

Report on

Market Conduct Examination

of the

Discovery Insurance Company

Kinston, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

April 12, 2017

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION 2

EXECUTIVE SUMMARY 2

MARKETING 3

 Policy Forms and Filings 3

UNDERWRITING PRACTICES 3

 Overview 3

 Private Passenger Automobile 3

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES 4

CONCLUSION 4

Raleigh, North Carolina
April 12, 2017

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
325 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 target examination has been made of the market conduct activities of

Discovery Insurance Company (NAIC #22635)
NAIC Exam Tracking System Exam Number: NC-NC131-16
Kinston, 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.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on March 13, 2017, and covered the period of July 1, 2014, through June 30, 2016, with analyses of certain operations of the Company being conducted through April 6, 2017. All comments made in this report reflect conditions observed during the period of examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, 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 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 area:

Underwriting Practices – Private Passenger Automobile: Usage of an improperly filed form and incorrect premiums displayed on the consent to rate form.

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 by clicking "Insurance Industry", and then "Legislative Services" under "Other Divisions".

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 statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations 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:

- Private Passenger Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

UNDERWRITING PRACTICES

Overview

The Company's marketing in North Carolina is directed to personal lines of business. The Company provided the examiners with listings of the following type of active policies for the period under examination:

- Private Passenger Automobile

A random selection of 119 policies was made from a total population of 31,069. 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.

Private Passenger Automobile

The Company's private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written on a consent to rate basis. 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. 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 58-3-150(a) and Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section 1201(a) as the consent to rate form for one policy was not the correct filed and approved form.

The Company did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as the consent to rate form for 72 policies did not display the correct Towing and Labor premium that would be charged without application of consent to rate.

The Company did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as the consent to rate form for seven policies did not display the correct physical damage premium that would be charged without application of consent to rate. The incorrect display of premium was the result of the following:

- Four policies applied incorrect physical damage symbols.
- Three policies applied incorrect territory codes.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to use the correct filed and approved consent to rate form at the time of application. The Company must also ascertain that correct premiums are displayed on the consent to rate form when it is presented to the insured for their review and signature.

The Company is directed to use correct physical damage symbols and territory codes when determining the premium for physical damage coverages.

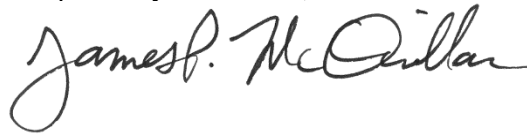
CONCLUSION

An examination has been conducted on the market conduct affairs of Discovery Insurance Company for the period July 1, 2014, through June 30, 2016, with analyses of certain operations of the Company being conducted through April 6, 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.

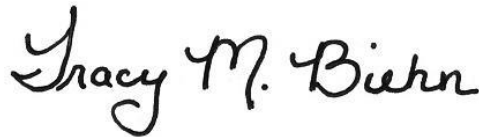
In addition to the undersigned, Corey Gordon, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, prominent initial "J".

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 "Tracy M. Biehn". The signature is written in a cursive style with a large, prominent initial "T".

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