



Report on

Market Conduct Examination

of the

Erie Insurance Exchange
Erie Insurance Company

Erie, Pennsylvania

by Representatives of the
North Carolina Department of Insurance

as of

January 11, 2016

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Raleigh, North Carolina
January 11, 2016

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Teresa D. Miller
Commissioner of Insurance
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

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

Erie Insurance Exchange (NAIC #26271)
Erie Insurance Company (NAIC #26263)
NAIC Exam Tracking System Exam Number: NC299-M77
Erie, Pennsylvania

hereinafter generally referred to as the Companies, at the Companies' regional office located at 125 Edinburgh Dr. - Suite 300, Cary, North Carolina and 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 Companies. This examination commenced on June 1, 2015, and covered the period of January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through December 22, 2015.

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, but included a limited review of the Companies' practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely 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 via an Audit Command Language (ACL) program with a random sample taken from a given population. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

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

Marketing – Use of a homeowners consent to rate form not filed with and approved by the Department.

Underwriting Practices – Signed consent to rate form not obtained and consent to rate form did not properly contain premium information for private passenger automobile policies.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes 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 statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intension to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions must be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following lines of business:

- Private Passenger Automobile
- Homeowners

Filings for the private passenger automobile and homeowners lines of business were made by the North Carolina Rate Bureau on behalf of the Companies. Deviations for these lines of business were made to the Department by the Companies.

The Companies did not adhere to the provisions of 11 NCAC 10.1201(c) and NCGS 58-3-150(a) as the signed consent to rate form was not filed with and approved by the Department on 22 homeowners policies.

UNDERWRITING PRACTICES

Overview

The Companies' marketing in North Carolina is directed to personal and commercial lines of business. The Companies provided the examiners with listings of the following types of active policies for the period under examination:

- Private Passenger Automobile
- Homeowners

A random selection of 130 policies was made from a total population of 6,942. 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 Companies provided a listing of eleven active private passenger automobile policies issued during the period under examination. All eleven policies were selected for review.

The Companies' private passenger automobile physical damage coverages were written on a consent to rate basis. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk. All premiums charged were deemed correct.

The Companies did not adhere to the provisions of 11 NCAC 10.0602 and NCGS 58-36-30(b) as the signed consent to rate form was not obtained for two policies. At the request of the examiners, the Companies refunded \$1,358.38.

The Companies did not adhere to the provisions of 11 NCAC 10.0602(a)(2)(3) as the consent to rate form did not contain the rate and premium that would be charged without

application of consent to rate as well as the proposed rate and premium for two policies reviewed. At the request of the examiners, the Companies refunded \$541.89.

Homeowners

The Companies provided a listing of 6,931 homeowners policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Companies' homeowners policies were written on a consent to rate basis. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk. All premiums charged were deemed correct.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must ascertain the private passenger automobile consent to rate forms contain all manual and proposed rates and premiums being charged on a consent to rate basis. A signed consent to rate form must be obtained for all consent to rate private passenger automobile policies. For homeowners policies, the Companies must utilize a consent to rate form that has been filed with and approved by the Department.

CONCLUSION

An examination has been conducted on the market conduct affairs of Erie Insurance Exchange and Erie Insurance Company for the period January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through December 22, 2015.

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 Companies' operations in the areas of marketing and underwriting practices.

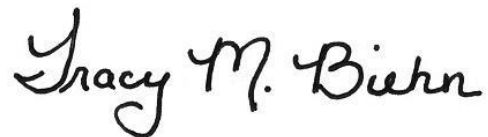
In addition to the undersigned, Brooke Hinnant, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Gina L. Abate". The signature is written in a cursive, flowing style.

Gina L. Abate, 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, flowing style.

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