



Report on

Market Conduct Examination

of

EMCASCO Insurance Company  
Employers Mutual Casualty Company

Des Moines, Iowa

by Representatives of the  
North Carolina Department of Insurance

as of

April 28, 2014

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Raleigh, North Carolina  
April 28, 2014

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
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Raleigh, North Carolina 27603

Honorable Nick Gerhart  
Commissioner of Insurance  
Insurance Division  
State of Iowa  
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601 Locust, 4<sup>th</sup> Floor  
Des Moines, Iowa 50309-3438

Honorable Commissioners:

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

**EMCASCO Insurance Company (NAIC #21407)**  
**Employers Mutual Casualty Company (NAIC #21415)**  
NAIC Exam Tracking System Exam Number: NC299-M59  
Des Moines, Iowa

hereinafter generally referred to as the Companies, at the Companies' branch office located at 11020 David Taylor Drive, Charlotte, North Carolina. A report thereon is respectfully submitted.

## FOREWORD

This examination reflects the North Carolina insurance activities of EMCASCO Insurance Company and Employers Mutual Casualty 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 revealed no concerns were omitted.

## SCOPE OF EXAMINATION

This examination commenced on April 21, 2014, and covered the period of January 1, 2011, through December 31, 2013, with analyses of certain operations of the Companies being conducted through April 28, 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 underwriting 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 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; and 10 percent for all other areas reviewed.

## EXECUTIVE SUMMARY

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

*Underwriting Practices* – Workers' Compensation: Unfiled rating plan and producers not appointed.

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-compliant practices, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their 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 improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices.

## **UNDERWRITING PRACTICES**

### Overview

The Companies’ marketing philosophy in North Carolina is directed to commercial lines. The Companies’ workers’ compensation 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.

### Workers’ Compensation

The Companies provided a listing of 302 active workers’ compensation policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies’ workers’ compensation coverages were written utilizing manual and deviated rates. Policies were written on an annual and pro-rata basis. Risk placement was

determined by the Companies' underwriting guidelines and the underwriter. All files contained sufficient documentation to support the Companies' classification of the risk. No discrepancies were noted in the Companies' use of their underwriting guidelines.

The Companies were deemed to be in violation of the provisions of NCGS 58-33-40 as the producer was not properly appointed by the Companies for five of the active workers' compensation files reviewed (10.0 percent error ratio).

The Companies were deemed to be in violation of the provisions of NCGS 58-36-100(l) as four of the active workers' compensation files reviewed (8.0 percent error ratio) used a rating plan for the Waiver of Our Right to Recover From Others endorsement that differed from the North Carolina Rate Bureau plan and had not been filed with and approved by the Department. Usage of the unfiled rating plan resulted in premium undercharges to the insureds.

#### **COMMENTS, RECOMMENDATIONS AND DIRECTIVES**

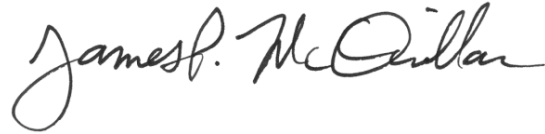
The Companies should reinforce procedures to ensure that producers who submit applications for insurance to the Companies are properly appointed. Additionally, the alternate rating plan for the Waiver of Our Right to Recover From Others endorsement should be filed with the Department.

#### **CONCLUSION**

An examination has been conducted on the market conduct affairs of EMCASCO Insurance Company and Employers Mutual Casualty Company for the period January 1, 2011, through December 31, 2013, with analyses of certain operations of the Companies being conducted through April 28, 2014.

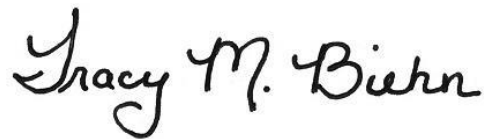
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the area of underwriting practices.

Respectfully submitted,

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

James P. McQuillan, CPCU, AIT  
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 initial 'T' and a long, sweeping underline.

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