

Report on  
Market Conduct Examination

of the

Integon National Insurance Company  
Winston-Salem, North Carolina

by Representatives of the  
North Carolina Department of Insurance

as of

August 30, 2016

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TABLE OF CONTENTS

SALUTATION ..... 1

SCOPE OF EXAMINATION ..... 2

EXECUTIVE SUMMARY ..... 2

MARKETING ..... 3

    Policy Forms and Filings ..... 3

UNDERWRITING PRACTICES ..... 3

    Overview ..... 3

    Private Passenger Automobile ..... 4

    Private Passenger Automobile (Special Review) ..... 4

REFORMATIONS ..... 5

    Overview ..... 5

    Private Passenger Automobile Reformatons ..... 5

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES ..... 6

CONCLUSION ..... 6

Raleigh, North Carolina  
August 30, 2016

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

**Integon National Insurance Company (NAIC #29742)**  
NAIC Exam Tracking System Exam Number: NC-NC131-2  
Winston-Salem, North Carolina

hereinafter generally referred to as the Company, at the Company's home office located at 5630 University Parkway, Winston-Salem, North Carolina, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on May 23, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through August 24, 2016. All comments made in this report reflect conditions observed during the period of examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, and solely consisted of an examination of the Company's practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language (ACL) software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

## EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Company's procedures and practices in the following areas:

*Underwriting Practices* – Private Passenger Automobile: Rating errors and errors involving the inexperienced operator surcharge.

*Reformations* – Private Passenger Automobile Reformations: Did not provide the insured with written notice of coverage or premium rate change in advance of the effective date of change. Did not provide the insured with written notice of cancellation of physical damage coverage in advance of the effective date of cancellation.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site [www.ncdoi.com](http://www.ncdoi.com) by clicking "Insurance Industry", and then "Legislative Services" under "Other Divisions".

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Private Passenger Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau and the North Carolina Reinsurance Facility on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing in North Carolina is directed to personal and commercial lines of business. The Company provided the examiners with listings of the following type of active policies for the period under examination:

- Private Passenger Automobile

A random selection of 119 policies was made from a total population of 318,065. An additional 24 policies were chosen from the total population as a special review of policyholders under the age of 16. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

#### Private Passenger Automobile

One hundred nineteen policies were randomly selected for review from a population of 4,162, consisting of owner and named non-owner policies with policyholders 16 and 17 years of age. The Company's private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written utilizing manual rates, deviated rates, and on a consent to rate basis. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and Rule 4.F of the North Carolina Rate Bureau Personal Auto Manual (Personal Auto Manual) as nine policies were rated using an incorrect inexperienced operator surcharge. The errors resulted in eight undercharges and one overcharge to the insureds. At the request of the examiners, the Company issued a refund in the amount of \$81.80.

#### Private Passenger Automobile (Special Review)

Twenty-four policies, consisting of policyholders under the age of 16, were identified and selected from the total population of private passenger automobile policies.

The Company did not adhere to the provisions of NCGS 58-36-30(a) as two policies were rated with downward deviations that had not been filed with and approved by the Department, resulting in premiums lower than the North Carolina Rate Bureau.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and Rule 4.F of the Personal Auto Manual as 16 policies were rated by applying an inexperienced operator surcharge when none should have been applied. At the request of the examiners, the Company issued refunds in the amount of \$5,097.31.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and Rule 3.B.5 of the Personal Auto Manual as nine policies were rated using other than clean rates when the policy qualified as a clean risk. At the request of the examiners, the Company issued refunds in the amount of \$3,951.01.

## **REFORMATIONS**

### Overview

The Company's reformation procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the appropriate policy manual rules. The review was based on the private passenger automobile line of business.

Special attention was placed on the validity and reason for reformation, timeliness in issuance of the reformation notice, policy refund (where applicable), and documentation of the policy file. A total of 836 policies were reformed during the period under examination. The examiners randomly selected 119 reformations for review.

### Private Passenger Automobile Reformations

The reason for reformation was deemed valid for all policies reviewed. All premium refunds were deemed correct. The Company issued the refunds in a timely manner. Reformation notices for the 119 reformed policies reviewed stated the specific reason for reformation.

The Company did not adhere to the provisions of NCGS 58-36-45 as it did not provide the insured with written notice of coverage or premium change at least 15 days in advance of the effective date of the change when changing liability limits on 48 policies.



The Company did not adhere to the policy cancellation provisions as it did not provide the insured with written notice of cancellation at least ten days in advance of the effective date of cancellation of physical damage coverage on 118 policies.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### **COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Company is directed to confirm that all consent to rate premiums charged are greater than the otherwise applicable North Carolina Rate Bureau premiums. The Company must apply the correct inexperienced operator surcharge where appropriate, and charge clean rates when applicable.

The Company is directed to provide the insured with written notice, delivered within the proper number of days in advance of the effective date, when changing liability limits or deleting physical damage coverage.

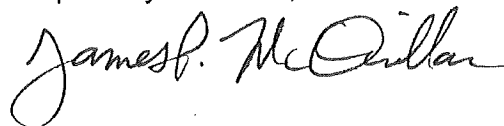
#### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Integon National Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through August 24, 2016.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Company's operations in the areas of marketing and underwriting practices.

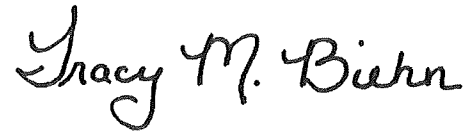
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT, MCM  
Examiner-In-Charge  
Market Regulation Division  
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large initial 'T' and 'B'.

Tracy M. Biehn, MBA, MCM, LPCS  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina