

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

AGENT ALLIANCE INSURANCE COMPANY  
Mobile, Alabama

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

June 2, 2011

---

---



## TABLE OF CONTENTS

SALUTATION .....	1
FOREWORD .....	2
SCOPE OF EXAMINATION.....	2
Previous Examination Findings .....	2
EXECUTIVE SUMMARY.....	3
UNDERWRITING PRACTICES .....	4
Private Passenger Automobile .....	4
TERMINATIONS.....	5
Private Passenger Automobile Cancellations .....	5
Private Passenger Nonrenewals .....	6
SUMMARY.....	6
TABLE OF STATUTES AND RULES.....	7
CONCLUSION.....	8

Raleigh, North Carolina  
June 2, 2011

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

Honorable Jim L. Ridling  
Commissioner of Insurance  
Department of Insurance  
State of Alabama  
201 Monroe Street, Suite 502  
Montgomery, Alabama 36104

Honorable Commissioners:

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

**AGENT ALLIANCE INSURANCE COMPANY  
(NAIC #10389)**

NAIC Exam Tracking System Exam Number: NC170-M76  
Mobile, Alabama

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

## **FOREWORD**

This examination reflects the North Carolina insurance activities of Agent Alliance 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 manifested no improprieties were omitted.

## **SCOPE OF EXAMINATION**

This compliance examination commenced on March 28, 2011 and covered the period of January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through May 16, 2011. This action was taken due to previous examination findings referenced in the Market Conduct Report of August 7, 2008.

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 underwriting practices and terminations.

It is the Department's practice to cite companies in apparent 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, sales and advertising, 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 an apparent violation, the Department issues a reminder to the company.

### Previous Examination Findings

A general examination covering the period July 10, 2006 through December 31, 2007 was performed on the Company and a report dated August 7, 2008 was issued. The general examination report identified concerns in the areas of underwriting and rating and terminations.

Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

### **EXECUTIVE SUMMARY**

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

*Underwriting and Rating* – producers not properly appointed, producer names not provided, rating errors, unfiled deviations applied to physical damage coverages.

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 "NCDOI DIVISIONS" then "Legislative Services".

This examination identified various non-compliant practices, 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 should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

## UNDERWRITING PRACTICES

### Private Passenger Automobile

The Company's underwriting and rating practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable rules of the North Carolina Personal Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 18.0 percent of the private passenger automobile applications reviewed were accepted from a producer not appointed by the Company.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) as 39.0 percent of the active private passenger automobile policies reviewed were rated incorrectly.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a)(b), 19.0104 and 19.0106(a)(4)(h) as 31.0 percent of the active private passenger automobile files reviewed did not contain proper file documentation.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2) as proper consent to rate procedures were not followed on 22.0 percent of the active private passenger automobile files reviewed.

The Company provided a listing of 8,796 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 10 of the active files reviewed (10.0 percent error ratio).
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4)(g) as it was unable to provide the producer name for 2 of the active files reviewed (2.0 percent error ratio).
- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) as 10 of the active private passenger automobile policies reviewed (10.0 percent error ratio) contained rating errors. Errors referenced:

Incorrect territory assignment (7) – 1 overcharge, 6 undercharges  
 "Dirty rates" to apply rather than "clean risk" rates, (1) undercharge

Incorrect class factor applied, (1) undercharge  
 Accident not assigned proper "points", (1) undercharge

The overcharge of \$31.86 was reimbursed to the insured during the course of the examination.

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the comprehensive coverage premium and collision coverage premium (1 policy) and the collision premium (8 policies) for active private passenger automobile policies reviewed was below the manual premiums for which no downward deviation had been filed with the Department.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a)(b), 19.0104 and 19.0106(a)(4)(h) as proper file documentation was provided on all active private passenger automobile policies reviewed.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 10.0602(a)(2) as the consent to rate procedures were properly applied on all active private passenger automobile policies reviewed.

## **TERMINATIONS**

### Private Passenger Automobile Cancellations

The Company's cancellation procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable rules of the North Carolina Personal Automobile Manual.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-150, 58-36-85(c) and 11 NCAC 10.1201(a)(b) as its notice of cancellation form was not filed with and approved by the Department.

The Company provided a listing of 19,204 private passenger automobile policies that were cancelled during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-3-150, 58-36-85(c) and 11 NCAC 10.1201(a)(b) as its notice of cancellation form was filed with and approved by the Department.
- The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy termination provisions as 1 cancellation notice was not issued at least 60 days prior to



the termination date when the policy was cancelled for underwriting reasons (1.0 percent error ratio).

#### Private Passenger Nonrenewals

The Company's nonrenewal procedures for private passenger policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, and policy provisions.

#### **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-150, 58-36-85(c) and 11 NCAC 10.1201(a)(b) as its notice of nonrenewal form was not filed with and approved by the Department.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(c) and the policy termination provisions as 10.0 percent of the nonrenewal notices reviewed were not issued at least 60 days prior to the termination date.

The Company provided a listing of 134 private passenger automobile policies that were nonrenewed during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-3-150, 58-36-85(c) and 11 NCAC 10.1201(a)(b) as its notice of nonrenewal form was filed with and approved by the Department.
- The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy nonrenewal provisions as 1 nonrenewal notice was not issued at least 60 days prior to the termination date (2.0 percent error ratio).

#### **SUMMARY**

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of August 7, 2008. The current examination revealed the following:

##### 1. Underwriting and Rating

- a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 10.0 percent of the active private passenger automobile policy files reviewed.

- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4)(g) as it was unable to provide the producer name for 2.0 percent of the active private passenger automobile policy files reviewed.
- c. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) as 10.0 percent of the active private passenger automobile files reviewed contained rating errors.
- d. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the private passenger automobile physical damage (comprehensive coverage and collision coverage) premium(s) charged on certain policies were below the manual premiums for which no downward deviation had been filed with the Department.

## 2. Terminations

- a. The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy termination provisions as 1.0 percent of the cancellation notices reviewed for private passenger automobile policies were not issued at least 60 days prior to the termination date when the policy was cancelled for underwriting reasons.
- b. The Company was reminded of the provisions of NCGS 58-36-85(c) and the policy nonrenewal provisions as 1.0 percent of the nonrenewal notices reviewed for private passenger automobile policies were not issued at least 60 days prior to the termination date.

### TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-3-150	Forms to be approved by Commissioner.
NCGS 58-33-40	Appointment of agents.
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-35	The Facility; functions; administration.
11 NCAC 10.0602	Consent to Rate Procedures: Rate Bureau Coverages.
11 NCAC 10.1201	General Requirements.
11 NCAC 19.0102	Maintenance of Records.

11 NCAC 19.0104

Policy Records.

11 NCAC 19.0106

Records Required for Examination.

**CONCLUSION**

A compliance examination has been conducted on the market conduct affairs of Agent Alliance Insurance Company for the period January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through May 16, 2011. The Company's response to this report, if any, is available upon request.

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 underwriting and rating and terminations.

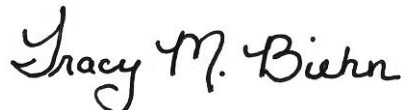
In addition to the undersigned, Gary Jones, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Bill George, AIS  
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 Biehn, LPCS, MBA  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina