



Report on

Market Conduct Examination

of the

American Millennium Insurance Company
Bridgewater, New Jersey

by Representatives of the
North Carolina Department of Insurance

as of

October 4, 2019

TABLE OF CONTENTS

SALUTATION1

SCOPE OF EXAMINATION 2

EXECUTIVE SUMMARY 2

MARKETING 3

 Policy Forms and Filings 3

UNDERWRITING PRACTICES.....3

 Overview.....3

Rate Evasion Procedures.....4

 Commercial Automobile – Livery Types and Extra-heavy Trucks/Tractors – Local.....4

 Commercial Automobile – Extra-heavy Trucks/Tractors – Intermediate.....5

 Commercial Automobile – Extra-heavy Trucks/Tractors – Long Distance..... 6

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES.....7

CONCLUSION.....7

Raleigh, North Carolina
October 4, 2019

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

Honorable Marlene Caride
Commissioner of Insurance
Department of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Honorable Commissioners:

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 the following entity:

American Millennium Insurance Company (NAIC #26140)
NAIC Exam Tracking System Exam Number: NC-NC094-16
Bridgewater, New Jersey
(hereinafter generally referred to as the Company)

The examination was conducted 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 April 22, 2019, and covered the period of July 1, 2016, through June 30, 2018. Analyses of certain operations of the Company were concluded during the Wrap-Up conference which was held on September 12, 2019. 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 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 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; and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language 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 area:

Underwriting Practices – Commercial Automobile: Producers not licensed as brokers; rating errors, including incorrect territories, increased limit factors, zones, and not utilizing out-of-state rates.

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.gov.

This examination identified statutory violations 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.

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:

- Commercial Automobile

Filings for the commercial automobile line of business were made to the Department by the Insurance Services Office (ISO) on behalf of the Company. Deviations were made to the Department by the Company.

UNDERWRITING PRACTICES

Overview

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

- Commercial Automobile

A random selection of 311 policies was made from a total population of 523. 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.

Rate Evasion Procedures

The Company's rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Company was deemed to be in compliance with the provisions of NCGS 58-2-164 as they have procedures in place to address other than nonfleet private passenger automobile rate evasion fraud.

Commercial Automobile – Livery Types and Extra-heavy Trucks/Tractors – Local

All policies were selected for review from a population of 88. The Company's livery types and local radius extra-heavy commercial automobile policies were written on an annual basis. Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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 58-33-26 and Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 6A, Section 0404 as the broker was not properly licensed at the time of application for 13 policies reviewed.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and the North Carolina Reinsurance Facility Standard Practice Manual, Section 3.P.1 as the Company failed to determine the policy was correctly classified and rated to develop the correct and proper premium for eight policies reviewed. The presence on the policy of drivers licensed in states other than North Carolina indicates at least some of the vehicles should have been rated using the State Rate Schedules that were implemented by the North Carolina Reinsurance Facility effective April 1, 2017, or the residual market rates in those states prior to April 1, 2017.

The Company did not adhere to the provisions of NCGS 58-37-35(l) as 19 policies were rated incorrectly. The errors consisted of:

- Incorrect territories were used to rate 15 policies.

- Incorrect increased limit factors for trailers were used to rate three policies.
- An incorrect vehicle size class was used to rate one policy.

The rating errors resulted in two overcharges and 14 undercharges to the insureds. Three errors resulted in no premium impact to the insured. At the request of the examiners, refunds in the amount of \$13,892.77, including interest, were issued by the Company for the overcharges.

Commercial Automobile – Extra-heavy Trucks/Tractors – Intermediate

One hundred nineteen policies were randomly selected for review from a population of 331. The Company's intermediate radius extra-heavy commercial automobile policies were written on an annual basis. Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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 58-33-26 and 11 NCAC 6A.0404 as the broker was not properly licensed at the time of application for 30 policies reviewed.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and the North Carolina Reinsurance Facility Standard Practice Manual, Section 3.P.1 as the Company failed to determine the policy was correctly classified and rated to develop the correct and proper premium for 21 policies reviewed. The presence on the policy of drivers licensed in states other than North Carolina indicates at least some of the vehicles should have been rated using the State Rate Schedules that were implemented by the North Carolina Reinsurance Facility effective April 1, 2017, or the residual market rates in those states prior to April 1, 2017.

The Company did not adhere to the provisions of NCGS 58-37-35(l) as 50 policies had multiple rating errors. The errors consisted of:

- Incorrect territories were used to rate 43 policies.

- Incorrect increased limit factors for trailers were used to rate ten policies.
- Failure to use increased limit factors on zone rated medical payments for one policy.

The rating errors resulted in six overcharges and 38 undercharges to the insureds. Six errors resulted in no premium impact to the insured. At the request of the examiners, refunds in the amount of \$7,181.99, including interest, were issued by the Company for the overcharges.

Commercial Automobile – Extra-heavy Trucks/Tractors – Long Distance

All policies were selected for review from a population of 104. The Company's long distance extra-heavy commercial automobile policies were written on an annual basis. Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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 58-33-26 and 11 NCAC 6A.0404 as the broker was not properly licensed at the time of application for two policies reviewed.

The Company did not adhere to the provisions of NCGS 58-37-35(l) and the North Carolina Reinsurance Facility Standard Practice Manual, Section 3.P.1 as the Company failed to determine the policy was correctly classified and rated to develop the correct and proper premium for 12 policies reviewed. The presence on the policy of drivers licensed in states other than North Carolina indicates at least some of the vehicles should have been rated using the State Rate Schedules that were implemented by the North Carolina Reinsurance Facility effective April 1, 2017, or the residual market rates in those states prior to April 1, 2017.

The Company did not adhere to the provisions of NCGS 58-37-35(l) as 30 policies had multiple rating errors. The errors consisted of:

- Incorrect territories were used to rate 23 policies.

- Incorrect zones were used to rate 28 policies.

The rating errors resulted in 20 overcharges and ten undercharges to the insureds. At the request of the examiners, refunds in the amount of \$6,385.90, including interest, were issued by the Company for the overcharges.

As a result of the rating errors in each of the above populations, the examiners requested the Company to conduct a self-audit. The Company identified an additional 24 policies with rating errors, and refunded an additional \$10,384.09 including interest.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to take measures to ensure the proper territory, increased limit factors, zones, and classification designators are used to rate each commercial automobile policy issued by the Company. Also, the Company must utilize the 'State Rate Schedules' and/or 'Zone Rating Table – Garaged In States Other Than North Carolina' when operators with non-North Carolina driver licenses are operating vehicles insured on commercial automobile policies issued by the Company unless compelling evidence exists that proves the vehicle is garaged in North Carolina.

The Company is directed to verify that any individual submitting applications for insurance to the Company and acting as an insurance broker is properly licensed by the Department as a broker.

Upon acceptance of the Report the Company 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 Company successfully implemented its statement of corrective action.

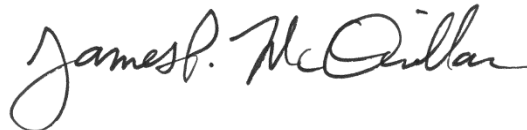
CONCLUSION

An examination has been conducted on the market conduct affairs of American Millennium Insurance Company for the period July 1, 2016, through June 30, 2018, with analyses of certain operations of the Company being conducted through September 12, 2019.

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, Brooke Hinnant, MCM, North Carolina Market Conduct Senior Examiner, and Casondria Cheek, AIC, AINS, MCM, North Carolina Market Conduct 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.



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