

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

DISCOVERY INSURANCE COMPANY

Kinston, North Carolina

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 19, 2010

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Raleigh, North Carolina  
February 19, 2010

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

**DISCOVERY INSURANCE COMPANY (NAIC #22635)**  
NAIC Exam Tracking System Exam Number: NC170-M60  
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.

## **FOREWORD**

This examination reflects the North Carolina insurance activities of Discovery 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 January 4, 2010 and covered the period of January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through February 15, 2010. 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 and rating, 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:

*Consumer Complaints* – incomplete complaint log, response time to Departmental inquiries, NAIC company code not included on Company response.

*Policy Forms and Filings* – use of unfiled policy declarations page for private passenger automobile.

*Appointment and Termination of Producers* – failure to perform background checks on appointed producers and failure to notify producers of termination.

*Underwriting and Rating* – applications accepted from a producer who was not appointed and failure to comply with proper consent to rate procedures for private passenger automobile.

*Terminations* – Private passenger automobile cancellations: failure to issue the North Carolina Notice of Termination form (FS-4) to the Division of Motor Vehicles (DMV). Workers' compensation cancellations: return premium calculated incorrectly. Workers' Compensation nonrenewals: proper notification not given.

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 "Helpful Links."

This examination identified various non-compliant 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

Discovery Insurance Company is a stock company. As of March 2008, the Company was majority owned by Stephen B. Hill. The Company was incorporated on October 20, 1993 under the laws of North Carolina and began business operations effective November 1, 1993. The Company is domiciled in Kinston, North Carolina.

### Company Operations and Management

The Company is a writer of non-standard private passenger automobile and workers' compensation coverages. Effective January 2006, the Company discontinued writing unaffiliated workers' compensation business. The Company is currently licensed only in the State of North Carolina.

Direct written premium for the Company's 2008 property and casualty operations was \$25,719,390. Premiums written in North Carolina between 2006 and 2008 decreased approximately 5.0 percent. The charts below outline the Company's mix of business for selected lines in 2008 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile	\$20,443,653	79.5
Workers' Compensation	5,275,737	20.5
<b>Total</b>	<b>\$25,719,390</b>	<b>100.0</b>

Year	Written Premium	Earned Premium	Incurred Losses*	Loss Ratio
2006	\$27,067,140	\$24,501,809	\$20,907,424	85.3
2007	\$30,111,080	\$30,047,785	\$28,800,706	95.8
2008	\$25,719,390	\$27,265,942	\$23,697,392	86.9
<b>* Does not include IBNRs</b>				

### Certificates of Authority

The Certificates of Authority issued to the Company were reviewed for the period under examination. 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 detailed business continuation plan established to increase its chances of preventing disasters, as well as providing continuing operations following natural or man-made disasters. Each day key software databases, user files, and all electronically stored files are backed up. On a weekly basis, backed up files are placed inside a fire resistant safe and then placed in a separate physical building from the servers. In the event of a catastrophic loss to the Company's server room, the Company has two sister companies located at separate physical locations in Kinston, North Carolina which can host the Company's personnel, computer systems, and telecommunications systems allowing continued Company operations.

## **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 apparent violation of the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103 as 2 complaints (4.0 percent error ratio) were not listed on the Company's complaint register.

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. Fifty complaints from the Department's listing of 81 were randomly selected and received for review. The distribution of complaints requiring a response to the Department is shown in the chart below.



Type of Complaint	Total
Claims	42
Underwriting	8
<b>Total</b>	<b>50</b>

The Company's response to each complaint was deemed to be appropriate to the circumstances. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as 1 of the complaints reviewed (2.0 percent error ratio) was responded to in excess of the 7 calendar day requirement of this rule.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as 13 responses to Departmental inquiries (26.0 percent error ratio) did not contain the Company's NAIC company code.

The average service time to respond to a Departmental complaint was 2 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	49	98
15 - 21	1	2
<b>Total</b>	<b>50</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. 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.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.1201(c) as the Private Passenger Automobile Policy Declarations page had not been filed with and approved by the Department.

### 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 market directly to insureds or prospective insureds. It distributes its products through North Carolina independent agents only. The Company's marketing objective is to partner with professional and compliant North Carolina independent agents who sell profitable non-standard automobile physical damage and ceded liability coverage. The Company does not participate in any media advertisement or telemarketing services of its product.

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. Fifty appointed and 50 terminated producer files were randomly selected and received for review from populations of 359 and 368, respectively.

All appointment and termination forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and 58-33-

56. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on any of the 50 appointed producers reviewed (100 percent error ratio). The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as notification of termination was not sent to 46 of the terminated producers reviewed (92.0 percent error ratio).

#### Agency Management

The Company has 125 active agencies with approximately 1,058 producers appointed in North Carolina as well as 2 full time marketing representatives. The President, located in the home office in Kinston, North Carolina, is responsible for the activities of the agency force. Formal agency reviews are conducted twice annually and include the participation of the following: President, Executive Vice President, Vice President of Auto Operations, Chief Financial Officer, Personal Auto Manager, Assistant Vice President of Auto Claims, and Eastern/Western Marketing Representatives. Agent appointments, terminations and licensing are handled by Eastern and Western Marketing Representatives and Executive Administrative Assistant to the President.

### **UNDERWRITING AND RATING**

#### Overview

The Company's marketing philosophy in North Carolina focuses on the private passenger automobile line of business. The Company's private passenger automobile policies were 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 provided a listing of 18,524 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's private passenger automobile policies were written on a 6 or 12 month basis. Liability coverages were written utilizing manual rates. Physical damage 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.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 18 applications reviewed (18.0 percent error ratio) were accepted from a producer who was not appointed. The Company was reminded of the provisions of NCGS 58-37-35(l) and Rules 3 and 5 of the North Carolina Personal Automobile Manual as 6 policies reviewed (6.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Incorrect rating symbol applied to 4 policies.
- Incorrect Safe Driver Incentive Plan points applied on 1 policy.
- Incorrect territory was used to rate 1 policy.

The rating errors resulted in 3 premium undercharges and 3 premium overcharges to the insureds. At the request of the examiners, refunds in the amount of \$257.12 were issued by the Company for the overcharges.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2) as it did not comply with consent to rate procedures on 44 policies reviewed (44.0 percent error ratio) because the standard rate that would be charged for physical damage and/or extended transportation coverage, without application of consent to rate, was not indicated on the application.

The Company was reminded of the provisions of NCGS 58-2-185 as the policy declarations page for 9 policies reviewed (9.0 percent error ratio) incorrectly stated no premium was charged for Uninsured/Underinsured Motorist coverage.

The Company was reminded of the provisions of 11 NCAC 19.0102(a)(b), 19.0104, and 19.0106(a)(4)(h) as 1 file reviewed (1.0 percent error ratio) did not contain a signed consent to rate form.

## **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. Private Passenger Automobile
2. Workers' Compensation

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 30,566 policies were terminated during the period under examination. The examiners randomly selected 109 terminations for review.

### Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected and received for review from a population of 30,557.

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>
Finance company request	62	62.0
Nonpayment of premium	22	22.0
Insured's request	15	15.0
Underwriting reasons	1	1.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

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. Cancellation notices for the remaining 85 policies stated the specific reason for cancellation. All insureds and loss payees were given proper and timely notification of 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. The Company was deemed to be in apparent violation of the provisions of NCGS 20-309(e) (repealed effective July 2008) and NCGS 20-309.2 (effective July 2008) as the FS-4 was not submitted to the DMV when liability coverages were cancelled for 12 policies reviewed (12.0 percent error ratio).

#### Workers' Compensation Cancellations

The entire population of 3 workers' compensation policies cancelled during the period under examination was reviewed.

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	1	33.4
Nonpayment of premium	1	33.3
Underwriting reasons	1	33.3
<b>Total</b>	<b>3</b>	<b>100.0</b>

The Company was not required to issue a cancellation notice for 1 of the cancellations reviewed as this policy was cancelled at the request of the insured.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-100 as the return premium was calculated incorrectly on 1 policy reviewed (33.3 percent error ratio). The error resulted in understatement of refund to the insured. At the request of the examiners, a refund in the amount of \$2,582 was issued by the Company. 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.

#### Private Passenger Automobile Nonrenewals

The Company reported no private passenger automobile policies were nonrenewed during the period under examination.

#### Workers' Compensation Nonrenewals

The entire population of 6 workers' compensation policies nonrenewed during the period under examination was reviewed.

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	6	100.0
<b>Total</b>	<b>6</b>	<b>100.0</b>

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-110(b) as 1 insured (16.7 percent error ratio) was not provided at least 45 days notice of nonrenewal.

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 Company.

## **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, automobile medical payment, first and third party bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims.

Claims service in North Carolina is under the direction of the Vice President of Auto Operations and is provided from the home office located in Kinston, North Carolina. The staff is comprised of the Assistant Vice President of Claims, 4 company telephone adjusters, and 3 claim assistants. Company adjusters provide the claim service with assistance, at times, from independent adjusters. Independent adjusters have no check or draft authority. The Company agency force does not adjust any claims and does not have claims draft authority. With regard to total losses, a salvage log is maintained by a claim assistant and overseen by the Assistant Vice President of Claims.

Five hundred claims were randomly selected for review from a population of 27,466.

### Paid Claims

The examiners randomly selected and received 200 of the 15,982 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	14.0
Third party property damage	13.0

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

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(a)(5)(h) as one file (0.5 percent error ratio) did not contain payment or appraisal information. The remainder of the files reviewed contained documentation to support the Company’s payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

Claims were not paid in a timely manner for 8 claims (4.0 percent error ratio) and not appraised in a timely manner for 3 claims (1.5 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.

Automobile Medical Payment Claims

Fifty automobile medical payment claims were randomly selected and received for review from a population of 1,453. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15(f).

First and Third Party Bodily Injury Claims

Fifty first and third party bodily injury claims were randomly selected and received for review from a population of 3,016. 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(f).

#### Closed Without Payment Claims

Fifty closed without payment claims were randomly selected and received for review from a population of 3,258. The claim files 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 14 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(f).

#### Subrogated Claims

Fifty subrogated claims were randomly selected and received for review from a population of 232. The claim files were reviewed to determine if the insured's deductible was properly reimbursed by the Company when subrogation was successful.

All reimbursements were deemed to be correct and were issued on a 3-year average of 1 calendar day from the date the Company collected the monies.

#### Total Loss Settlement Claims

Fifty total loss settlement claims were randomly selected and received for review from a population of 3,213. The claim files were reviewed to determine if the settlements were equitable and timely.

The Company primarily used CCC Information Services, Inc. in addition to on-site independent adjusters to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. The Company settled all claims in a timely manner. The payments

were issued on a 3-year average of 15 calendar days. No apparent violations of the provisions of NCGS 58-63-15(11)(h), 11 NCAC 4.0418, or 4.0421 were noted during this review.

### Litigated Claims

Fifty litigated claims were randomly selected and received for review from a population of 312. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of litigated claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

### **SUMMARY**

The Market Conduct examination revealed the following:

#### 1. Policyholder Treatment

- a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0103 as 4.0 percent of the consumer complaints were not listed on the Company's complaint register.
- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as the responses to 2.0 percent of the Departmental inquiries reviewed were in excess of the 7 calendar day requirement of this rule.
- c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the responses to 26.0 percent of the Departmental inquiries reviewed did not include its National Association of Insurance Commissioners code.

#### 2. Marketing

- a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.1201(c) as its private passenger automobile declarations page had not been filed with and approved by the Department.
- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on 100 percent of the producers reviewed.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as notification of termination was not sent to 92.0 percent of the terminated producers reviewed.

### 3. Underwriting and Rating

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 18.0 percent of the private passenger automobile applications reviewed were accepted from a producer who was not appointed.
- b. The Company was reminded of the provisions of NCGS 58-37-35(l) and Rules 3 and 5 of the North Carolina Personal Automobile Manual as 6.0 percent of the active private passenger automobile policies reviewed were rated incorrectly.
- c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.0602(a)(2) as proper consent to rate procedures were not followed on 44.0 percent of the active private passenger automobile files reviewed.
- d. The Company was reminded of the provisions of NCGS 58-2-185 as 9.0 percent of the active private passenger automobile policies reviewed displayed an incorrect Uninsured/Underinsured Motorist coverage premium on the policy declarations page.
- e. The Company was reminded of the provisions of 11 NCAC 19.0102(a)(b), 19.0104, and 19.0106(a)(4)(h) as 1.0 percent of the active private passenger automobile files reviewed did not contain proper file documentation.

### 4. Terminations

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 20-309(e) and 20-309.2 as the North Carolina Notice of Termination Form was not submitted to the North Carolina Division of Motor Vehicles for 12.0 percent of the cancelled private passenger automobile policies reviewed.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-100 as the return premium was calculated incorrectly on 33.3 percent of the cancelled workers' compensation policies reviewed.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-110(b) as the nonrenewal notice for 16.7 percent of the nonrenewed workers' compensation policies reviewed was not issued at least 45 days prior to the termination date.

### 5. Claims

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(a)(5)(h) as 0.5 percent of the paid claims reviewed did not contain payment or appraisal information.

## 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 58-2-185	Record of business kept by companies and agents; Commissioner may inspect.
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 58-36-100	Prospective loss costs filings and final rate filings for workers' compensation and employers' liability insurance.
NCGS 58-36-110	Notice of nonrenewal, premium rate increase, or change in workers' compensation insurance coverage required.
NCGS 58-37-35	The Facility; functions; administration.
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 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
NCGS 20-309	Motor vehicle registration.
11 NCAC 1.0602	Insurance Companies' Response to Departmental Inquiries.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 4.0418	Total Losses on Motor Vehicles.

<u>Statute/Rule</u>	<u>Title</u>
11 NCAC 4.0421	Handling of Loss and Claim Payments.
11 NCAC 6A.0412	Appointment of Agent: Responsibility of Company.
11 NCAC 10.0602	Consent to Rate Procedures: Rate Bureau Coverages.
11 NCAC 10.1201	General Requirements.
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.

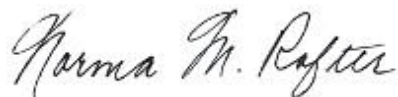
### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Discovery Insurance Company for the period January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through February 15, 2010. 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 and rating, terminations, and claims practices.

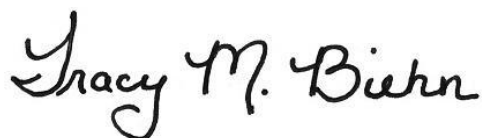
In addition to the undersigned, James P. McQuillan, CPCU and Letha Lombardi, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in black ink.

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 black ink.

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