

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF AIU INSURANCE
COMPANY, AMERICAN HOME ASSURANCE
COMPANY, AMERICAN INTERNATIONAL
SOUTH INSURANCE COMPANY, BIRMINGHAM
FIRE INSURANCE COMPANY OF PENNSYLVANIA,
COMMERCE AND INDUSTRY INSURANCE
COMPANY, GRANITE STATE INSURANCE
COMPANY, THE INSURANCE COMPANY OF
THE STATE OF PENNSYLVANIA, NATIONAL
UNION FIRE INSURANCE COMPANY OF
LOUISIANA, NATIONAL UNION FIRE INSURANCE
COMPANY OF PITTSBURGH, PA, and NEW HAMPSHIRE
INSURANCE COMPANY

A.I.D. NO. '2006-022

CONSENT ORDER

On this day, Julie Benafield Bowman, Arkansas Insurance Commissioner (“Commissioner”), and AIU Insurance Company, American Home Assurance Company, American International South Insurance Company, Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Granite State Insurance Company, The Insurance Company of the State of Pennsylvania, National Union Fire Insurance Company of Louisiana, National Union Fire Insurance Company of Pittsburgh, Pa., and New Hampshire Insurance Company, (collectively the “AIG Companies”) reached an agreement concerning the AIG Companies’ premiums for terrorism risk covered under workers’ compensation and employers’ liability insurance policies pursuant to the Terrorism Risk Insurance Act of 2002 (“TRIA”). The parties agree as follows:

FINDINGS OF FACT

1. The Commissioner has jurisdiction over the parties and subject matter pursuant to Ark. Code Ann. § 23-61-103.

2. The AIG Companies are property and casualty insurers authorized to write workers' compensation and employers' liability insurance in Arkansas.

3. On January 27, 2003, the AIG Companies submitted filing number AIC-03-WC-03, on a file and use basis, outlining the method they proposed to use to determine premiums for terrorism risk covered under workers' compensation and employers' liability insurance policies pursuant to TRIA (the "Filing"). The AIG Companies proposed to apply a charge of 1% to 4% of Total Manual Premium to provide coverage under TRIA for their policies subject to guaranteed cost rating plans. In response to the Department's objection to the rate range, the AIG Companies advised that they would apply a charge of 3% of total manual premium for their policies subject to guaranteed cost rating plans ("Initial TRIA Charge").

4. The AIG Companies' Initial TRIA Charge was approved by the Department. After the Department discovered that the Initial TRIA Charge was based on total manual premium instead of payroll, the Department sent the AIG Companies a letter stating that the Initial TRIA Charge was disapproved.

5. The Department and the AIG Companies have agreed to enter into this Consent Order as a final resolution of all issues raised by the AIG companies and the

Commissioner regarding the AIG Companies' charge under TRIA for their policies subject to guaranteed cost rating plans.

6. This Consent Order shall not be construed or deemed to be evidence or an admission or concession by the AIG Companies of any wrongdoing.

THEREFORE, it is hereby ORDERED AND AGREED:

1. Effective January 1, 2006, the AIG Companies' rate for foreign terrorism under their guaranteed cost workers' compensation policies will equal a loss cost of \$.02/\$100 payroll multiplied by a loss cost multiplier that is 1.8% greater than the loss cost multipliers the AIG Companies' currently have on file with the Department (the "Revised TRIA Charge").

2. Within 30 days of the entry of this Consent Order, the AIG Companies shall file for the Department's approval the 1.8% increase in their currently filed respective loss cost multipliers.

3. Within 30 days after the AIG Companies file for a 1.8% increase in their currently filed respective loss cost multipliers, the Department shall approve such filing with a retroactive effective date of January 1, 2006.

4. For any policies in which the AIG Companies agreed to defer collection of TRIA premium yielded by the Initial TRIA Charge pending resolution of this matter, the AIG Companies shall collect TRIA premium yielded by the Revised TRIA charge.

5. For policies effective on or after January 1, 2006, to which the AIG Companies applied the Initial TRIA Charge, the AIG Companies shall refund the difference, if any, between the TRIA premium yielded by the Initial TRIA Charge and

the TRIA premium yielded by the Revised TRIA Charge. The AIG Companies shall make all such refunds by July 1, 2006. By July 15, 2006, the AIG Companies shall provide a report to the Department showing those policies for which a refund was made and the amount of such refund. The report will also identify any refunds that have not been made as of July 1.

6. The AIG Companies shall pay administrative costs to the Department in the amount of \$50,000.

7. AIG shall otherwise comply with Arkansas law in its rating of workers' compensation and employers' liability insurance policies.

8. The Department withdraws the Notice of Hearing that set this matter for an administrative hearing on January 23, 2006.

IT IS SO ORDERED this 12th day of April, 2006.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS


KENNETH V. HARKINS
SENIOR VICE PRESIDENT and GENERAL COUNSEL
AIU INSURANCE COMPANY
AMERICAN HOME ASSURANCE COMPANY
AMERICAN INTERNATIONAL SOUTH INSURANCE COMPANY
BIRMINGHAM FIRE INSURANCE COMPANY OF PENNSYLVANIA

COMMERCE AND INDUSTRY INSURANCE COMPANY
GRANITE STATE INSURANCE COMPANY
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA
NATIONAL UNION FIRE INSURANCE COMPANY OF LOUISIANA
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA
NEW HAMPSHIRE INSURANCE COMPANY