

Report on

Market Conduct Examination

of the

Medical Mutual Insurance Company of North Carolina
Medical Security Insurance Company

Raleigh, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

February 13, 2020

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Raleigh, North Carolina
February 13, 2020

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

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 the following entities:

Medical Mutual Insurance Company of North Carolina (NAIC #32522)

Medical Security Insurance Company (NAIC #33090)

NAIC Exam Tracking System Exam Number: NC-NC094-21

Raleigh, North Carolina

(hereinafter generally referred to as the Companies)

The examination was conducted at the Companies' home office located at 700 Spring Forest Road, Suite 400, Raleigh, North Carolina and at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on October 7, 2019, and covered the period of July 1, 2015, through June 30, 2018. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on February 5, 2020. All comments made in this report reflect conditions observed during the period of the 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 consisted of an examination of the Companies' practices and procedures in policyholder treatment, marketing, underwriting, terminations, and claims. 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 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. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

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

Marketing – Appointments: proof of licensure not maintained in file; background checks not performed. *Terminations:* notification letters were not sent to terminated producers.

Underwriting and Rating – Medical Professional Liability: Policies written by unappointed producers; documentation errors; rating errors.

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.

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.

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.

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 for the period under examination was in compliance with provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

The entire population from the Department's listing of two was selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	1
Underwriting	1
Total	2

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 five calendar days. A chart of the Companies' response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	2	100.0
Total	2	100.0

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 medical professional liability line of business.

The Companies' medical professional liability policy is an independently filed program that utilizes its own rates. Filings were submitted to the Department by the Companies.

Producer Licensing

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

The Companies provided the examiners with listings of 12 appointed and 18 terminated producers for the period under examination. All appointed and terminated producer files were selected for review. All appointment and termination forms reviewed were submitted to the

Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and 58-33-56(b).

The Companies were deemed to be in violation of 11 NCAC 19.0102(a) and 19.0106(a)(3)(g) as a copy of the producer license or other acceptable proof of licensure was not maintained on file for 12 appointed producers (100.0 percent error ratio). The Companies were deemed to be in violation of 11 NCAC 6A.0412 as the Companies failed to determine before appointing the producer that the producer had not committed any act that is a ground for probation, suspension, nonrenewal, or revocation set forth in NCGS 58-33-46 for 12 appointed producers (100.0 percent error ratio).

The Companies were deemed to be in violation of NCGS 58-33-56(d) as the Companies failed to properly notify 18 producers (100.0 percent error ratio) of the termination of their appointment.

UNDERWRITING AND RATING

Overview

The Companies' marketing in North Carolina is directed to the medical professional liability line of business. The Companies' medical professional liability policies were 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.

Medical Professional Liability

The Companies provided a listing of 175 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' medical professional liability coverage was written utilizing manual rates. Policies were written on an annual 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 58-33-40(b) as the producer was not properly appointed by the Company for 11 policies reviewed (22.0 percent error ratio).

The Companies were deemed to be in violation of the provisions of NCGS 58-41-50(g), 11 NCAC 10.0105, 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as five policies reviewed (10.0 percent error ratio) did not have individual risk filings for the new business term within 60 days after the inception date.

The Companies were reminded of the provisions of 11 NCAC 10.0105(c), 19.0102(a) and 19.0104 as four policies reviewed (8.0 percent error ratio) did not have a copy of the individual risk filing approval on file.

The Companies were reminded of the provisions of 11 NCAC 19.0102(a) and 19.0104 as two policies reviewed (4.0 percent error ratio) did not contain documentation to justify the risk management discount applied.

The Companies were deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as 32 policies reviewed (64.0 percent error ratio) did not contain documentation to justify the schedule credit applied. Two errors resulted in overcharges to the insureds. At the request of the examiners, refunds in the amount of \$87.30, including interest, were issued by the Companies for the overcharges.

The Companies were deemed to be in violation of the provisions of NCGS 58-41-50(b) as five policies had rating errors (10.0 percent error ratio). The rating errors consisted of the following:

- Loss-Free and Longevity Discount applied incorrectly on two policies.
- Part-Time or Limited Practice Exposure discount applied incorrectly on one policy.
- Policy issued below minimum policy issuance premium on two policies.

The rating errors resulted in four premium undercharges and one premium overcharge. At the request of the examiners, a refund in the amount of \$904.33, including interest, was issued by the Companies for the overcharge. The remaining premiums charged were deemed correct.

TERMINATIONS

Overview

The Companies' termination procedures for their medical professional liability policies were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. 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 391 policies were terminated during the period under examination. The examiners randomly selected 53 terminations for review.

Medical Professional Liability Cancellations

Fifty cancelled medical professional liability policies were randomly selected for review from a population of 388.

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
Insured's request	45	90.0
Nonpayment of premium	4	8.0
Underwriting reasons	1	2.0
Total	50	100.0

The Companies were not required to issue cancellation notices for 45 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining five policies stated the specific reason for cancellation. All insureds 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 policy files reviewed contained sufficient documentation to support the action taken by the Companies.

Medical Professional Liability Nonrenewals

The entire population of three nonrenewed medical professional liability policies was selected for review.

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

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	3	100.0
Total	3	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds 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.

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, closed without payment, and litigated claims.

Claims service in North Carolina is provided by the home office in Raleigh, North Carolina and is under the direction of the Senior Vice President and Associate General Counsel. The staff is comprised of one vice president, two claims supervisors, and nine claims examiners

and support staff. The Company also utilizes the services of outside defense attorneys and independent medical experts.

All claim recommendations and decisions are discussed with the policyholder including denials and claim settlements. A claim settlement requires the written consent of the policyholder. If suit is brought against the policyholder, the Company assigns outside defense attorneys to defend the suit to its conclusion.

One hundred nineteen claims were randomly selected for review from a population of 1,625.

Paid Claims

The examiners selected the entire population of 19 closed claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

All claim files reviewed contained documentation to support the Companies' payments including properly executed consent forms signed by the insured.

All payments issued by the Companies were deemed to be accurate. The review of paid claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 1,135. The claim files were reviewed to determine 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. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Litigated Claims

Fifty litigated claims were selected for review from a population of 471. The claim files were reviewed to determine 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 maintain, on file, proof a producer is licensed for the lines of business for which they are being appointed; and to perform background checks on producers prior to their appointment. 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 are directed to ensure that all individual risk filings for the new business term are filed with the Department within 60 days after the inception date. The Companies are directed to properly document the schedule credit being applied to a policy by using a detailed schedule credit worksheet reflecting individual exposure characteristics. The Companies are directed to apply discounts correctly and ensure that the minimum policy issuance premium is utilized.

Upon acceptance of the Report the Companies shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Companies successfully implemented their statement of corrective action.

CONCLUSION

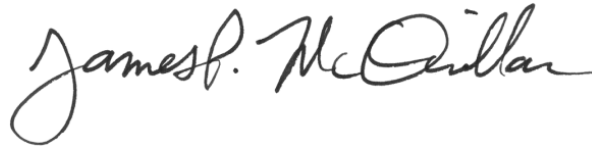
An examination has been conducted on the market conduct affairs of Medical Mutual Insurance Company of North Carolina and Medical Security Insurance Company for the period July 1, 2015, through June 30, 2018, with analyses of certain operations of the Companies being conducted through February 5, 2020.

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 Companies' operations in the areas of policyholder treatment, marketing, underwriting, terminations, and claims.

In addition to the undersigned, Brooke Green, MCM, North Carolina Market Conduct Senior Examiner, and Casondria Cheek, AIC, AINS, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, looped initial "J".

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 "Teresa R. Knowles". The signature is written in a cursive style with a large, looped initial "T".

Teresa Knowles, ACS
Deputy Commissioner
Market Regulation Division
State of North Carolina