 2009

Smeeta Teck
Assistant Vice President & Associate General Counsel
AIG Domestic Claims, Inc.
175 Water Street, 18th Floor
New York, NY 10038

Dear Ms. Teck:

In accordance with the authority vested in the Superintendent of Insurance, an examination of American International Group, Inc. as of June 30, 2007, has been conducted. Enclosed please find three (3) copies of the examination report.

Pursuant to 24-A M.R.S.A. §226 (5), you are required to place this report before the Board of Directors within 30 days of receipt of this report. Please forward a copy of the Board of Directors' minutes in which this report was presented and accepted. If a Board of Directors' meeting does not transpire within the required time, sworn or certified affidavits from each Board Member attesting to receipt of a copy of the examination report is an acceptable alternative.

Sincerely yours,

Carolee Bisson AIE, AIRC
Sr. Market Conduct Examiner
Maine Bureau of Insurance

Enc

Pursuant to Title 24-A, M.R.S.A. § 221, I have caused a Targeted Market Conduct Examination to be conducted of American International Group, Inc. I hereby accept this Report of Examination and make it an official record of the Bureau of Insurance.

Mila Kofman
Superintendent of Insurance
Maine Bureau of Insurance

Date:
2/5/2009

Report of Examination

American International Group, Inc.

**70 Pine Street
New York, NY 10270**

Companies Reviewed:

American Home Assurance Company

NAIC Company Code: 19380

Commerce and Industry Insurance Company

NAIC Company Code: 19410

Insurance Company of the State of Pennsylvania

NAIC Company Code: 19429

New Hampshire Insurance Company

NAIC Company Code: 23841

NAIC Examination Tracking System: ME008-M25

Examination Period:

October 1, 2006 through June 30, 2007

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September 2, 2008

The Honorable Mila Kofman
Superintendent of Insurance
Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent Kofman:

Pursuant to the certification of findings in accordance with 39-A M.R.S.A § 359(2) from the State of Maine Workers' Compensation Board ("WCB") and under the authority of 24-A M.R.S.A. § 221 and in conformity with your instructions, a targeted market conduct examination has been made of:

American International Group, Inc (A Holding Company)

Composed of the following:

American Home Assurance Company

Commerce & Industry Insurance Company

Insurance Company of the State of Pennsylvania

New Hampshire Insurance Company

hereinafter referred to as the "Company". The examination covered indemnity claims that were open between October 1, 2006 and June 30, 2007, for employees residing in the State of Maine or claimants involved in losses in the State of Maine. The onsite phase of the examination was conducted at the offices of the Company located at:

**99 Summer Street
Boston, MA 02110**

The following report is respectfully submitted.

HISTORY OF ENGAGEMENT

Pursuant to 39-A M.R.S.A. § 153(9), the WCB established a monitoring, audit and enforcement ("MAE") division. The functions of the MAE division include but are not limited to audits of payment timeliness and claims-handling practices of insurers in accordance with 39-A M.R.S.A. § 359. The WCB audited selected claims of the Company with dates of injury between January 1, 2004 and December 31, 2004 in part to determine whether the Company had violated the questionable claims-handling provision of 39-A M.R.S.A. § 359(2). The results of this audit are reported in a Compliance Audit Report dated April 5, 2006. The report's findings relevant to section 359(2) included non-filing of forms, late and inaccurate forms filings, untimely and inaccurate indemnity payments, failure to discontinue benefits appropriately and failure to meet the requirements of Section 102(14). The WCB determined that the pervasiveness and magnitude of the findings constituted a "pattern of questionable claims-handling techniques". In June 2006, the WCB and the Company entered into a Consent Decree which established patterns of questionable claims-handling techniques and assessed fines therefor.

In accordance with 39-A M.R.S.A. § 359(2), the WCB certified the audit findings to the Superintendent of Insurance. Section 359(2) requires the Superintendent of Insurance to take appropriate action to bring such practices to a halt.

SCOPE OF EXAMINATION

In order to meet the responsibilities set forth in section 359(2), the Superintendent of Insurance had to determine whether or not the patterns of questionable claims-handling techniques found by the WCB still existed. Therefore, an examination was planned in accordance with the National Association of Insurance Commissioners' Market Conduct Examiners' Handbook and Guidelines ("Handbook"). Bureau examiners developed compliance verification procedures based on the Handbook to measure whether the Company timely filed all required WCB forms, accurately calculated indemnity benefits and timely distributed benefit payments as required by the Workers' Compensation Act, Title 39-A M.R.S.A., and the WCB Rules and Regulations issued thereunder. Specifically, the scope of the examination included the review of all open indemnity claims for the period October 1, 2006 through June 30, 2007 that had dates of injury on or after January 1, 1993.¹

METHODOLOGY

Company records indicated a total of 253 open lost time claims from October 1, 2006 to June 30, 2007. Ninety (90) of these claims were found to have either been recently audited as part of an examination of a TPA (3 claims) or were processed by a TPA scheduled to be audited (87). These 90 claims were removed from the population. The software program ACL was utilized to select a random sample of 50 files from the remaining population of 163 claims.

STANDARDS

The following Handbook standards were the basis for developing the examination procedure. All references are to either Title 39-A M.R.S.A., WCB Rules and Regulations or MAE Protocols.

(1) Standard G-3

Claims are resolved in a timely manner.

Test 1:

Determine if initial and subsequent claim payments are made in a timely manner.

Standard G-3 establishes a general framework for the timely payment of claims in accordance with 39-A M.R.S.A. § 205(2).

(2) Standard G-4

The Company responds to claim correspondence in a timely manner.

Test 2:

Determine if correspondence/WCB forms related to claims is responded to/filed as required by applicable statutes, rules, regulations or protocols.

WCB-1, First Report of Injury	39-A M.R.S.A. § 303 WCB Rule Ch. 8 § 13
WCB-2, Wage Statement	39-A M.R.S.A. § 303
WCB-2A, Schedule of Dependent(s) and Filing Status	39-A M.R.S.A. § 303
WCB-3, Memorandum of Payment	WCB Rule Ch. 1 § 1.1
WCB-4, Discontinuance or Modification of Compensation	WCB Rule Ch. 8 § 11
WCB-4A, Consent Between Employer and Employee	WCB Rule Ch. 8 § 18
WCB-8, (21 Day) Certificate of Discontinuance or Reduction of Compensation	39-A M.R.S.A. § 205(9)
WCB-9, Notice of Controversy (“NOC”)	WCB Rule Ch. 1 § 1.1
WCB-11, Statement of Compensation Paid	WCB Rule Ch. 8 § 1

Standard G-4 establishes a general framework for the timely filing of claim-related documents. Failure to file a required WCB form or other document on time is a violation of 39-A M.R.S.A. § 360(1)(A) or (B).

(3) Standard G-5

Claim files are adequately documented.

Test Step 3: Determine if quality of the claim documentation is sufficient to support or justify the ultimate claim determination and meets state requirements.

Standard G-5 establishes a general framework for the adequacy of claim file documentation to correctly calculate claim payments in accordance with 39-A M.R.S.A. § 212, § 213 and § 215.

APPLICATION OF TESTS

This section outlines the application of the tests to the claims selected. The results of testing those open indemnity claims during the examination period are delineated in the following tables:

Test 1: Verify that initial and subsequent indemnity payments were made in accordance with 39-A M.R.S.A. § 205(2):

	Paid Timely	Not Paid Timely	N/A	% In Compliance	2004 Audit^A
Initial Payment	25	7	18	78.12%	44.00%
Subsequent Payments	300	63	NA	82.64%	80.0%

^A For comparative purposes, these compliant percentages are taken from the WCB Compliance Audit Report conducted on 2004 data.

TEST 2: Verify the timely filing of the following forms with the Workers' Compensation Board in accordance with the applicable Statute, Rules & Regulations, or Protocol:

	Form Type	Filed Timely	Not Filed Timely	Not Filed	N/A	% In Compliance	2004 Audit
Test	WCB-1	33	12	1	4	71.74%	33.0%
Test	WCB-2	22	18	6	4	47.83%	7.0%
Test	WCB-2A	29	10	5	6	65.91%	2.0%
Test	WCB-3	22	9	2	17	66.67%	22.0%
Test	WCB-4	29	0	0	21	100.00%	76.0%
Test	WCB-8	3	1	0	46	75.00%	33.0%
Test	WCB-9	8	3	1	38	66.67%	67.0%
Test	WCB-11 First	15	6	8	21	51.72%	30.0%
Test	WCB-11 Annual/Final	2	1	0	47	66.67%	NA

TEST 3: Verify that the average weekly wages ("AWW") are calculated accurately and the subsequent indemnity payments are calculated accurately for both total and partial incapacity.

	Calculated Correctly	Calculated Incorrectly	NA	% of Compliance	2004 Audit
Average Weekly Wage	28	10	12	73.68%	54.0%

	Paid Accurately	Not Paid Accurately	N/A	% In Compliance	2004 Audit
Partial & Total Indemnity Payments	15	20	15	42.86%	2.6%

Numbers in this table represent the number of claims rather than each specific calculation or payment. "Not Paid Accurately" represents 20 claim files where one or more payments were not made accurately. The 20 files were composed of ten overpayments and ten underpayments. It should be noted that the AWW and Compensation Rate for eight of the ten overpayments were calculated correctly. These overpayments were related to timing of payments, typically early payments. If these had not occurred, compliance percentage would have increased by approximately 23%. The underpayments varied in cause including:

- Use of wrong dependent status in the benefit table
- Incorrect inclusion/exclusion of week of hire and/or week of injury in determining AWW
- Never revising estimated AWW & Comp Rate
- Incorrect determination of the date of incapacity
- Use of the wrong benefit year table

In reviewing the information contained in this report, it is important to keep in mind the WCB's benchmarks for routine monitoring of claims. The benchmark for timely initial indemnity payments is 80% compliance and for timely filing of memorandum of payments (WCB-3) the benchmark is 75% compliance.

COMMENTS AND RECOMMENDATIONS

Comment #1:

Test 1 was designed to determine compliance with Title 39-A requirements for timely payment of initial and subsequent benefits. The results of the examination indicated that the rate of compliance for making initial payments increased by almost 100% from the WCB audit of 2004.

However, the compliance ratio of 78% still fell slightly short of the Board's benchmark of 80%. Compliance with timely payment of subsequent payments increased to 83% which was an increase of 3% from the 2004 WCB audit.

It was noted that many of the late subsequent payments, while not made on a seven day payment cycle, did not create breaks in benefit stream. This was due to most of the payments being made prior to the end of the benefit period for which the payment was issued, When taking this situation into consideration, the number of late payments drop from 63 out of 363 to 29 resulting in a compliance ratio of 92.01%.

Recommendation:

It is recommended that the Company continue its effort to bring themselves to the Board's benchmark of 80% minimum compliance in the area of initial payment on a consistent basis.

Comment #2:

Test # 2 was designed to determine compliance with Title 39-A's form filing requirements. While there has been improvement in the compliance of form filings, there is still substantial progress that needs to be made to bring their performance into overall acceptable levels.

Recommendation:

Mid-way through the examination period an experienced manager was transferred in to supervise the in-house processing of Maine claims. It was readily apparent from our review of claims files, that she had an immediate positive impact. It can only be anticipated that her continued involvement in the processing of Maine claims will improve compliance percentages.

Comment #3:

Test 3 was designed to verify accurate calculation of the average weekly wage and determine if indemnity payments were calculated accurately for both total and partial incapacity. While the Company's performance in both of these areas increased from the WCB 2004 audit, it still has room for improvement, especially in the indemnity payment area. Errors in determining AWW included:

- Inaccurate wage data from employer
- Weeks of hire and/or injury were either included or excluded incorrectly
- Using provisional wage data and never updating

The primary reason for overpayment of benefits appears to be payment of indemnity payments prior to the end of the benefit period for which the payment is issued. This does not allow for timely adjustment when the employee returns to work.

Recommendation:

It is imperative that adjusters be aware of the proper methodology for calculating AWW and Compensation Rate in accordance with the Maine Workers' Compensation Act. Periodic refresher training is recommended for adjusters and new adjusters are encouraged to attend training as soon as practical.

It is recommended that consideration be given to developing a revised payment system that calls for benefit payments to be made after the end of the period for which payment is being made. Making such payments one to two days after the end of the benefit period should be considered reasonable and if made on a 7 day cycle, should meet WCB requirements. While paying indemnity payments prior to the end of the benefit period does tend to eliminate late payments, there is no statutory requirement to do so.

Conclusion

This examination reviewed a statistical sample of workers' compensation indemnity claims for Maine employees that were open during the period of October 1, 2006 through June 30, 2007 that had dates of injury occurring on or after January 1, 1993. While there has been an improvement in the areas of concern, desired levels of compliance in certain form filings and in calculating benefits have not been reached. The Company should continue to improve the weak areas and maintain those performance levels that do meet compliance requirements. Review of Annual Compliance Reports published by the WCB have shown a progressive improvement in the areas of first indemnity payments and filing of memorandum of payment starting in 2005.

AIG has been under a Corrective Action Plan (CAP) with the WCB since March of 2007. The WCB issued a progress report dated November 21, 2007 concerning this CAP. In this report, reference is made to what appears to be improved communications between the Board and AIG and positive steps to correct the issues that created the need for the CAP. But at that time, the compliance data was not showing corresponding improvement. Therefore, the CAP remains in place and the Board will continue to monitor the Company's progress. Review of WCB data indicates improving trends in the third and fourth quarters of 2007 but even with the improved numbers it did not result in the overall compliance ratio for the year meeting the benchmark. It should be noted that Wal-Mart is one of AIG's policy holders but they administer their own claims through their captive TPA, Claims Management Inc. (CMI). In the progress report, it makes reference to when removing the CMI claims, compliance ratios go down. In our exam, we eliminated the CMI claims as CMI is scheduled for examination at a later date. Even with the CMI claims removed from the population of claims, the random sample of 50 claims resulted in 25 claims that were processed by AIG in-house adjusters and 25 claims that were processed by TPAs.

When comparing the performance of the TPAs and AIG they are fairly consistent with the following exceptions:

	AIG	TPA
Filing First Reports	8 errors	3 errors

AWW	3 errors	7 errors
Comp Rate	5 errors	8 errors
Overpayments	9	1
Underpayments	3	7

As AIG is ultimately responsible for claims under their policies, it is recommended that AIG impress upon its TPAs that compliance with Maine's Workers' Compensation Act is required. We also recognize that some clients/employers are less than co-operative in providing timely notice dealing with work related injuries to allow form filings within statutory requirements. They can also be unresponsive in providing wage data to allow timely computation and payment of indemnity benefits in both partial and total temporary disability cases. AIG should explore alternative methods to communicate and impress upon employers that they are an integral part of the process to meet statutory requirement.

The questionable claims-handling techniques that resulted in AIG being referred to the Bureau of Insurance are in the process of being addressed. AIG has demonstrated in-house corrective steps but should aggressively pursue its TPA claims handling and improve communications and cooperation of employers/clients.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the Company during the course of the Examination is hereby acknowledged. The Examination was conducted and is respectfully submitted by the undersigned.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Van E. Sullivan, being duly sworn according to law, deposes and says that in accordance with the authority vested in him by Mila Kofman, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination on the condition and affairs of the

American International Group, Inc.

of New York, New York for the period October 1, 2006 through June 30, 2007, and that the foregoing report of examination, subscribed to by him, is true to the best of his knowledge and belief.

The following examiners from the Bureau of Insurance assisted:

Paul Greenier
Carolee M. Bisson

Van E. Sullivan
Market Conduct Supervisor

Subscribed and sworn to before me

This 31st day of December 31, 2008

Diane M. Williams, Notary Public
My commission expires: 1/15/13

¹ The Maine Legislature significantly revised the workers' compensation statute effective January 1, 1993.

COMPANY RESPONSE TO REPORT OF EXAMINATION

**AIG DOMESTIC CLAIMS, INC.
175 WATER STREET 18th FLOOR
NEW YORK, NEW YORK 10038**

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Asst. V.P. & Associate General Counsel**

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Via Electronic Transmission

December 22, 2008

Van E. Sullivan
Supervisor, Market Conduct Division

Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Re: Market Conduct Examination of AIG Companies

Dear Mr. Sullivan:

We acknowledge receipt of your letter dated November 24, 2008 enclosing the official draft of the Report of Examination. We have had an opportunity to review the contents of the report and write to inform you that while we accept the comments and recommendations of the Bureau, we take this opportunity to draw your attention to several improvements that we have made within AIG Domestic Claims, Inc. since the audit which have helped impact our performance favorably.

Specifically, in late 2007, senior management added a Compliance Reviewer to monitor compliance with laws and regulations impacting Maine claims by auditing all Maine files. The Compliance Reviewer is also responsible for providing training to adjusters and tracking adjuster performance. In addition, AIGDC has strengthened its processes by maintaining short diaries, tracking all new losses, and reporting all claim activity including but not limited to form filing, medical bill payments and state communications to the Claim Office Manager and the zonal management. With regard to TPA performance, all TPAs are required to perform self-audits and provide their quarterly self-audit reports.

We have been monitoring AIGDC's and TPA performance since the audit in 2007 and note that significant improvements have been made by AIGDC and the TPAs which are captured in the Workers' Compensation Bureau quarterly reports. In addition, AIGDC has been conducting its own compliance audits in the connection with subsequent payments and various form filings. These reviews indicate a positive trend in our performance.

While you have noted a considerable improvement in our performance since the 2004 audit by the Workers' Compensation Bureau, we wish to assure you that we will continue to monitor and improve our results. The management of AIGDC, who is also responsible for oversight of TPA activity is committed to compliance and will continue to stay involved in the handling of Maine workers' compensation claims. I am enclosing some data for your review which highlights our progress since 2004.

Please do not hesitate to contact me if you have any questions. Thank you for your courtesy.

Very truly yours,

Smeeta Teck

Recent improvement as reported by the DWC in quarterly reports-

Initial Pay

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>DWC PUBLISHED</u> <u>RESULTS (AIGDC)</u>		<u>BENCHMARK</u>
44%	78%	4TH QTR '07	90%	80%
		1ST QTR '08	83%	87%
		2ND QTR '08	82%	87%
		3RD QTR. 08(unpublished)	86%	87%

WCB3 (MOP)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>DWC PUBLISHED</u> <u>RESULTS</u>		<u>BENCHMARK</u>
22%	67%	4TH QTR '07	82%	75%
		1ST QTR '08	85%	85%
		2ND QTR '08	91%	85%
		3RD QTR. '08 (unpublished)	86%	85%

WCB9 (NOC)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>DWC PUBLISHED</u> <u>RESULTS</u>		<u>BENCHMARK</u>
67%	67%	4TH QTR '07	80%	NONE
		1ST QTR '08	100%	90%
		2ND QTR '08	100%	90%
		3RD QTR. '08 (unpublished)	90%	90%

Recent AIGDC improvement as shown by AIG compliance self-audits-

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>	
80%	83%	4TH QTR '07	95%
		1ST QTR '08	100%
		2ND QTR '08	75%
		3RD QTR. '08	83%

WCB1 (FROI)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>		<u>BENCHMARK</u>
33%	72%	4TH QTR '07	100%	NONE
		1ST QTR '08	100%	85%
		2ND QTR '08	100%	85%
		3RD QTR. '08	93%	85%

WCB2 (no benchmarks)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>	
7%	48%	4TH QTR '07	89%
		1ST QTR '08	91%
		2ND QTR '08	100%
		3RD QTR. '08	85%

WCB2A (no benchmarks)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>	
2%	66%	4TH QTR '07	94%
		1ST QTR '08	100%
		2ND QTR '08	80%
		3RD QTR. '08	92%

WCB4 (no benchmarks)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>	
76%	100%	4TH QTR '07	100%
		1ST QTR '08	100%
		2ND QTR '08	100%
		3RD QTR. '08	100%

WCB8 (no benchmarks)

2004
AUDIT
33%

INS. DEPT.
EXAM
75%
(4 claims)

-AIGDC is self-auditing for this measure; however, no data has been developed because of the infrequency of the need for this form

WCB11 (First) (no benchmarks)

2004
AUDIT
30%

INS. DEPT.
EXAM
52%

-AIGDC diaries and reviews this measure on a monthly basis. Current review indicates that all WCB11s are complete.

WCB11 (Annual/Final) (no benchmarks)

2004
AUDIT
N/A

INS. DEPT.
EXAM
67%
(3 claims)

-AIGDC diaries and reviews this measure on a monthly basis. Current review indicates that all WCB11s are complete.

WAGE CALCULATIONS (no benchmarks)

<u>2004</u> <u>AUDIT</u>	<u>INS. DEPT.</u> <u>EXAM</u>	<u>AIG</u> <u>COMPLIANCE</u> <u>AUDITS</u>
54%	74%	4TH QTR '07 100%
		1ST QTR '08 90%
		2ND QTR '08 80%
		3RD QTR. '08 88%

PAYMENT ACCURACY (no benchmarks)

2004 INS. DEPT. AIG

AUDIT

EXAM

COMPLIANCE
AUDITS

3%

43%

4TH QTR '07 78%

1ST QTR '08 85%

2ND QTR '08 86%

3RD QTR. '08 83%