

REPORT ON
MARKET CONDUCT EXAMINATION

of the

ALLIANCE MUTUAL INSURANCE COMPANY
Greensboro, North Carolina

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

June 25, 2010

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Raleigh, North Carolina
June 25, 2010

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, a compliance examination has been made of the market conduct activities of

ALLIANCE MUTUAL INSURANCE COMPANY (NAIC #32743)
NAIC Exam Tracking System Exam Number: NC170-M68
Greensboro, North Carolina

hereinafter generally referred to as the Company, 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 Alliance Mutual 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 May 24, 2010 and covered the period of January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through June 25, 2010. This action was taken due to previous examination findings referenced in the Market Conduct Report of November 9, 2007.

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 and rating.

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 compliance examination covering the period January 1, 2006 through December 31, 2006 was performed on the Company and a report dated November 9, 2007 was issued. The compliance examination report identified concerns in the area of underwriting and rating. 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 – Rating errors and policies issued with incorrect information on the declaration page for farmowners.

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, by clicking "Helpful Links."

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 AND RATING

Farmowners

The Company's underwriting and rating practices and procedures for active farmowners 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 American Association of Insurance Services Manual.

The previous examination revealed the following:

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 63.6 percent of the active farmowners policies reviewed contained rating errors.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-2-185 as 63.6 percent of the active farmowners policies reviewed were issued with incorrect information on the declaration page.

The entire population of 32 files for the period under examination was reviewed. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 29 policies reviewed (90.6 percent error ratio) contained multiple rating errors. The errors consisted of the following:
 - Protective device modification was not applied on 18 policies.
 - Coverage C limit was incorrect on 19 policies.
 - Premium for GL-73 was calculated incorrectly on 2 policies.
 - Base premium was calculated incorrectly on 2 policies.
 - Incorrect territory was used to rate Coverages E & F on 1 policy.

- Incorrect rate was used to calculate the premium for the farm barn on 1 policy.

The rating errors resulted in 21 premium undercharges and 8 premium overcharges to the insureds. At the request of the examiners, refunds in the amount of \$211.00 were issued by the Company for the overcharges.

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-2-185 as 6 policies reviewed (18.8 percent error ratio) were issued with errors on the declaration page. Two policies contained multiple errors. The errors consisted of the following:
 - Liability limit was omitted on 2 policies.
 - GL-73 was omitted on 1 policy.
 - GL-91 was omitted on 1 policy.
 - GL-73 was incomplete on 1 policy.
 - GL-73 was included in error on 1 policy.
 - GL-210 was included in error on 1 policy.
 - Incorrect Medical Payment limit was listed on 1 policy.
- The Company was reminded of the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0104 as it failed to justify the Individual Risk Premium Modification credit applied to 1 policy reviewed (3.1 percent error ratio).

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of November 9, 2007. 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 58-41-50(f) as 90.6 percent of the active farmowners policies reviewed contained rating errors.
- b. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-2-185 as 18.8 percent of the active farmowners policies reviewed were issued with incorrect information on the declaration page.

- c. The Company was reminded of the provisions of 11 NCAC 19.0104 as it failed to justify the Individual Risk Premium Modification credit applied to 3.1 percent of the active farmowners policies reviewed.

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 58-2-185	Record of business kept by companies and agents; Commissioner may inspect.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
11 NCAC 19.0104	Policy Records.

CONCLUSION

An examination has been conducted on the market conduct affairs of Alliance Mutual Insurance Company for the period January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through June 25, 2010. The Company's response to this report, if any, is available upon request.

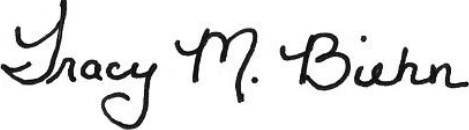
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of underwriting and rating and terminations.

Respectfully submitted,



Norma M. Rafter
 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, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina