

Report on
Market Conduct Examination

of the

Erie Insurance Exchange
Erie, Pennsylvania

by Representatives of the
North Carolina Department of Insurance

as of

April 24, 2018

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Raleigh, North Carolina
April 24, 2018

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Jessica Altman
Commissioner of Insurance
Department of Insurance
Commonwealth of Pennsylvania
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)
NAIC Exam Tracking System Exam Number: NC-NC094-2
Erie, Pennsylvania

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, 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 February 5, 2018, and covered the period of July 1, 2015, through June 30, 2017, with analyses of certain operations of the Company being conducted through April 18, 2018. 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 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 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 – Commercial Automobile: Policies rated using incorrect territory codes.

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”.

This examination identified a statutory violation 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 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 Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Commercial Automobile

Filings for the commercial automobile 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 and commercial lines of business. The Company provided the examiners with listings of the following type of active policies for the period under examination:

- Commercial Automobile

A random selection of 238 policies was made from a total population of 3,417. 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.

Commercial Automobile – Light and Medium Trucks

One hundred nineteen policies were randomly selected for review from a population of 2,990. The Company's light and medium commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed 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 contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-41-50(b) as ten policies were rated using an incorrect territory code. The errors resulted in three undercharges and seven overcharges to the insureds. At the request of the examiners, refunds in the amount of \$6,248.00 including interest, were issued by the Company for the overcharges.

As a result of the rating errors, the examiners requested the Company to conduct a self-audit. Once complete, the Company will issue any additional refunds to the insureds and report the total dollar amount refunded to the Department.

Commercial Automobile – Heavy and Extra Heavy Trucks/Tractors

One hundred nineteen policies were randomly selected for review from a population of 427. The Company's heavy and extra heavy commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed 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 contained sufficient documentation to support the Company's classification of the risk.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

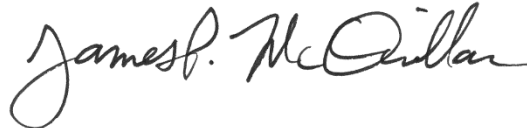
The Company is directed to reinforce with its producers the procedures and methods for determining the proper territory code when submitting applications for commercial automobile insurance.

CONCLUSION

An examination has been conducted on the market conduct affairs of Erie Insurance Exchange for the period July 1, 2015, through June 30, 2017, with analyses of certain operations of the Company being conducted through April 18, 2018.

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, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



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.



Bill George, CPCU, AIS, MCM
Assistant Chief Examiner
Market Regulation Division
State of North Carolina