

Report on

Market Conduct Examination

of the

Builders Mutual Insurance Company  
Builders Premier Insurance Company

Raleigh, North Carolina

by Representatives of the  
North Carolina Department of Insurance

as of

November 18, 2020

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Raleigh, North Carolina  
XXXX XX, 2020

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

Honorable Commissioner:

In accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a general examination has been made of the market conduct activities of the following entities:

**Builders Mutual Insurance Company (NAIC #10844)**  
**Builders Premier Insurance Company (NAIC #13036)**  
NAIC Exam Tracking System Exam Number: NC-NC094-24  
Raleigh, North Carolina  
(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 27, 2020, and covered the period of January 1, 2016, through December 31, 2018. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on September 16, 2020. All comments made in this report reflect conditions observed during the period of the examination.

The 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 consisted of an examination of the Companies' practices and procedures in policyholder treatment, marketing, underwriting, terminations, and claims. 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% tolerance level for consumer complaints, producers/adjusters 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% for claims; and 10% for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the company.

## EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' practices and procedures in the following areas:

*Policyholder Treatment* – Response time greater than seven days.

*Marketing* – Producer Terminations: The Department was not notified of producer terminations within statutory time limits.

*Underwriting and Rating* – Commercial Automobile: Rating errors, unappointed producers, and not obtaining two forms of reliable proof of North Carolina residency or eligible risk status.

*Terminations* – Commercial Automobile Nonrenewals: Reasons not precise.

*Claims Practices* – Subrogated Claims: Delays in reimbursing the insured's deductible.

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 <https://www.ncdoi.gov/insurance-industry/market-regulation>.

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.

## POLICYHOLDER TREATMENT

### Consumer Complaints

The Companies' complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Companies' complaint register for the period under examination was in compliance with provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103.

The Companies' complaint register was reconciled with a listing provided by the Consumer Services Division of the Department. All complaints from the Department's listing of 10 were selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

<b>Type of Complaint</b>	<b>Total</b>
Claims	7
Underwriting	3
<b>Total</b>	<b>10</b>

The Companies' response to each complaint was deemed to be appropriate to the circumstances. The Companies were deemed to be in violation of the provisions of 11 NCAC 1.0602 as the response time to the Department for one complaint was in excess of seven calendar days (10.0% error ratio).

The average service time to respond to a Departmental complaint was six calendar days. A chart of the Companies' response time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	9	90.0
8 - 14	1	10.0
<b>Total</b>	<b>10</b>	<b>100.0</b>

#### Privacy of Financial and Health Information

The Companies provided privacy of financial and health information documentation for the examiners' review. The Companies exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or



consumer has authorized the disclosure. The Companies were found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. The review was based on the following lines of business:

1. Mono-line General Liability
2. Workers' Compensation
3. Commercial Automobile

Filings for the workers' compensation line of business were made by the North Carolina Rate Bureau on behalf of the Companies. Filings for the commercial automobile and commercial general liability lines of business were made by the Insurance Services Office on behalf of the Companies. The Companies filed deviations with the Department for these lines of business.

### Producer Licensing

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

The Companies provided the examiners with listings of 536 appointed and 109 terminated producers for the period under examination. Fifty appointed and 50 terminated producer files were randomly selected for review. All appointment forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40. The Companies were deemed to be in violation of NCGS 58-33-56(b) as the Department was not notified within the statutory timetable for five of the terminated producer files reviewed (10.0% error ratio).

## UNDERWRITING AND RATING

### Overview

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

1. Mono-line General Liability
2. Workers' Compensation
3. Commercial Automobile

A random selection of 150 policies was made from a population of 5,764. 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.

### Mono-line General Liability

The Companies provided a listing of 2,249 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' mono-line general liability coverage was written utilizing manual rates. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as two of the files reviewed did not contain signed applications (4.0% error ratio).

The Companies were reminded of the provisions of NCGS 58-41-50(f) as the premiums charged on four of the active policies reviewed (8.0% error ratio) were incorrect. The rating errors consisted of the following:

- The products loss cost multiplier for class code 98304 was applied incorrectly on two policies.
- Two policies were rated using an incorrect increased limit factor.

The rating errors resulted in undercharges of premium. The remaining premiums charged were deemed correct.

As a result of the incorrect application of the products loss cost multiplier, the examiners directed the Companies to conduct a self-audit. Once complete, the Companies will issue any additional refunds to the insureds and report the total dollar amount refunded to the Department.

#### Workers Compensation

The Companies provided a listing of 2,864 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' workers' compensation coverage was written utilizing manual rates. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were reminded of the provisions of NCGS 58-36-100 as one active policy reviewed (2.0% error ratio) was rated using an incorrect schedule modification factor. The rating error resulted in an undercharge of premium. The remaining premiums charged were deemed correct.

#### Commercial Automobile

The Companies provided a listing of 651 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' commercial automobile coverage was written utilizing manual rates. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies'

use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producers were not properly appointed by the Companies for two of the active policies reviewed (4.0% error ratio).

The Companies were deemed to be in violation of the provisions of NCGS 58-2-164(c2) as two forms of reliable proof of North Carolina residency or eligible risk status were not obtained at the time of application for 15 of the active policies reviewed (30.0% error ratio).

The Companies were reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(g) as one file reviewed (2.0% error ratio) did not contain the name of the individual producer.

The Companies were deemed to be in violation of the provisions of NCGS 58-41-50(f) as seven of the active policies reviewed (14.0% error ratio) had a total of eight rating errors.

The rating errors consisted of the following:

- Three policies were rated using incorrect territories.
- Two policies covering physical damage on non-fleet private passenger type vehicles were rated incorrectly using price symbols instead of comprehensive and collision symbols.
- Two policies were rated without proper application of the dumping factor.
- One policy was rated using an incorrect size factor.

The rating errors resulted in five premium undercharges and two premium overcharges. The examiners directed the companies to issue refunds in the amount of \$7,131.07, including interest for the overcharges. The remaining premiums charged were deemed correct.

As a result of the rating errors involving the usage of incorrect symbols for non-fleet private passenger type vehicles, the examiners directed the Companies to conduct a self-audit.

Once complete, the Companies will issue any additional refunds to the insureds and report the total dollar amount refunded to the Department.

## TERMINATIONS

### Overview

The Companies' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. The review was based on the following lines of business:

1. Mono-line General Liability
2. Workers' Compensation
3. Commercial Automobile

Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file. A total of 3,376 policies were terminated during the period under examination. The examiners randomly selected 296 terminations for review.

### Mono-line General Liability Cancellations

Fifty cancelled mono-line general liability policies were randomly selected for review from a population of 1,093.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	29	58.0
Insured's request	11	22.0
Adverse Underwriting Decision	6	12.0
Policy rewritten	4	8.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 15 of the cancelled policies reviewed as these policies were cancelled at the request of the insured or coverage

was rewritten. Cancellation notices for the remaining 35 policies stated the specific reason for cancellation.

The Companies were reminded of the provisions of NCGS 58-41-50(b) and the policy cancellation provisions as the insured was not provided at least 15 days' notice of cancellation for one policy reviewed (2.0 percent error ratio).

All premium refunds were deemed correct. The Companies issued refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

#### Workers Compensation Cancellations

Fifty cancelled workers compensation policies were randomly selected for review from a population of 1,739.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment of premium	34	68.0
Insured's request	14	28.0
Risk no longer eligible	2	4.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 14 of the cancelled policies reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 36 policies stated the specific reason for cancellation.

All premium refunds were deemed correct. The Companies issued refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

#### Commercial Automobile Cancellations

Fifty cancelled commercial automobile policies were randomly selected for review from a population of 205.

The reason for cancellation was deemed valid for all policies reviewed. The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Insured's request	28	56.0
Nonpayment of premium	16	32.0
Adverse underwriting decision	3	6.0
Policy rewritten	3	6.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 31 of the cancelled policies reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining 19 policies stated the specific reason for cancellation.

The Companies were reminded of the provisions of NCGS 58-41-50(f) and Rule 11 of the Commercial Auto Manual as two policies reviewed (4.0% error ratio) were cancelled incorrectly. One policy was cancelled pro-rata in lieu of short rate when the reason was by insured's request, and one policy was cancelled using an incorrect cancellation date. Both errors resulted in premium undercharges. The remaining premium refunds were deemed correct. The Companies issued refunds in a timely manner.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

### Mono-line General Liability Nonrenewals

Fifty nonrenewed mono-line general liability policies were selected for review from a population of 83.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Adverse underwriting decision	43	86.0
Agent no longer appointed	6	12.0
Other	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were reminded of the provisions of NCGS 58-41-20(b), as the notice of nonrenewal was not mailed at least 45 days prior to the termination date for two policies reviewed (4.0% error ratio). The Companies were reminded of the provisions of NCGS 58-41-20(e), as two policies reviewed (4.0% error ratio) were nonrenewed using reasons that were not precise.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

### Workers Compensation Nonrenewals

Fifty nonrenewed workers compensation policies were randomly selected for review from a population of 210.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Underwriting reasons	46	92.0
Producer no longer appointed	4	8.0
<b>Total</b>	<b>50</b>	<b>100.0</b>



The Companies were reminded of the provisions of NCGS 58-36-110(e) as two policies reviewed (4.0% error ratio) were nonrenewed using reasons that were not precise. The Companies were reminded of the provisions of NCGS 58-36-110(b) as the notice of nonrenewal was not mailed at least 45 days prior to the termination date for one policy reviewed (2.0% error ratio).

The Companies were reminded of the provisions of NCGS 58-36-110(b) as two policies reviewed (4.0% error ratio) were nonrenewed incorrectly. For one policy, the notice of nonrenewal was not mailed to the insured, and one policy was nonrenewed using an incorrect nonrenewal date.

The Companies were reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(g) as one file reviewed did not contain proof of mailing of the nonrenewal notice (2.0% error ratio).

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Companies.

#### Commercial Automobile Nonrenewals

The entire population of 46 nonrenewed commercial automobile policies was selected for review.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Underwriting reasons	42	91.4
Agent no longer appointed	2	4.3
Other	2	4.3
<b>Total</b>	<b>46</b>	<b>100.0</b>

The Companies were deemed to be in violation of the provisions of NCGS 58-41-20(e) as five policies reviewed (10.9% error ratio) were nonrenewed using reasons that were not precise.

The Companies were reminded of the provisions of NCGS 58-41-20(b) as one notice of nonrenewal (2.2% error ratio) was not mailed to the insured. The Companies were reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as one file (2.2% error ratio) did not contain a copy of the nonrenewal notice.

The final area of this review encompassed documentation of the policy file. All policy files reviewed contained sufficient documentation to support the action taken by the Companies.

## **CLAIMS PRACTICES**

### Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The license status for each claim adjuster was reviewed to determine if the adjuster was properly licensed at the time of the claim handling. The review encompassed paid, automobile medical payments, first and third party bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims. Three hundred fifty nine claims were randomly selected for review from a population of 3,337.

### Paid Claims

The examiners randomly selected 100 of the 2,026 first party automobile physical damage, and third party property damage claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
Automobile physical damage	8.0
Third party property damage	12.0

All payments issued by the Companies were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Companies' payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings. The review of paid claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### Automobile Medical Payment Claims

The entire population of nine automobile medical payment claims was selected for review. The claim files were reviewed to determine if the Companies had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### First and Third Party Bodily Injury Claims

The examiners randomly selected for review 50 of the 135 first and third party bodily injury claims. The claim files were reviewed to determine whether the Companies had engaged in any unfair claims practices.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b)(f) as two claims reviewed (4.0% error ratio) had delays in settlement.

### Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 548. The claim files were reviewed to determine if the Companies' reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for closing the claims without payment. All reasons for denial or closing the claims without payment were deemed valid. The average denial time was 39 calendar days.

The Companies were reminded of the provisions of NCGS 58-63-15(11) as there was an excessive number of days to deny for two claims reviewed (4.0% error ratio). The Companies were reminded of the provisions of 11 NCAC 04.0117 as a denial letter was not sent at the time one claim was reviewed (2.0% error ratio).

### Total Loss Settlement Claims

Fifty total loss settlement claims were randomly selected for review from a population of 183. The claim files were reviewed to determine if the settlements were equitable and timely.

The Companies primarily used a third-party vendor employing Mitchell WorkCenter™ software to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. The Companies settled all claims in a timely manner. The payments were issued on a 3-year average of 34 calendar days. No violations of the provisions of NCGS 58-63-15(11), 11 NCAC 4.0418 or 11 NCAC 4.0421 were noted during this review.

### Subrogated Claims

Fifty subrogated claims were randomly selected for review from a population of 58. The claim files were reviewed to determine if the insured's deductible was properly reimbursed by the Companies when subrogation was successful.

The Companies were deemed to be in violation of the provisions of NCGS 58-63-15(11)(b) as 19 claims reviewed (38.0% error ratio) had delays in reimbursing the insured's deductible.

The remaining reimbursements were deemed to be correct and were issued on a 3-year average of 21 calendar days from the date the Companies collected the monies.

### Litigated Claims

Fifty litigated claims were selected for review from a population of 378. The claim files were reviewed to determine if the Companies had engaged in any unfair claims practices. The review of litigated claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### **COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Companies are directed to reinforce with its producers and operations staff the procedures and methods for determining the proper territory, rating factors and physical damage symbols when submitting and reviewing applications for commercial automobile insurance. The Companies must utilize the latest comprehensive and collision symbol updates published by the Insurance Services Office when rating private passenger type vehicles for physical damage coverage on commercial automobile policies.

Procedures must be put into place to verify producers are properly appointed by the Companies.

The Companies are directed to collect two forms of reliable proof of North Carolina residency or eligible risk status as described in NCGS 58-2-164(c2), or other forms of reliable proof acceptable to the North Carolina Department of Insurance, at the time of application for new commercial automobile business.

For termination notices delivered to the policyholder, the Companies must use precise reasons for termination that are understandable to the policyholder.

The Companies are directed to request an extension when response time to consumer complaints will be in excess of seven days.

For agent terminations that require notification to the Department, the Companies are directed to submit termination notification to the Department within 30 days after the effective date of termination.

The Companies are directed to reinforce procedures to assure that insureds' deductibles are reimbursed within seven days after subrogation recovery.

Upon acceptance of the Report the Companies 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 Companies successfully implemented their statement of corrective action.

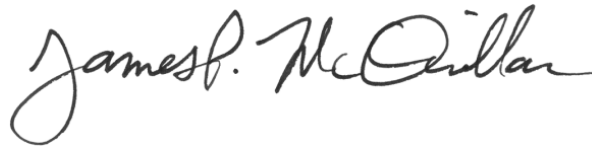
### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Builders Mutual Insurance Company and Builders Premier Insurance Company for the period January 1, 2016, through December 31, 2018, with analyses of certain operations of the Companies being conducted through September 16, 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 policyholder treatment, marketing, underwriting, terminations, and claims.

In addition to the undersigned, Brooke Green, MCM, North Carolina Market Conduct Senior Examiner, Eshita Patel, MCM and Casondria Cheek, AIC, AINS, MCM, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large initial 'J' and a long horizontal stroke at the end.

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 "Teresa R. Knowles". The signature is written in a cursive style with a large initial 'T' and a long horizontal stroke at the end.

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