

REPORT ON
MARKET CONDUCT EXAMINATION

of the

ATLANTIC CASUALTY INSURANCE COMPANY
Goldsboro, North Carolina

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 14, 2013

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Raleigh, North Carolina
February 14, 2013

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 through 58-2-134, a compliance examination has been made of the market conduct activities of

ATLANTIC CASUALTY INSURANCE COMPANY
(NAIC #42846)

NAIC Exam Tracking System Exam Number: NC299-M21
Goldsboro, 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 Atlantic Casualty 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 November 19, 2012 and covered the period of January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 13, 2013. This action was taken due to previous examination findings referenced in the Market Conduct Report of September 24, 2009.

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 marketing, 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, 2005 through December 31, 2007 was performed on the Company and a report dated September 24, 2009 was issued. The general examination report identified concerns in the areas of appointment and termination of

producers, underwriting practices and terminations. Specific previous violations relating to these areas are listed within the appropriate section 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 no concerns with Company procedures and practices in the following areas: marketing, underwriting practices and terminations.

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 "INSURANCE DIVISIONS", then "Legislative Services".

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.

MARKETING

Producer Licensing

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

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on 100 percent of the producers reviewed.

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as notification of termination was not sent to 27.3 percent of the terminated producers reviewed.

The Company reported there were no appointments or terminations of its producers during the current examination period.

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 rules of the Personal Automobile Manual.

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)(h) as 15.0 percent of the active private passenger automobile files reviewed did not contain proper file documentation.

The Company reported it exited the private passenger automobile market in North Carolina for new business and renewals effective January 31, 2008. There were no active private passenger automobile policies reported during the current examination period.

Commercial General Liability

The Company's underwriting practices and procedures for active commercial general liability 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 Commercial General Liability Manual.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201 as various policy forms for the active commercial general liability policies had not been filed with and approved by the Department.

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-85(b) by failing to obtain the insured's written consent before charging a \$50.00 policy/inspection fee on 86.0 percent of the active commercial general liability policies reviewed.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-85(b) by failing to obtain the insured's written consent before charging a \$50 policy/inspection fee on 70.0 percent of the active 2008 commercial general liability policies reviewed.
- The Company was deemed to be in apparent violation of the provisions of Article 63 of NCGS Chapter 58 by charging a \$50.00 inspection fee without performing an inspection on 54.0 percent of the active 2008 general liability policies reviewed.

The Company provided a listing of 911 active commercial general liability policies issued during the period under examination. Fifty policies were selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance of the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201 as all of the policy forms for the active commercial general liability policies reviewed had been filed with and approved by the Department.
- The Company was reminded of the provisions of NCGS 58-41-50(f) as 1 of the active commercial general liability policies reviewed was rated incorrectly (2.0 percent error ratio).

The rating error resulted in 1 premium overcharge. At the request of the examiners, a refund in the amount of \$233.28 was issued by the Company for the overcharge. The remaining premiums charged were deemed correct.

The Company withdrew its policy fee filing for commercial general liability policies effective October 15, 2009. None of the commercial general liability policies submitted for the current examination contained a policy fee or an inspection fee.

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 58-36-30(a) and Rule 10 of the North Carolina Personal Auto Manual as the return premium for 11.0 percent of the cancelled private passenger automobile policies reviewed was computed using an incorrect cancellation method.

The Company reported it exited the private passenger automobile market in North Carolina for new business and renewals effective January 31, 2008. As the existing policies were not renewed, there were no cancellations reported during the current examination period.

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of September 24, 2009. The current examination revealed the following:

1. Underwriting Practices

- a. The Company was reminded of the provisions of NCGS 58-41-50(f) as 2.0 percent of the active commercial general liability policies reviewed were rated incorrectly.

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 58-3-150	Forms to be approved by Commissioner.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-33-85	Rebates and charges in excess of premium prohibited; exceptions.

NCGS 58-36-30	Deviations.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
11 NCAC 6A.0412	Appointment of Agent: Responsibility of Company.
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 Atlantic Casualty Insurance Company for the period January 1, 2011 through December 31, 2011 with analyses of certain operations of the Company being conducted through February 13, 2013.

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 marketing, underwriting practices and terminations.

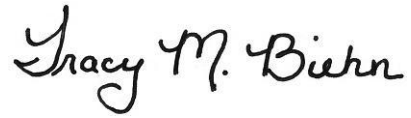
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



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 initial 'T' and 'B'.

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