

REPORT ON

MARKET CONDUCT EXAMINATION

of the

CENTURY MUTUAL INSURANCE COMPANY

Greensboro, North Carolina

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

June 25, 2012

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Raleigh, North Carolina  
June 25, 2012

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, a general examination has been made of the market conduct activities of

**CENTURY MUTUAL INSURANCE COMPANY**  
**(NAIC #13725)**  
NAIC Exam Tracking System Exam Number: NC094-M54  
Greensboro, 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 Century Mutual 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 examination commenced on April 16, 2012 and covered the period of January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through June 25, 2012. All comments made in this report reflect conditions observed during the period of the examination.

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 policyholder treatment, marketing, underwriting practices, terminations and claims practices.

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.

## EXECUTIVE SUMMARY

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

*Policy Forms and Filings* – notice of Adverse Underwriting Decision was not filed with and approved by the Department.

*Producer Licensing* – producer was not properly appointed by the Company, confirmation of appointment was not provided, background checks were not performed, confirmation of termination was not provided, failure to notify producer of termination.

*Underwriting Practices* – applications accepted from producers not properly appointed by the Company for homeowners, dwelling fire, mobile homeowners and farmowners; rating errors for dwelling fire.

*Terminations* – incomplete file documentation for dwelling fire and farmowners cancellations; incomplete file documentation for homeowners, dwelling fire, mobile homeowners and farmowners nonrenewals; files not provided for dwelling fire and farmowners nonrenewals.

Specific violations related to each area of concern 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 DIVISIONS” then “LEGISLATIVE SERVICES”.

This examination identified various non-complaint practices, 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 should be addressed.

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.

## **COMPANY OVERVIEW**

### History and Profile

Century Mutual Insurance Company was formed in 1894 as Farmers Mutual Fire Insurance Association – Guilford Branch. In 1994, the name was changed to Century Mutual Insurance Company. The Company operated as a county mutual and wrote in the counties of Guilford, Randolph, Davidson, Forsyth, Rockingham and Caswell. The Company was associated with the Alliance Mutual Insurance Company, which was formed by a group of farm mutual companies in order to write Section II coverage liability insurance.

On October 1, 2009, Century Mutual Insurance Company expanded its charter to become a statewide, limited assessable insurance company in North Carolina and merged with Eastern Farmers Mutual Insurance Company. Century Mutual Insurance Company was the surviving entity. After the merger, the Eastern Farmers Mutual office in Rich Square, North Carolina was kept as a branch.

The Company had a subsidiary, CMI Agency, Inc., that was incorporated on June 4, 2009 and dissolved December 13, 2011. The CMI Agency, Inc. was created to allow Century Mutual Insurance Company's agents to continue to write policies, primarily with Alliance Mutual Insurance Company for the lines of business that Century Mutual Insurance Company did not offer. CMI Agency, Inc. served as a pass through for paperwork and commissions only.

### Company Operations and Management

The Company is a writer of personal and commercial coverages. The Company is licensed only in North Carolina.

Direct written premium for the Company in 2010 was \$2,546,636. Premium writings in North Carolina between 2008 and 2010 increased approximately 118.3 percent. The charts



below outline the Company's mix of business for selected lines in 2010 and loss ratios for the examination period.

<b>Line of Business</b>	<b>Written Premium</b>	<b>Percentage</b>
Homeowners	\$1,587,872	62.4
Fire and Allied Lines	\$ 742,309	29.1
Farmowners	\$ 216,455	8.5
<b>Total</b>	<b>\$2,546,636</b>	<b>100.0</b>

<b>Year</b>	<b>Written Premium</b>	<b>Earned Premium</b>	<b>Incurred Losses</b>	<b>Loss Ratio</b>
2008	\$1,166,689	\$1,157,434	\$1,039,703	89.8
2009	\$2,316,627	\$2,213,677	\$1,194,834	54.0
2010	\$2,546,636	\$2,484,898	\$1,199,601	48.3

#### Certificate of Authority

The Certificates of Authority issued to the Company were reviewed for the period under review. These certificates were reviewed to determine compliance with the provisions of NCGS 58-7-15. The Company's writings in North Carolina were deemed to be in compliance with the authority granted.

#### Disaster Recovery Procedures

The Company has a business recovery plan in place that details the back up and recovery of its critical business functions and operations in the event of business interruptions that could affect the Company's information systems processing.

The President, Accounting Manager and Office Manager back up their local C: drives daily. There are two external back up drives that contain current data that are alternately backed up and taken off site daily. At any point in time there is current data safely secured off-site. In addition to the backed-up data, a working copy of the policy management system is kept on a laptop computer that is off site. In the event that the office is damaged or employees are unable to travel to the office, the telephone vendor will be contacted to redirect all telephone

calls to where this laptop is located. New office space will be secured. New computers will be obtained and the data will be restored.

### **POLICYHOLDER TREATMENT**

#### Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules. The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. The Company's complaint register for the period under examination was in compliance with the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103.

All 8 complaints contained in the Department's listing were selected and received 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	8
<b>Total</b>	<b>8</b>

The Company's response to each complaint was deemed to be appropriate to the circumstances.

The average service time to respond to a Departmental complaint was 3.0 calendar days. A chart of the Company's response time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	8	100.0
<b>Total</b>	<b>8</b>	<b>100.0</b>

### Privacy of Financial and Health Information

The Company provided privacy of financial and health information documentation for the examiners' review. The Company 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 Company was 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 Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. Emphasis of the review was placed on the following lines of business:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

The Company is affiliated with the American Association of Insurance Services (AAIS) for the homeowners, dwelling fire, mobile homeowners and farmowners programs and is using the current AAIS forms and endorsements filed with the North Carolina Rate Bureau. Independent form filings for all lines of business have also been made to the Department directly by the Company. The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the notice of Adverse Underwriting Decision was not filed with and approved by the Department.

The provisions stipulated under 11 NCAC 10.1102(10)(f) exempt the Company from having to submit rate filings to the Department. The Company promulgates its own rates.

### Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15. The Company does not conduct any form of advertising.

No unfair or deceptive trade practices were noted in this segment of the examination.

### 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 entire populations of 44 appointed and 11 terminated producers were selected for review.

The Company was reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as 4 appointed producer files (9.1 percent error ratio) were not provided for review. The review was based on the remaining 40 files. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 1 producer (2.5 percent error ratio) was not properly appointed by the Company. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as electronic confirmation of appointment was not provided for 32 appointed producers reviewed (80.0 percent error ratio). The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(a) as background checks were not performed for 34 appointed producers reviewed (85.0 percent error ratio).

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as electronic confirmation of termination was not provided for 2 terminated producers reviewed (18.2 percent error ratio). The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as it failed to mail notification of termination to the producer for 2 files reviewed (18.2 percent error ratio).

### Agency Management

The Marketing effort in North Carolina is under the direction of the President located in the home office in Greensboro, North Carolina. The Company is currently represented by 31 agencies and 99 producers, 2 of which are in-house, part-time producers.

The President's Administrative Assistant is responsible for producer appointments, terminations and licensing.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing philosophy in North Carolina focuses on personal and commercial lines. The Company provided the examiners with listings of the following types of active policies for the period under examination:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

A random selection of 183 policies was made from a total population of 1,770. 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 Company provided a listing of 971 active homeowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's homeowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 3 of the active homeowners files reviewed (6.0 percent error ratio).

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2 files reviewed (4.0 percent error ratio) did not contain documentation to justify the "No Tree" credit applied.

While the Company is not required to file its rates, the rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure. The Company was reminded of the provisions of its rating manual as 3 policies reviewed (6.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Incorrect base premiums were applied on 2 policies.
- An incorrect protection class was used to rate 1 policy.

The rating errors resulted in 2 premium undercharges and 1 premium overcharge to the insureds. At the request of the examiners, a refund in the amount of \$15.00 was issued by the Company for the overcharge. The remaining premiums charged were deemed correct.

#### Dwelling Fire

The Company provided a listing of 530 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected for review. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 4 files (8.0 percent error ratio) were not provided for review. The review was based on the remaining 46 files.

The Company's dwelling fire policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 1 of the active dwelling fire files reviewed (2.2 percent error ratio).

While the Company is not required to file its rates, the rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure. The Company was deemed to be in apparent violation of the provisions of its rating manual as 7 policies reviewed (15.2 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Incorrect fire and extended coverage rates were used to rate 5 policies.
- Incorrect protection class was used to rate 2 policies.

The rating errors resulted in 4 premium undercharges and 3 premium overcharges to the insureds. At the request of the examiners, refunds in the amount of \$365.00 were issued by the Company for the overcharges. The remaining premiums charged were deemed correct.

#### Mobile Homeowners

The Company provided a listing of 236 active mobile homeowners policies issued during the period under examination. Fifty policies were randomly selected for review. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file (2.0 percent error ratio) was not provided for review. The review was based on the remaining 49 files.

The Company's mobile homeowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter. No discrepancies were noted in the Company's use of its underwriting guidelines.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 1 of the active mobile homeowners files reviewed (2.0 percent error ratio).

While the Company is not required to file its rates, the rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure. The Company was reminded of the provisions of its rating manual as an incorrect base premium was applied on 1 policy reviewed (2.0 percent error ratio). The rating error resulted in a premium overcharge to the insured. At the request of the examiners, a refund in the amount of \$7.00 was issued by the Company for the overcharge. The remaining premiums charged were deemed correct.

#### Farmowners

The entire population of 33 active farmowners policies was selected for review. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file (3.0 percent error ratio) was not provided for review. The review was based on the remaining 32 files.

The Company's farmowners policies were written on an annual basis. Coverages were written utilizing independent rates. Risk placement was determined by the Company's underwriting guidelines and the underwriter.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 2 of the active farmowners files reviewed (6.3 percent error ratio).

While the Company is not required to file its rates, the rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure. The Company was reminded of the provisions of its rating manual as 3 policies reviewed (9.4 percent error ratio) were rated incorrectly. The rating errors consisted of the following:



- Incorrect base premiums were applied on 2 policies.
- Incorrect farm personal property rates used to rate 1 policy.

The rating errors resulted in 2 premium undercharges and 1 premium overcharge to the insureds. At the request of the examiners, a refund in the amount of \$43.00 was issued by the Company for the overcharge. The remaining premiums charged were deemed correct.

## **TERMINATIONS**

### Overview

The Company's 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 focused on the following lines of business:

1. Homeowners
2. Dwelling Fire
3. Mobile Homeowners
4. Farmowners

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 2,158 policies were terminated during the period under examination. The examiners randomly selected 355 terminations for review.

### Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected for review from a population of 917. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 3 files (6.0 percent error ratio) were not provided for review. The review was based on the remaining 47 files.

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	27	57.4
Insured's request	7	14.9
Rewritten	6	12.8
Underwriting reasons	4	8.5
Finance company request	3	6.4
<b>Total</b>	<b>47</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 16 of the cancellations reviewed as these policies were cancelled at the request of the insured, the premium finance company, or coverage was rewritten. Cancellation notices for the remaining 31 policies stated the specific reason for cancellation. The Company was reminded of the policy conditions as the cancellation notices for 2 policies reviewed (4.3 percent error ratio) were not issued at least 30 days prior to the termination date of the policy.

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

The final area of this review encompassed documentation of the policy file. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file reviewed (2.1 percent error ratio) did not contain proof of mailing of the cancellation notice to the insured. The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Dwelling Fire Cancellations

Fifty cancelled dwelling fire policies were randomly selected for review from a population of 661. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file (2.0 percent error ratio) was not provided for review. The review was based on the remaining 49 files.

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	27	55.1
Insured's request	16	32.7
Underwriting reasons	4	8.2
Coverage rewritten	1	2.0
Finance company request	1	2.0
<b>Total</b>	<b>49</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 18 of the cancellations reviewed as these policies were cancelled at the request of the insured, the premium finance company, or the coverage was rewritten. Cancellation notices for the remaining 31 policies stated the specific reason for cancellation.

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

The final area of this review encompassed documentation of the policy file. 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) as 5 documents (10.2 percent error ratio) were not provided for review.

- 2 files did not contain proof of mailing to the insured.
- 2 files did not contain accounting information.
- 1 file did not contain a copy of the loss policy release form.

The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Mobile Homeowners Cancellations

Fifty cancelled mobile homeowners policies were randomly selected for review from a population of 112. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file (2.0 percent error ratio) was not provided for review. The review was based on the remaining 49 files.

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	25	51.0
Insured's request	8	16.3
Underwriting reasons	8	16.3
Finance company request	5	10.2
Coverage rewritten	3	6.2
<b>Total</b>	<b>49</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 16 of the cancellations reviewed as these policies were cancelled at the request of the insured, the premium finance company, or the coverage was rewritten. Cancellation notices for the remaining 33 policies stated the specific reason for cancellation. The Company was reminded of the policy conditions as the cancellation notice for 1 policy reviewed (2.0 percent error ratio) was not issued at least 30 days prior to the termination date of the policy.

All premium refunds were deemed correct. The Company issued the 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 Company.

#### Farmowners Cancellations

Fifty cancelled farmowners policies were randomly selected for review from a population of 72. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 3 files (6.0 percent error ratio) were not provided for review. The review was based on the remaining 47 files.

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	26	55.3
Insured's request	15	31.9
Underwriting reasons	3	6.4
Coverage rewritten	2	4.3
Finance company request	1	2.1
<b>Total</b>	<b>47</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 18 of the cancellations reviewed as these policies were cancelled at the request of the insured, the premium finance company, or the coverage was rewritten. Cancellation notices for the remaining 29 policies stated the specific reason for cancellation.

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

The final area of this review encompassed documentation of the policy file. 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) as 6 documents (12.8 percent error ratio) were not provided for review.

- 5 files did not contain proof of mailing to the insured.
- 1 file did not contain accounting information.

The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Homeowners Nonrenewals

Fifty nonrenewed homeowners policies were randomly selected for review from a population of 203. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file (2.0 percent error ratio) was not provided for review. The review was based on the remaining 49 files.

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	85.7
Producer no longer appointed	7	14.3
<b>Total</b>	<b>49</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was reminded of the policy conditions as the nonrenewal notice for 1 policy reviewed (2.0 percent error ratio) was not issued at least 45 days prior to the expiration date of the policy.

The final area of this review encompassed documentation of the policy file. 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) as 27 files reviewed (55.1 percent error ratio) did not contain proof of mailing of the nonrenewal notice to the insured. The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Dwelling Fire Nonrenewals

Fifty nonrenewed dwelling fire policies were randomly selected for review from a population of 114. 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) as 5 files (10.0 percent error ratio) were not provided for review. The review was based on the remaining 45 files.

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	35	77.8
Producer no longer appointed	10	22.2
<b>Total</b>	<b>45</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The final area of this review encompassed documentation of the policy file. 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) as 32 files reviewed (71.1 percent error ratio) did not contain proof of mailing of the nonrenewal notice to the insured. The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Mobile Homeowners Nonrenewals

Fifty nonrenewed mobile homeowners policies were randomly selected for review from a population of 74. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 3 files (6.0 percent error ratio) were not provided for review. The review was based on the remaining 47 files.

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	44	93.6
Producer no longer appointed	3	6.4
<b>Total</b>	<b>47</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was reminded of the policy conditions as the nonrenewal notice for 1 policy reviewed (2.1 percent error ratio) was not issued at least 45 days prior to the expiration date of the policy.

The final area of this review encompassed documentation of the policy file. 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) as 36 files reviewed (76.6 percent error ratio) did not contain proof

of mailing of the nonrenewal notice to the insured. The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Farmowners Nonrenewals

The entire population of 5 nonrenewed farmowners policies was selected for review. 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) as 1 file (20.0 percent error ratio) was not provided for review. The review was based on the remaining 4 files.

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

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Underwriting reasons	4	100.0
<b>Total</b>	<b>4</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The final area of this review encompassed documentation of the policy file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 1 file reviewed (25.0 percent error ratio) did not contain proof of mailing of the nonrenewal notice to the insured. The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

#### Declinations/Rejections

The Company informed the examiners that there were no declinations/rejections during the period under examination.



## CLAIMS PRACTICES

### Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid, first and third party bodily injury, closed without payment and subrogated claims.

Claims service is provided through the Company's home office in Greensboro, North Carolina. The President oversees the Company's claims operations and will occasionally adjust a theft or minor property claim. The Company has no resident adjusters or appraiser employees and assigns all but minor claims and appraisals to independent adjusters. The independent adjusters do not have draft authority. All their activities are directed by the Company, which issues all payments. The Company's agency force does not adjust any claims.

One hundred eight claims were randomly selected for review from a population of 1,014.

### Paid Claims

The examiners randomly selected and received 55 of the 664 first party property 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
First party property damage	17.0
Third party property damage	11.0

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

All claim files reviewed contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105 and 19.0106(a)(5) as 1 first party claim contained no documentation to verify the date the claim was paid (2.0 percent error ratio).

First party claims were not investigated in a timely manner for 1 claim (2.0 percent error ratio). First party claims were not paid in a timely manner for 1 claim (2.0 percent error ratio). This matter could result in an apparent violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice.

#### First and Third Party Bodily Injury Claims

The entire population of 2 first and third party bodily injury claims were selected and received for review. The claim files were reviewed to determine whether the Company had engaged in any unfair claims practices. The review of first and third party bodily injury claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

#### Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 347. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105 and 19.0106(a)(5) as 2 files (4.0 percent error ratio) were not provided for review. The review was based on the remaining 48 files. The claims were reviewed to determine if the Company's reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Company's reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 8.8 calendar days for the 3-year period. The review of closed without payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

### Subrogated Claims

The entire population of 1 subrogated claim was selected and received for review. The claim file was reviewed to determine if the insured's deductible was properly reimbursed by the Company when subrogation was successful.

The reimbursement was deemed to be correct and was issued prior to the collection of any monies by the Company. The review of subrogated claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

### Litigated Claims

The Company informed the examiners that it did not have any litigated claims during the period under examination.

## **SUMMARY**

The Market Conduct examination revealed the following:

### 1. Marketing

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the notice of Adverse Underwriting Decision was not filed with and approved by the Department.
- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as 9.1 percent of the appointed producer files requested were not provided for review.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 2.5 percent of the appointed producers reviewed were not properly appointed by the Company.
- d. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as electronic confirmation of appointment was not provided for 80.0 percent of the appointed producer files reviewed.
- e. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(a) as background checks were not performed for 85.0 percent of the appointed producers reviewed.
- f. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as electronic confirmation of termination was not provided for 18.2 percent of the terminated producer files reviewed.

- g. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as it failed to mail notification of termination to the producer for 18.2 percent of the terminated producer files reviewed.

2. Underwriting Practices

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 6.0 percent of the active homeowners files reviewed.
- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 4.0 percent of the active homeowners files reviewed did not contain documentation to justify the "No Tree" credit applied.
- c. The Company was reminded of the provisions of its rating manual as 6.0 percent of the active homeowners policies reviewed were rated incorrectly.
- d. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 8.0 percent of the active dwelling fire files requested were not provided for review.
- e. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 2.2 percent of the active dwelling fire files reviewed.
- f. The Company was deemed to be in apparent violation of the provisions of its rating manual as 15.2 percent of the active dwelling fire policies reviewed were rated incorrectly.
- g. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2.0 percent of the active mobile homeowners files requested were not provided for review.
- h. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Company for 2.0 percent of the active mobile homeowners files reviewed.
- i. The Company was reminded of the provisions of its rating manual as 2.0 percent of the active mobile homeowners policies reviewed were rated incorrectly.
- j. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 3.0 percent of the active farmowners files requested were not provided for review.
- k. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 6.3 percent of the active farmowners files reviewed.
- l. The Company was reminded of the provisions of its rating manual as 9.4 percent of the active farmowners policies reviewed were rated incorrectly.

### 3. Terminations

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 6.0 percent of the cancelled homeowners files requested were not provided for review.
- b. The Company was reminded of the policy conditions as the cancellation notices for 4.3 percent of the homeowners cancellations reviewed were not issued at least 30 days prior to the termination of the policy.
- c. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2.1 percent of the cancelled homeowners files reviewed did not contain proof of mailing of the cancellation notice to the insured.
- d. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2.0 percent of the cancelled dwelling fire files requested were not provided for review.
- e. 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) as 10.2 percent of the cancelled dwelling fire files reviewed did not contain proper documentation.
- f. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2.0 percent of the cancelled mobile homeowners files requested were not provided for review.
- g. The Company was reminded of the policy conditions as the cancellation notice for 2.0 percent of the mobile homeowners cancellations reviewed was not issued at least 30 days prior to the termination of the policy.
- h. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 6.0 percent of the cancelled farmowners files requested were not provided for review.
- i. 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) as 12.8 percent of the cancelled farmowners files reviewed did not contain proper documentation.
- j. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 2.0 percent of the nonrenewed homeowners files requested were not provided for review.
- k. The Company was reminded of the policy conditions as the nonrenewal notice for 2.0 percent of the homeowners nonrenewals reviewed was not issued at least 45 days prior to the expiration of the policy.
- l. 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) as 55.1 percent of the nonrenewed

homeowners files reviewed did not contain proof of mailing of the nonrenewal notice to the insured.

- m. 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) as 10.0 percent of the nonrenewed dwelling fire files requested were not provided for review.
- n. 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) as 71.1 percent of the nonrenewed dwelling fire files reviewed did not contain proof of mailing of the nonrenewal notice to the insured.
- o. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as 6.0 percent of the nonrenewed mobile homeowners files requested were not provided for review.
- p. The Company was reminded of the policy conditions as the nonrenewal notice for 2.1 percent of the mobile homeowners nonrenewals reviewed was not issued at least 45 days prior to the expiration of the policy.
- q. 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) as 76.6 percent of the nonrenewed mobile homeowners files reviewed did not contain proof of mailing of the nonrenewal notice to the insured.
- r. 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) as 20.0 percent of the nonrenewed farmowners files requested were not provided for review.
- s. 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) as 25.0 percent of the nonrenewed farmowners files reviewed did not contain proof of mailing of the nonrenewal notice to the insured.

#### 4. Claims

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105 and 19.0106(a)(5) as 2.0 percent of the first party property damage paid claim files reviewed contained no documentation to verify the date the claim was paid.
- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105 and 19.0106(a)(5) as 4.0 percent of the closed without payment files requested were not provided for review.

### **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 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-39-25	Notice of insurance information practices.
NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-39-55	Reasons for adverse underwriting decisions.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 6A.0412	Appointment of agent: responsibility of Company.
11 NCAC 10.1102	Applicability.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0105	Claim Records.
11 NCAC 19.0106	Records Required for Examination.

### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Century Mutual Insurance Company for the period January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through June 25, 2012. The Company's response to this report, if any, is available upon request.

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 policyholder treatment, marketing, underwriting practices, terminations and claims practices.

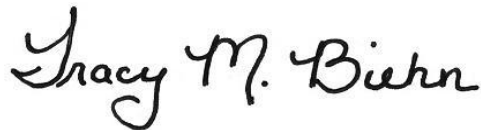
In addition to the undersigned, Kelvin A. Owens, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



Norma M. Rafter, CPCU  
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.



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