

REPORT ON

MARKET CONDUCT EXAMINATION

of the

EDGECOMBE FARMERS MUTUAL FIRE INSURANCE COMPANY, INC.

Tarboro, North Carolina

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

May 4, 2009

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TABLE OF CONTENTS

SALUTATION ..... 1

FOREWORD ..... 2

SCOPE OF EXAMINATION..... 2

EXECUTIVE SUMMARY..... 3

COMPANY OVERVIEW ..... 3

    History and Profile..... 3

    Company Operations and Management..... 4

    Certificate of Authority..... 4

    Disaster Recovery Procedures..... 4

POLICYHOLDER TREATMENT ..... 5

    Consumer Complaints..... 5

    Privacy of Financial and Health Information ..... 6

MARKETING ..... 6

    Policy Forms and Filings ..... 6

    Sales and Advertising..... 6

    Producer Licensing ..... 6

    Agency Management ..... 7

UNDERWRITING AND RATING..... 7

    Overview ..... 7

    Homeowners..... 8

    Dwelling Fire ..... 8

    Farmowners ..... 8

TERMINATIONS..... 9

Cancellations and Nonrenewals .....	9
Declinations/Rejections .....	10
CLAIMS PRACTICES .....	10
Overview .....	10
Paid Claims.....	11
Closed Without Payment Claims.....	11
Subrogated Claims.....	11
Litigated Claims.....	12
SUMMARY.....	12
TABLE OF STATUTES AND RULES.....	12
CONCLUSION.....	13

Raleigh, North Carolina  
May 4, 2009

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

**EDGECOMBE FARMERS MUTUAL FIRE INSURANCE COMPANY, INC.**  
Tarboro, 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 Edgecombe Farmers Mutual Fire 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 manifested no improprieties were omitted.

## **SCOPE OF EXAMINATION**

This examination commenced on March 16, 2009 and covered the period of January 1, 2005 through December 31, 2007 with analyses of certain operations of the Company being conducted through May 4, 2009. 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 no concerns with Company procedures and practices in the following areas: policyholder treatment, marketing, underwriting and rating, terminations, and claim practices.

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."

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

Edgecombe Farmers Mutual Fire Insurance Company, Inc. was originally chartered in 1901 in Tarboro, North Carolina. The Company has continuously operated as a county farm mutual providing fire and extended coverages in Edgecombe, Nash, Wilson, Pitt, Wayne, and Lenoir counties. In April 2005, the Company was granted permission by the Department to terminate writings in Lenoir and begin writing coverages in Greene County.

In 1976, the Company became one of the founding members of Alliance Mutual Insurance Company (AMIC), which was formed by a group of farm mutual companies in order to write liability insurance coverage. By becoming a member of AMIC, the Company was able to write homeowners and farmowners policies under a "Dual Masthead" policy. The county mutual writes section I of the policy and AMIC writes section II, which includes the liability portion of the policy. In 2008, the Company affiliated with Alamance Farmers Mutual to replace Alliance Mutual Insurance Company effective January 1, 2009.

The Company is governed by a Board of Directors and holds an annual policyholder meeting each year as directed by the By Laws.

#### Company Operations and Management

The Company is a writer of personal and commercial coverages. The Company retains the property coverages and cedes the liability coverages to AMIC.

Direct written premium for the Company in 2007 was \$1,873,351. Premium writings in North Carolina between 2005 and 2007 decreased approximately 5.9 percent. The charts below outline the Company's mix of business for selected lines in 2007 and loss ratios for the examination period.

<b>Line of Business</b>	<b>Written Premium</b>	<b>Percentage</b>
Fire	\$1,311,346	70.0
Allied Lines	\$ 562,005	30.0
<b>Total</b>	<b>\$1,873,351</b>	<b>100.0</b>

<b>Year</b>	<b>Written Premium</b>	<b>Earned Premium</b>	<b>Incurred Losses</b>	<b>Loss Ratio</b>
2005	\$1,990,812	\$2,003,037	\$ 889,572	44.4
2006	\$1,933,019	\$1,973,392	\$ 914,161	46.3
2007	\$1,873,351	\$1,887,344	\$ 886,110	47.0

#### 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 system is backed up daily and the tape is taken to an off-site storage facility. Depending on the disaster, the office would be moved to a temporary location.

### **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 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.

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. Both 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	2
<b>Total</b>	<b>2</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 2 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	2	100.0
<b>Total</b>	<b>2</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. Farmowners

Policy form filings for all lines of business were made by Alliance Mutual Insurance Company on behalf of the Company.

The provisions of 11 NCAC 10.1102(10)(e)(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 Company furnished the examiners with listings of 26 appointed and 6 terminated producers for the period under examination. All appointed and terminated producer files were selected and received for review. All appointment and termination forms were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-26(i) and 58-33-56(b).

#### Agency Management

The Company conducts its business through licensed independent producers. The Company is currently represented by 32 independent agencies and 84 producers in North Carolina. All producer appointments for the company are approved by the President. Applications are mailed and records kept by the accounting staff.

The President conducts annual reviews with office staff to monitor its agencies performance. The Company offers a standard agency contract to its agencies.

### **UNDERWRITING AND RATING**

#### 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. Farmowners

A random selection of 106 policies was made from a total population of 924. 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 685 active homeowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

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

### Dwelling Fire

The Company provided a listing of 233 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected and received for review.

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. As a county mutual, the Company is not required to file its rates. However, rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure.

Two policies (4.0 percent error ratio) were rated incorrectly. The rating errors resulted in 1 premium undercharge and 1 premium overcharge to the insureds. At the request of the examiners, a refund in the amount of \$144.00 was issued by the Company for the overcharge. The remaining 48 premiums were deemed correct.

### Farmowners

The Company provided a listing of 6 active farmowners policies issued during the period under examination. All files were selected and received 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 use of its underwriting guidelines. All policy files reviewed contained sufficient documentation to support the Company's application of its rates and premiums charged.

## **TERMINATIONS**

### Cancellations and Nonrenewals

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. 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 1,624 policies were terminated during the period under examination. The examiners randomly selected and received 50 terminations for review.

The reason for cancellation or nonrenewal was deemed valid for all policies reviewed.

The review revealed the following reasons for termination:

<b>Reason for Termination</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment of premium	29	58.0
Insured's request	15	30.0
Coverage rewritten	4	8.0
Underwriting reasons	2	4.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Company was not required to issue termination notices for 19 of the 50 terminations reviewed as these policies were terminated at the request of the insured or the coverage was rewritten. The termination notice for the remaining 31 terminated policies stated the specific reason for termination. The insureds and mortgagees were given proper and timely notification of termination.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 2 files reviewed (4.0 percent error ratio) did not contain a copy of the cancellation notice to the insured.

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 contained sufficient documentation to support the action taken by the Company.

### Declinations/Rejections

The Company reported that no applications were declined/rejected 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 and closed without payment claims.

The President oversees the claims operations. The Company does not have a claims support staff to assist in the handling of claims. All claims are reported to the Company by the writing producer using a loss notice form and a copy of the policy. All claims are logged into the Company's loss journal. The Company assigns a claim number and then forwards a copy of the claim report, along with a copy of the declarations page, to an independent field adjuster. The independent field adjuster is required to contact the insured within 24 hours of being assigned the claim. If the independent field adjuster cannot contact the insured, the writing producer is notified for additional guidance. The Company's agency force does not adjust any claims. All draft authority is held by the President. All claim payments are mailed to the writing agent with a copy of the adjuster's report for distribution to the insured.

One hundred claims were randomly selected for review from a population of 523.

Paid Claims

Fifty first party property damage claims were randomly selected and received for review from a population of 418. The claim files were reviewed 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	16.0

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.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected and received for review from a population of 105. 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 7 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.

Subrogated Claims

The Company informed the examiners that it did not have any subrogated claims during the period of time subject to this examination.

Litigated Claims

The Company informed the examiners that it did not have any litigated claims during the period of time subject to this examination.

**SUMMARY**

The Market Conduct examination revealed the following:

1. Terminations

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 4.0 percent of the cancelled policies reviewed did not contain a copy of the cancellation notice sent to the insured.

**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 58-33-26	General license requirements.
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 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 10.1102	Applicability.
11NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.



**CONCLUSION**

An examination has been conducted on the market conduct affairs of Edgecombe Farmers Mutual Fire Insurance Company, Inc., for the period January 1, 2005 through December 31, 2007 with analyses of certain operations of the Company being conducted through May 4, 2009. 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.

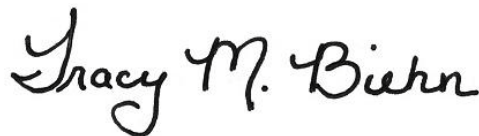
In addition to the undersigned, Jim McQuillan, CPCU and Letha Lombardi, North Carolina Market Conduct Examiners, participated in this examination.

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