



Report on

Market Conduct Examination

of the

Central Mutual Insurance Company

Van Wert, Ohio

by Representatives of the  
North Carolina Department of Insurance

as of

November 22, 2017

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Raleigh, North Carolina  
November 22, 2017

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

Honorable Jillian Froment  
Director of Insurance  
Ohio Department of Insurance  
50 W. Town Street, Third Floor, Suite 300  
Columbus, Ohio 43215

Honorable Commissioner and Director:

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

**Central Mutual Insurance Company (NAIC #20230)**  
NAIC Exam Tracking System Exam Number: NC-NC131-20  
Van Wert, Ohio

hereinafter generally referred to as the Company, 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

The Department conducted a target examination of the Company. This examination commenced on May 22, 2017, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through November 21, 2017. All comments made in this report reflect conditions observed during the period of the 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 Company's 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 an 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 Company's procedures and practices in the following areas:

*Marketing* – Homeowners: Use of unfiled/unapproved declaration page.

*Underwriting Practices* – Homeowners: Premiums shown on consent to rate forms not matching premiums shown on declaration pages, rating errors, commingling of premiums in the consent to rate premium, and misleading display of total discounts on declaration pages.

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](http://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 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 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 Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Homeowners

Filings for this line of business were made by the North Carolina Rate Bureau (NCRB) on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

The Company did not adhere to the provisions of NCGS 58-3-150(a), NCGS 58-36-55, and 11 NCAC 10.1201 as 44 files included the use of declarations pages that had not been filed with nor approved by the Department.

## UNDERWRITING PRACTICES

### Overview

The Company's marketing in North Carolina is directed to the personal and commercial lines of business. The Company provided the examiner 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 144. Each selected 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 Company's homeowner policies were written on an annual basis. Coverages were written utilizing manual and deviated rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-36-30(a) and Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section .0602 as 58 policies were issued with 60 rating errors. The rating errors included:

- Three policies applied an incorrect base rate for Personal Injury coverage (Rule 610).
- Two policies applied an incorrect base rate for Personal Property in a Self-Storage Facility (Rule 515.C.)
- Six policies applied an incorrect base rate for Loss Assessment coverage (Rule 511).
- Forty-nine policies failed to include the premium for increased Coverage C in the calculation of the Protective Devices credit (Rule 404.C.).

The errors resulted in an incorrect premium without application of consent to rate being displayed on the consent to rate form. Since the errors did not cause the total policy premiums to exceed the statutory threshold, no premium refunds were required.

The Company did not adhere to the provisions of 11 NCAC 10.0602(a)(2) and 11 NCAC 10.0602(a)(3) as 11 files had a consent to rate form that displayed a premium that did not match the premium on the policy declarations.

The Company did not adhere to the provisions of NCGS 58-63-15(1) as the declaration page for 37 policies indicated the discounts applied to the policy were higher than the actual discount provided to the policyholder.

The Company did not adhere to the provisions of 11 NCAC 10.0602(a)(2) as 76 files in which the premiums for Identity Fraud Protection coverage and/or the premiums for Equipment Breakdown coverage were included in with the premium without application of consent to rate displayed on the consent to rate form. These coverages are not regulated by the NCRB and their premiums should not be comingled with the premiums for NCRB-regulated coverages as shown on the consent to rate forms. The errors resulted in no financial impact on the insureds.

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

The Company must complete and implement corrective actions as a result of this target examination. The corrective actions must include but are not limited to the premium without application of consent to rate on the consent to rate form must match the premium displayed on the declarations page for all coverages regulated by the NCRB; the Company must use only filed and approved rates; rating algorithms must comply with the rating instructions set forth in the Homeowners Manual; only premiums for coverages regulated by the NCRB are to be included on the consent to rate form; the Company must issue policies using only forms that have been filed with and approved by the Department; and declaration pages must not misrepresent the discounts applied to the policies.



**CONCLUSION**

An examination has been conducted on the market conduct affairs of Central Mutual Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through November 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 Company's operations in the areas of marketing and underwriting practices.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,  
AIAF, 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.



Bill George, CPCU, AIS, MCM  
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State of North Carolina