



Report on

Market Conduct Examination

of

Davidson County Mutual Insurance Company, Inc.

Lexington, North Carolina

by Representatives of the

North Carolina Department of Insurance

as of

April 23, 2014

TABLE OF CONTENTS

SALUTATION	1
FOREWORD	2
SCOPE OF EXAMINATION.....	2
EXECUTIVE SUMMARY.....	2
COMPANY OPERATIONS AND MANAGEMENT	3
POLICYHOLDER TREATMENT	4
Consumer Complaints.....	4
MARKETING	5
Policy Forms and Filings	5
Producer Licensing	5
UNDERWRITING PRACTICES	6
Overview	6
Homeowners.....	7
Standard Fire	7
Mobile Homeowners.....	8
Farmowners	9
TERMINATIONS.....	9
Overview	9
Homeowners Cancellations.....	10
Standard Fire Cancellations	10
Mobile Homeowners Cancellations	11
Farmowners Cancellations	12
Homeowners Nonrenewals	13

Standard Fire Nonrenewals.....	13
Mobile Homeowners Nonrenewals	14
Farmowners Nonrenewals.....	14
Declinations/Rejections	14
CLAIMS PRACTICES	14
Overview	14
Paid Claims	15
Closed Without Payment Claims	15
Subrogated Claims.....	16
Litigated Claims.....	16
CONCLUSION.....	16

Raleigh, North Carolina
April 23, 2014

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 through 58-2-134, a general examination has been made of the market conduct activities of

Davidson County Mutual Insurance Company, Inc.
(NAIC #14017)
NAIC Exam Tracking System Exam Number: NC299-M46
Lexington, 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 Davidson County Mutual Insurance Company, Inc. 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 revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on March 17, 2014, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 23, 2014. 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 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 and producers who were not appointed and/or licensed; 7 percent for claims; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

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

Consumer Complaints – Failure to maintain a complaint log, file was not provided for review, and response time in excess of seven calendar days.

Appointment and Termination of Producers – Appointments: Producers not properly appointed, background checks not performed, confirmation of appointment not provided,

and copies of agents license not provided. Terminations: Failure to notify producer of termination and confirmation of termination not provided.

Underwriting Practices – Homeowners, Standard Fire, Mobile Homeowners, and Farmowners: Applications accepted from producers not properly appointed by the Company; Farmowners: Individual producer information not provided; and Mobile Homeowners and Farmowners: rating errors.

Terminations – Standard Fire Cancellations: Return premium calculated incorrectly; Mobile Homeowners Nonrenewals: Notice of nonrenewal did not state specific reason for termination; and Declination/Rejections: Company failed to maintain a record of rejected/declined submissions.

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 by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified various non-compliant practices. 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.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices in North Carolina does not constitute acceptance of such practices.

COMPANY OPERATIONS AND MANAGEMENT

The Company is licensed to write property insurance business in Davidson, Davie, Stanly, Rowan, Montgomery, and Randolph counties.

Direct written premium for the Company in 2012 was \$1,098,007. Premium writings in North Carolina between 2008 and 2012 increased approximately 36.6 percent. The charts below outline the Company’s mix of business for selected lines in 2012 and loss ratios for the examination period.

Line of Business	Written Premium	Percentage
Fire	\$318,422	29.0
Allied Lines	\$779,585	71.0
Total	\$1,098,007	100.0

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$ 803,848	\$ 796,362	\$733,038	92.0
2009	\$ 848,461	\$ 818,120	\$269,062	32.9
2010	\$ 953,305	\$ 887,283	\$525,852	59.3
2011	\$ 999,655	\$ 995,072	\$986,751	99.2
2012	\$1,098,007	\$1,032,909	\$123,658	12.0

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules. The Company was deemed to be in violation of the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103 as it failed to maintain a complaint register.

The five complaints contained in the listing furnished by the Consumer Services Division of the Department were requested for review. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4) as one file was not provided for review (20.0 percent error ratio). The review was based on the remaining four files.

The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Underwriting	2
Claims	2
Total	4

The Company's response to the complaints was deemed to be appropriate to the circumstances. The Company was deemed to be in violation of the provisions of 11 NCAC 1.0602 as the response to one complaint reviewed (25.0 percent error ratio) was responded to in excess of the seven calendar day requirement of this rule.

The average service time to respond to the Departmental complaint was 13 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	3	75.0
8 - 14	0	0.0
15 - 21	0	0.0
22 - 30	0	0.0
31 - 60	1	25.0
Total	4	100.0

MARKETING

Policy Forms and Filings

The Company does not have form authority for any of its dual masthead policies. Policy form filings for the Company are made by Alliance Mutual Insurance Company. The review was based on the following lines of business:

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

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

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 Company provided the examiners with listings of 12 appointed and three terminated producers

for the period under examination. All appointed and terminated producer files were selected for review.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Company for all 12 of the producer appointments reviewed (100 percent error ratio). The Company was deemed to be in violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed for all 12 of the producer appointments reviewed (100 percent error ratio). The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as confirmation of the producer appointment was not provided for all 12 of the producer appointments reviewed (100 percent error ratio). The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as copies of the producers' licenses were not provided for all 12 of the producer appointments reviewed (100 percent error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-33-56(d) as notification of termination was not sent for all three of the producer terminations reviewed (100 percent error ratio). The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as confirmation of the producer termination was not provided for all three of the producer terminations reviewed (100 percent error ratio).

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina is directed to 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. Standard Fire
3. Mobile Homeowners
4. Farmowners

A random selection of 171 policies was made from a total population of 1,321. 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 789 active homeowners policies issued during the period under examination. Fifty policies were randomly selected 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. No discrepancies were noted in the Company's use of its underwriting guidelines.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as the producer was not properly appointed by the Company for 22 of the active files reviewed (44.0 percent error ratio).

All policy files contained sufficient documentation to support the Company's application of its rates and premiums charged.

Standard Fire

The Company provided a listing of 406 active standard fire policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's standard 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. No discrepancies were noted in the Company's use of its underwriting guidelines.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Company for 28 of the active files reviewed (56.0 percent error ratio).

All policy files contained sufficient documentation to support the Company's application of its rates and premiums charged.

Mobile Homeowners

The Company provided a listing of 105 active mobile homeowners policies issued during the period under examination. Fifty policies were randomly selected for review.

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 violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Company for 33 of the active files reviewed (66.0 percent error ratio).

The Company was deemed to be in violation of its rating manual as 11 of the active files reviewed (22.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Six policies were rated with incorrect base rates.
- Two policies were rated with incorrect rates for increased Coverage B.
- Three policies were not charged the Mobile Homeowner policy fee.

The rating errors resulted in six premium overcharges and five premium undercharges to the insureds. At the request of the examiners, refunds in the amount of \$169.00 were issued by the Company for the overcharges. The remaining premiums charged were deemed correct.

Farmowners

The entire population of 21 active farmowners policies issued during the period under examination was selected for review.

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. No discrepancies were noted in the Company's use of its underwriting guidelines.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as the producer was not properly appointed by the Company for 13 of the active files reviewed (61.9 percent error ratio).

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as it failed to provide individual producer information for three of the active files reviewed (14.3 percent error ratio).

The Company was deemed to be in violation of its rating manual as 12 of the active farmowners policies reviewed were rated incorrectly (57.1 percent error ratio). The rating errors consisted of the following:

- Three policies were rated with incorrect base rates.
- The replacement cost coverage was calculated incorrectly for nine policies.

The rating errors resulted in two premium overcharges and ten premium undercharges to the insureds. At the request of the examiners, refunds in the amount of \$61.00 were issued by the Company for the overcharges. 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 was based on the following lines of business:

1. Homeowners
2. Standard 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 605 policies were terminated during the period under examination. The examiners randomly selected 174 terminations for review.

Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected for review from a population of 313.

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	34	68.0
Insured's request	15	30.0
Underwriting reasons	1	2.0
Total	50	100.0

The Company was not required to issue cancellation notices for 15 of the cancellations reviewed as these policies were cancelled at the request of the insured. The cancellation notice for each of the remaining 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. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Standard Fire Cancellations

Fifty cancelled standard fire policies were randomly selected for review from a population of 202.

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
Insured's request	30	60.0
Nonpayment	16	32.0
Coverage rewritten	4	8.0
Total	50	100.0

The Company was not required to issue cancellation notices for 34 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten.

The Company was deemed to be in violation of the Policy Conditions as the return premium was calculated incorrectly for eight policies reviewed (16.0 percent error ratio). The cancellation errors resulted in three understatements and five overstatements of refund to the insureds. At the request of the examiners, refunds in the amount of \$111.00 were issued by the Company for the understatements. The remaining 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.

Mobile Homeowners Cancellations

Fifty cancelled mobile homeowners policies were randomly selected for review from a population of 66.

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	31	62.0
Insured's request	14	28.0
Coverage rewritten	3	6.0
Underwriting reasons	2	4.0
Total	50	100.0

The Company was not required to issue cancellation notices for 17 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. The cancellation notice for the remaining 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. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Farmowners Cancellations

The entire population of nine cancelled farmowners policies was selected review.

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

Reason for Nonrenewal	Number of Policies	Percentage
Nonpayment	8	88.9
Insured's request	1	11.1
Total	9	100.0

The Company was not required to issue cancellation notices for one of the cancellations reviewed as the policy was cancelled at the request of the insured. The cancellation notice for the remaining eight 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. All policy files reviewed contained sufficient documentation to support the action taken by the Company.

Homeowners Nonrenewals

The entire population of 11 nonrenewed homeowners policies was selected for review. The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	11	100.0
Total	11	100.0

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

Standard Fire Nonrenewals

The entire population of two nonrenewed standard fire policies was selected for review. The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	2	100.0
Total	2	100.0

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

Mobile Homeowners Nonrenewals

The entire population of two nonrenewed mobile homeowners policies was selected for review.

The Company was deemed to be in violation of the Policy Conditions as one nonrenewal notice reviewed (50.0 percent error ratio) did not state the reason for nonrenewal. The reason for nonrenewal was deemed valid for the remaining policy reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	1	100.0
Total	1	100.0

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

Farmowners Nonrenewals

The Company reported no farmowners policies were nonrenewed during the examination period.

Declinations/Rejections

The Company was deemed to be in violation of the provisions of 11 NCAC 19.01012(a), 19.0104, and 19.0106(a)(4) as it failed to maintain a record of rejected/declined submissions.

CLAIMS PRACTICESOverview

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, closed without payment, subrogated, and litigated claims.

One hundred three claims were randomly selected for review from a population of 649.

Paid Claims

Fifty paid first party damage claims were randomly selected for review from a population of 435. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, supporting documentation, and accuracy of payment.

The following type of claim was reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
First party property damage	15.8

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable. All claim files reviewed to determine compliance with NCGS 58-63-15(11) contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 211. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see 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 47.8 calendar days for the 5-year period. Nine claims were not investigated and denied in a timely manner (18.0 percent error ratio).

Subrogated Claims

The entire population of two subrogated claims was selected for review. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the insured's deductible was properly reimbursed by the Company when subrogation was successful. The insured's pro rata deductible was not reimbursed for one claim (50.0 percent error ratio). At the request of the examiners, a refund was issued to the insured in the amount of \$486.97.

Litigated Claims

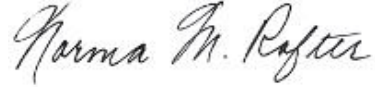
The entire population of one litigated claim was selected for review. The claim file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and if the Company had engaged in any unfair claims practices. The review of the litigated claim disclosed no violations of the provisions of NCGS 58-63-15(11).

CONCLUSION

An examination has been conducted on the market conduct affairs of Davidson County Mutual Insurance Company, Inc. for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 23, 2014. 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.

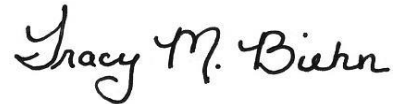
In addition to the undersigned, Kelvin A. Owens and Sharon O'Quinn, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in cursive script.

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.

Handwritten signature of Tracy M. Biehn in cursive script.

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