



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

January 22, 2020

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION.....2

EXECUTIVE SUMMARY2

MARKETING PRACTICES 3

 Policy Forms and Filings 3

UNDERWRITING PRACTICES3

 Overview3

 Rate Evasion Procedures.....4

 Commercial Automobile4

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES.....4

CONCLUSION.....5

Raleigh, North Carolina
January 22, 2020

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
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Raleigh, North Carolina 27603

Honorable Anita G. Fox
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530 W. Allegan Street, 7th Floor
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Honorable Jullian Froment
Director
Ohio Department of Insurance
50 West Town Street, 3rd Floor, Suite 300
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Honorable Commissioner and Directors:

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 entities

Auto-Owners Insurance Company (NAIC #18988)
Owners Insurance Company (NAIC #32700)
NAIC Exam Tracking System Exam Number: NC-NC094-15
Lansing, Michigan
(hereinafter generally referred to as the Companies)

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 15, 2019, and covered the period of July 1, 2016, through June 30, 2018. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on January 21, 2020. 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, but consisted of an examination of the Companies' 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/adjusters who were not properly 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 Companies' procedures and practices in the following area:

Underwriting Practices – Incorrect premiums charged due to use of wrong physical damage symbols; failure to round certain physical damage premiums, and producing accounts without the required documents to prove eligible risk status.

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.

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 their 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 PRACTICES

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:

- Commercial Automobile

Filings for the commercial automobile line of business were made to the Department by the Companies.

UNDERWRITING PRACTICES

Overview

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

- Commercial Automobile

One hundred nineteen policies out of a total population of 3,520 polices were selected for review. 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 Companies' rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Companies did not adhere to the provisions of 58-2-164(c) as 10 files did not include two acceptable documents to provide proof of eligible risk status.

Commercial Automobile

The Companies' commercial automobile policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. 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 NCGS 58-36-30(a), NCGS 58-41-50(f), and Rule 11 (from the North Carolina Personal Auto Manual) as 7 rating errors were identified.

The errors consisted of:

- Non-fleet private passenger type vehicles rated using incorrect physical damage symbols – 5 policies
- Physical damage premiums on private passenger vehicles were not rounded to the nearest whole dollar – 2 policies

The above errors necessitated a refund on 1 policy. At the request of the examiners, the Companies refunded premium and paid statutory interest to the insured totaling \$24.47.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must calculate and charge the correct premiums by using the proper rating methods based on the personal auto manual for vehicles subject to rating from that manual. The Companies must obtain two acceptable forms of proof of eligible risk status.

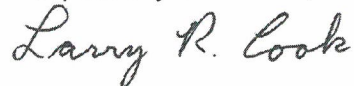
CONCLUSION

An examination has been conducted on the market conduct affairs of Auto-Owners Insurance Company and Owners Insurance Company for the period July 1, 2016, through June 30, 2018, with analyses of certain operations of the Company being conducted through January 21, 2020.

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.

In addition to the undersigned, Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Senior Examiner, and Eshita Patel, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, ARC, AIC, AAI, 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, appearing to read "Teresa Knowles", with a long horizontal flourish extending to the right.

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

