

**MARKET REGULATION**

July 30, 2014

**CERTIFIED - RETURN RECEIPT REQUESTED**

Mr. Byron Storms  
President  
Integon Casualty Insurance Company  
500 W. 5<sup>th</sup> Street  
Winston-Salem, North Carolina 27101

Re: Report on Market Conduct Examination as of July 10, 2014  
Integon Casualty Insurance Company  
Integon General Insurance Corporation  
Integon Indemnity Corporation  
Integon National Insurance Company  
New South Insurance Company  
Winston-Salem, North Carolina

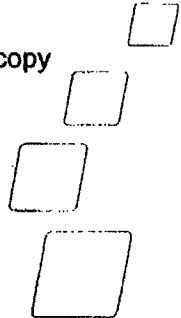
Dear Mr. Storms:

In accordance with the Insurance Laws of North Carolina, a Market Conduct Examination has been performed on the condition and affairs of Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National Insurance Company, and New South Insurance Company.

The work on this examination was completed at the Department of Insurance in Raleigh, North Carolina. The final completion date of the Report is July 10, 2014. The Report will become a public document thirty calendar days from your receipt in accordance with the provisions of NCGS 58-2-132, if the Company has neither notified the Commissioner of its acceptance and approval of the Report, nor provided written rebuttal.

The Company may accept the Report prior to the expiration of the thirty days by written acceptance to the Commissioner, at which time the Report on Examination will become a public document. The Department of Insurance reserves the right to give notice of administrative hearing upon acceptance of the Report by the Company. Upon acceptance of this report, you may submit a written rebuttal.

Enclosed is the master copy of the report to be kept by the Company and one additional copy for purposes of review and reproduction.





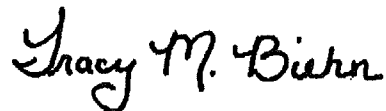
Byron Storms  
July 30, 2014  
Page 2

In addition to the acceptance letter, please provide the following:

- Submit a notarized affidavit signed by each member of each of your Board of Directors stating that the report has been carefully examined and that he/she is familiar with the contents of the Report.
- Submit a statement of corrective action addressing the changes you plan to implement to correct questionable comments on practices and/or procedures contained in the Report. **For consistency, company procedures should also be addressed by the companies within the group that were not subject to this examination. The statement of corrective action must identify all companies within the group to which it applies. The statement of corrective action should be detailed to include changes in Company procedures, giving time guidelines for completion and dates of implementation.** The Company may submit an electronic copy of their statement of corrective action to [MRDinbox@ncdoi.gov](mailto:MRDinbox@ncdoi.gov). The electronic document shall be prepared on company stationery, include supporting documentation and/or exhibits, and signatures of company representatives.

Please call me at (919) 807-6889 if you should have any questions.

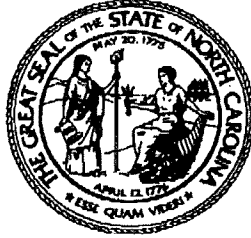
Sincerely yours,



Tracy Miller Biehn, LPCS, MBA  
Deputy Commissioner - Market Regulation Division

TMB/csp  
Enclosures

cc: Ms. Robin Coe  
National General Insurance/Integon  
500 W. 5<sup>th</sup> Street  
Winston-Salem, North Carolina 27101



Report on

Market Conduct Examination

of the

Integon Casualty Insurance Company  
Integon General Insurance Corporation  
Integon Indemnity Corporation  
Integon National Insurance Company  
New South Insurance Company

Winston-Salem, North Carolina

by Representatives of the  
North Carolina Department of Insurance

as of

July 10, 2014

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Raleigh, North Carolina  
July 10, 2014

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 general examination has been made of the market conduct activities of

**Integon Casualty Insurance Company (NAIC #27930)**  
**Integon General Insurance Corporation (NAIC #22780)**  
**Integon Indemnity Corporation (NAIC #22772)**  
**Integon National Insurance Company (NAIC #29742)**  
**New South Insurance Company (NAIC #12130)**  
NAIC Exam Tracking System Exam Number: NC299-M33  
Winston-Salem, North Carolina

hereinafter generally referred to as the Companies, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## FOREWORD

This examination reflects the North Carolina insurance activities of Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National Insurance Company, and New South Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

## SCOPE OF EXAMINATION

This examination commenced on December 9, 2013 and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through July 7, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

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 at or above the following levels: 0 percent for consumer complaints, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed.

## EXECUTIVE SUMMARY

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

*Termination of Producers* – Notification of termination not sent to terminated producers.



*Underwriting Practices – Private Passenger Automobile:* Unappointed producers; unlicensed producers; improper consent to rate procedures; and improper file documentation.

Specific violations related to each area of concern 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 DIVISIONS" then "Legislative Services".

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

#### **COMPANY OPERATIONS AND MANAGEMENT**

The Companies are writers of personal and commercial automobile insurance coverages, but the majority of business written is private passenger automobile. The Companies began operation as Security Life and Trust Company in 1920, and moved operations to North Carolina the following year. Integon National Insurance Company, the largest company in the Integon group of companies, is licensed in all 50 states and the District of Columbia.

Direct written premium for the Companies' 2012 countrywide property and casualty operations was \$767,769,887. North Carolina's production for the same period was \$325,221,024. Premiums written in North Carolina between 2008 and 2012 decreased

approximately 5.3 percent. The charts below outline the Companies' mix of business for selected lines in 2012 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile Liability	\$196,723,372	60.5
Private Passenger Automobile Physical Damage	118,803,446	36.5
Commercial Automobile Liability	8,124,627	2.5
Commercial Automobile Physical Damage	1,569,579	0.5
<b>Total</b>	<b>\$325,221,024</b>	<b>100.0</b>

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$ 343,532,717	349,603,626	233,330,964	66.7
2009	\$ 320,328,810	329,323,806	240,328,975	73.0
2010	\$ 303,601,842	311,714,044	224,166,821	71.9
2011	\$ 306,964,609	302,611,846	208,727,155	69.0
2012	\$ 325,221,024	319,390,462	225,426,885	70.6

### POLICYHOLDER TREATMENT

#### Consumer Complaints

The Companies' complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Companies' complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. The Companies' complaint register was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

Fifty of the 1,050 complaints from the Department's listing were randomly selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	34
Underwriting	14
Administrative	2
<b>Total</b>	<b>50</b>

The Companies' response to each complaint was deemed to be appropriate to the circumstances.

The average service time to respond to a Departmental complaint was three calendar days. A chart of the Companies' response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	50	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

## MARKETING

### Policy Forms and Filings

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

1. Private Passenger Automobile
2. Commercial Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau on behalf of the Companies. Filings for the commercial automobile line of business were made by the Insurance Services Office on behalf of the Companies. Deviations for the private passenger automobile and commercial automobile lines of business were made to the Department by the Companies.

### Producer Licensing

The Companies' procedures for appointment and termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules. One

hundred appointed and 100 terminated producer files were randomly selected for review from populations of 9,261 and 22,961, respectively.

All appointment forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40. The Companies were deemed to be in violation of the provisions of NCGS 58-33-56(d) as notification of termination was not sent to 76 terminated producers reviewed (76.0 percent error ratio).

## **UNDERWRITING PRACTICES**

### **Overview**

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

1. Private Passenger Automobile
2. Commercial Automobile

A random selection of 200 policies was made from a total population of 926,603. 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**

The Companies provided a listing of 910,162 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' private passenger automobile policies were written on a six or 12 month basis. Liability coverages were written utilizing manual and deviated rates. Physical damage coverages were written using both manual rates and on a consent to rate basis. Risk

placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Companies for eight of the files reviewed (8.0 percent error ratio).

The Companies were deemed to be in violation of the provisions of NCGS 58-33-5 and 58-33-26 as four of the applications reviewed (4.0 percent error ratio) were accepted from a producer who was not licensed in North Carolina.

The Companies were deemed to be in violation of the provisions of 11 NCAC 10.0602(a)(2) as they did not comply with consent to rate procedures on 22 policies reviewed (22.0 percent error ratio) because the standard rate that would be charged for extended transportation coverage, without application of consent to rate, was not indicated on the application.

The Companies were deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 30 files reviewed (30.0 percent error ratio) did not contain proper file documentation:

- 26 files did not contain a motor vehicle report for the listed drivers.
- Eight files did not contain an application.
- Four files did not contain the producer's information.
- One file did not contain a consent to rate form.

#### Commercial Automobile

The Companies provided a listing of 16,441 active commercial automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' commercial automobile coverages were written utilizing manual and deviated rates. Policies were written on a six or 12 month basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines.

All policy files contained sufficient documentation to support the Companies' classification of the risk. All policy premiums were deemed correct.

## **TERMINATIONS**

### Overview

The Companies' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. We reviewed the following lines of business:

1. Private Passenger Automobile
2. Commercial Automobile

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file. A total of 621,486 policies were terminated during the period of time subject to this examination. The examiners randomly selected 258 terminations for review.

### Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 610,470.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	68	68.0
Insured's request	23	23.0
Premium finance company request	9	9.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 32 of the cancellations reviewed as these policies were cancelled at the request of the insured or premium finance company. Cancellation notices for the remaining 68 policies stated the specific reason for cancellation. All insureds and lienholders were given proper and timely notification of cancellation.

All premium refund calculations were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. The policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the North Carolina Notice of Termination Form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled. The Companies were deemed to be in compliance with the provisions of NCGS 20-309.2.

#### Commercial Automobile Cancellations

One hundred cancelled commercial automobile policies were randomly selected for review from a population of 10,337.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment of premium	52	52.0
Insured's request	42	42.0
Premium finance company request	5	5.0
Coverage rewritten	1	1.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 48 of the cancellations reviewed as these policies were cancelled at the request of the insured or premium finance company, or the coverage was rewritten. Cancellation notices for the

remaining 52 policies stated the specific reason for cancellation. All insureds and lienholders were given proper and timely notification of cancellation.

All premium refund calculations were deemed correct. The Companies issued the refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All files contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was cancelled. The Companies were deemed to be in compliance with the provisions of NCGS 20-309.2.

#### Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were randomly selected for review from a population of 671.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Agent no longer appointed	49	98.0
Risk no longer eligible	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and lienholders were given proper and timely notification of nonrenewal.

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 Companies. The Companies sent the FS-4 to the DMV when liability coverage was nonrenewed. The Companies were deemed to be in compliance with the provisions of NCGS 20-309.2.



### Commercial Automobile Nonrenewals

The entire population of eight nonrenewed commercial automobile policies was selected for review.

The reason for nonrenewal was deemed valid for all files reviewed. The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Agent no longer appointed	7	87.5
Underwriting reasons	1	12.5
<b>Total</b>	<b>8</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and lienholders were given proper and timely notification of nonrenewal.

The final area of this review encompassed file documentation. All policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was nonrenewed. The Companies were deemed to be in compliance with the provisions of NCGS 20-309.2.

### Declinations/Rejections

The Companies reported that no policies were declined or rejected during the examination period.

## **CLAIMS PRACTICES**

### Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, automobile medical payments, bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims.

Six hundred twenty-two claims were randomly selected for review from a population of 272,018.

#### Paid Claims

The examiners randomly selected 200 of the 197,012 first party automobile physical damage and third party property damage claims paid during the period under examination. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and for timeliness of payment, supporting documentation, and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
Automobile physical damage	6.0
Third party property damage	6.0

All payments issued by the Companies were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Companies' payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings. The review of paid claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### Automobile Medical Payment Claims

The entire population of 22 automobile medical payment claims was selected for review. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and if the Companies had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Bodily Injury Claims

Fifty bodily injury claims were randomly selected for review from a population of 123. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and if the Companies had engaged in any unfair claims practices. The review of bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Closed Without Payment Claims

One hundred closed without payment claims were randomly selected for review from a population of 29,356. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies' reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 14 calendar days for the 5-year period. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Subrogated Claims

One hundred subrogated claims were randomly selected for review from a population of 5,489. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the insured's deductible was properly reimbursed by the Companies when subrogation was successful.

All reimbursements were deemed to be correct and were issued on a 5-year average of three calendar days from the date the Companies collected the monies. The review of subrogated claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Total Loss Settlement Claims

One hundred total loss settlement claims were randomly selected for review from a population of 38,034. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the settlements were equitable and timely.

The Companies primarily used guidebook values and dealer quotes to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. The Companies settled all claims in a timely manner. The payments were issued on a 5-year average of 11 calendar days. No violations of the provisions of NCGS 58-63-15(11), 11 NCAC 4.0418 or 4.0421 were noted during this review.

### Litigated Claims

Fifty litigated claims were selected for review from a population of 1,982. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and if the Companies had engaged in any unfair claims practices. The review of litigated claims disclosed no violations of the provisions of NCGS 58-63-15(11).

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

The Companies are directed to mail notice of termination to any terminated producer's last known address within 15 days after notifying the Department of the termination. The Companies have clarified the terminations found in error were for individual companies within the Integon group, and the producers continued to be appointed for other Integon companies.

The Companies are directed to maintain a record of each policy for a period of at least five years that specifies the basis for rating.

The Companies are directed to indicate the standard rate that would be charged for extended transportation coverage, without application of consent to rate, on the application for private passenger automobile. The Companies have indicated this procedure has already been implemented with the transition to a new policy issuance system.

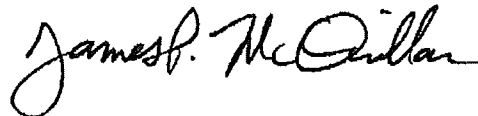
**CONCLUSION**

An examination has been conducted on the market conduct affairs of Integon Casualty Insurance Company, Integon General Insurance Corporation, Integon Indemnity Corporation, Integon National Insurance Company, and New South Insurance Company for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Companies being conducted through July 7, 2014.

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 Company operations in the areas of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

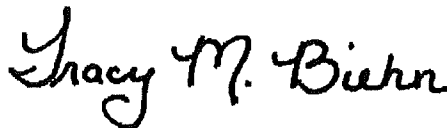
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, and Bill George, CPCU, AIS, North Carolina Market Conduct Assistant Chief Property & Casualty Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT  
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.



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

