

Report on

Market Conduct Examination

of the

Auto-Owners Insurance Company
Owners Insurance Company

Lansing, Michigan

by Representatives of the
North Carolina Department of Insurance

as of

February 23, 2017

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Raleigh, North Carolina
February 23, 2017

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

Honorable Patrick M. McPharlin
Director
Department of Insurance and Financial Services
Mason Building, 8th Floor
530 W. Allegan Street
Lansing, Michigan 48933

Honorable Mary Taylor
Director
Ohio Department of Insurance
50 West Town Street
Third Floor, Suite 300
Columbus, Ohio 43215

Honorable Commissioner and Directors:

Pursuant to your instructions and 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

Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
NAIC Exam Tracking System Exam Number: NC-NC131-12
Lansing, Michigan

hereinafter generally referred to as the Companies, at the Companies' home office located at 6101 Anacapi Boulevard, Lansing, Michigan, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Companies. This examination commenced on December 12, 2016, and covered the period of July 1, 2014, through June 30, 2016, with analyses of certain operations of the Companies being conducted through February 21, 2017. 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 Companies' practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based 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 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 Companies' procedures and practices in the following area:

Underwriting Practices – Homeowners: Errors relating to the consent to rate form.

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.com by clicking "Insurance Industry", and then "Legislative Services" under "Other Divisions".

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are 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 must be addressed.

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 Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Homeowners

Filings for the homeowners line of business were made by the North Carolina Rate Bureau on behalf of the Companies. Deviations for this line of business were made to the Department by the Companies.

UNDERWRITING PRACTICES

Overview

The Companies' marketing in North Carolina is directed to personal and commercial lines of business. The Companies provided the examiners with listings of the following type of active policies for the period under examination:

- Homeowners

A random selection of 119 policies was made from a total population of 2,511. 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.

Homeowners

The Companies' homeowners policies were written on an annual basis. Coverages were written on a consent to rate basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies did not adhere to the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section 0602(a) as the consent to rate forms for 13 policies did not include the correct premium that would be charged without application of consent to rate, nor did they include the correct proposed premium. The cause was identified as changes made by the producing agents after submitting the new business applications to the Companies, resulting in premiums different than those to which the insureds originally consented. Revised consent to rate forms should have been provided to the insureds for their review and signature.

The Companies did not adhere to the provisions of 11 NCAC 10.0602(a)(3) as the consent to rate forms for 20 policies did not include the correct proposed premium. Revised consent to rate forms should have been provided to the insureds for their review and signature.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies are directed to obtain the consent of the insured, in the form of a consent to rate form bearing the insured's signature, whenever the premium charged on the original application is modified due to company-initiated changes.

The Companies must verify the premium amounts agreed to by the insured on the consent to rate form are the same premium amounts charged, as displayed in the policy declarations.

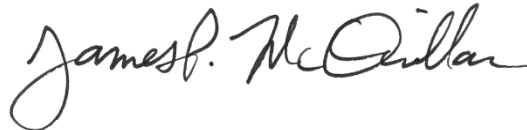
CONCLUSION

An examination has been conducted on the market conduct affairs of Auto-Owners Insurance Company and Owners Insurance Company for the period July 1, 2014, through June

30, 2016, with analyses of certain operations of the Companies being conducted through February 21, 2017.

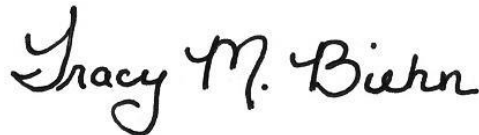
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the areas of marketing and underwriting practices.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, prominent initial "J".

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.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, prominent initial "T".

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