

REPORT ON
MARKET CONDUCT EXAMINATION

of the

AMERICAN SECURITY INSURANCE COMPANY

Atlanta, Georgia

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

December 20, 2012

TABLE OF CONTENTS

SALUTATION 1

FOREWORD 2

SCOPE OF EXAMINATION 2

 Previous Examination Findings 2

EXECUTIVE SUMMARY 3

POLICYHOLDER TREATMENT 4

 Consumer Complaints 4

UNDERWRITING PRACTICES 5

 Private Passenger Automobile 5

 Commercial Fire 6

TERMINATIONS 6

 Commercial Inland Marine Cancellations 6

 Commercial Fire Nonrenewals 7

SUMMARY 7

TABLE OF STATUTES AND RULES 8

CONCLUSION 8

Raleigh, North Carolina
December 20, 2012

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

Honorable Karen Welden Stewart
Commissioner of Insurance
Department of Insurance
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a compliance examination has been made of the market conduct activities of

AMERICAN SECURITY INSURANCE COMPANY (NAIC #42978)
NAIC Exam Tracking System Exam Number: NC299-M9
Atlanta, Georgia

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 American Security 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 July 16, 2012 and covered the period of January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through December 17, 2012. This action was taken due to previous examination findings referenced in the Market Conduct Report of May 24, 2010.

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, 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 January 1, 2006 through December 31, 2008 was performed on the Company and a report dated May 24, 2010 was issued. The general examination report identified concerns in the areas of policyholder treatment, underwriting

practices, 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 areas:

Consumer Complaints – response time to Departmental inquires.

Underwriting Practices – private passenger automobile: policies rated using unfiled rating factor.

Terminations – commercial inland marine cancellations: failure to provide notice of cancellation to insureds.

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 Website www.ncdoi.com by clicking "INSURANCE 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.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 1, Section 0602 as its responses to 33.3 percent of the Departmental inquiries reviewed were in excess of the 7 calendar day requirement of this rule.
- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as its responses to 66.7 percent of the Departmental inquiries reviewed did not include its NAIC company code.

The entire population of 10 consumer complaints 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 11 NCAC 1.0602 as the responses to 2 of the Departmental inquiries reviewed (20.0 percent error ratio) were in excess of either the 7 calendar day requirement of this rule or the extension deadline granted by the Department.
- The Company was deemed to be in compliance with the provisions of 11 NCAC 4.0123 as its responses to all of the Departmental inquiries reviewed included its NAIC company code.

The Company's response to each complaint was deemed to be appropriate to the circumstances. The average service time to respond to a Departmental complaint was 10 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 4	4	40.0
8 - 14*	4	40.0
15 - 21*	1	10.0
22 - 30*	1	10.0
Total	10	100.0

*Extensions granted and met on 4 reviewed.

UNDERWRITING PRACTICES

Private Passenger Automobile

The Company's underwriting 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 policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 20.0 percent of the private passenger automobile applications reviewed were accepted from a producer who was not appointed.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 10.0 percent of the active private passenger automobile files reviewed were rated using an unfiled rating factor.

The Company provided a listing of 41 active private passenger policies issued during the period under examination. All 41 policies were selected and received for review. **The**

current examination revealed the following:

- The Company was deemed to be in compliance with the provisions of NCGS 58-33-40 as the producers were properly appointed for all of the active files reviewed.
- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 37 of the active policies reviewed were rated using an unfiled rating factor (90.2 percent error ratio).

The rating errors resulted in 37 premium undercharges to the insureds. The remaining premiums charged were deemed correct.

Commercial Fire

The Company's underwriting practices and procedures for active commercial fire 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 Company's Residential Mortgage Service Program Manual.

The previous examination revealed the following:

- The Company was reminded of the provisions of NCGS 58-41-50(f) as the schedule rating factor was not applied on 3.0 percent of the active commercial fire policies reviewed.

The Company provided a listing of 11,070 active commercial fire policies issued during the period under examination. One hundred 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 58-41-50(f) as all active policies reviewed were rated correctly.

TERMINATIONS

Commercial Inland Marine Cancellations

The Company's cancellation procedures for commercial inland marine policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-15 and the policy termination provisions as it failed to provide notice of cancellation to the insured for 100.0 percent of the cancelled policies reviewed.

The Company provided a listing of 84,618 commercial inland marine 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 again deemed to be in apparent violation of the provisions of NCGS 58-41-15 and the policy termination provisions as it failed to provide notice of

cancellation to the insured for 28 cancelled policies reviewed (28.0 percent error ratio).

Commercial Fire Nonrenewals

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

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as they were unable to provide copies of the nonrenewal letters sent to 12.0 percent of the additional insureds when coverage was being nonrenewed.

The Company provided a listing of 430 commercial fire 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 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as the Company provided copies of the nonrenewal letter to all additional insureds when coverage was being nonrenewed.

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of May 24, 2010. The current examination revealed the following:

1. Policyholder Treatment

- a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as the responses for 20.0 percent of the Departmental inquiries reviewed were in excess of either the 7 calendar day requirement of this rule or the extension deadline granted by the Department.

2. Underwriting Practices

- a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 90.2 percent of the active private passenger automobile policies reviewed were rated using an unfiled rating factor.

3. Terminations

- a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-41-15 and the policy termination provisions as it failed to provide notice of cancellation to the insured for 28.0 percent of the cancelled commercial inland marine 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 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
NCGS 58-33-40	Appointment of agents.
NCGS 58-41-15	Certain policy cancellations prohibited.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
11 NCAC 1.0602	Insurance companies response to Departmental inquiries.
11 NCAC 4.0123	Use of specific Company name in responses.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.

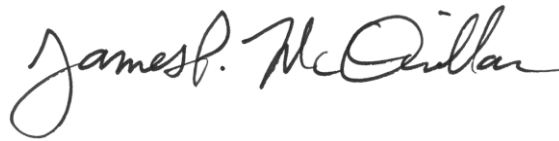
CONCLUSION

A compliance examination has been conducted on the market conduct affairs of American Security Insurance Company for the period January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through December 17, 2012.

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, underwriting practices, and terminations.

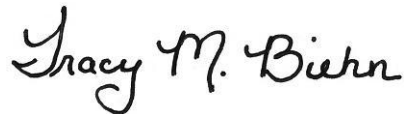
In addition to the undersigned, Gary Jones and Gina Abate, North Carolina Market Conduct Examiners, participated in this examination and in the preparation of this report.

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
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, looped initial 'T'.

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