



Report on

Market Conduct Examination

of the

Halifax Mutual Insurance Company
Enfield, North Carolina

By Representatives of the
North Carolina Department of Insurance

as of

September 9, 2019

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Raleigh, North Carolina
September 9, 2019

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

Honorable Commissioner:

In accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a general examination has been made of the market conduct activities of the following entity:

Halifax Mutual Insurance Company (NAIC #44377)
NAIC Exam Tracking System Exam Number: NC-NC094-18
Enfield, North Carolina
(hereinafter generally referred to as the Company)

The examination was conducted at the Company's home office located at 114 SW Railroad Street, Enfield, North Carolina and 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

This examination commenced on July 15, 2019 and covered the period of July 1, 2015 through June 30, 2018. Analyses of certain Company operations were concluded during the Wrap-Up Conference which was held on August 27, 2019. All comments made in this report reflect conditions observed during the period of the 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 consisted of an examination of the Company's practices and procedures in policyholder treatment, marketing, underwriting, terminations, and claims. 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 consumer complaints, 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 a violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

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

Consumer Complaints – NAIC code not included on response to Department.

Terminations – Homeowners, Dwelling Fire, Farmowners, Farm Fire cancellations: the notice of cancellation did not provide the insured at least ten days notice before the date the cancellation was effective.

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.

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.

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

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. All five complaints contained in the Department's listing were selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	2
Underwriting	3
Total	5

The Company's response to each complaint was deemed to be appropriate to the circumstances. The Company was deemed to be in violation of the provisions of 11 NCAC 4.0123 as the response to the Departmental inquiry did not include the NAIC company code on one file reviewed (20.0 percent error ratio).

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

Service Days	Number of Files	Percentage of Total
1 - 7	5	100.0
Total	5	100.0

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. We reviewed the following lines of business:

- Homeowners
- Dwelling Fire
- Farmowners
- Farm Fire

Policy form filings for the homeowners and dwelling fire lines of business were filed independently utilizing North Carolina Rate Bureau (NCRB) based forms. Policy forms filings for the farmowners and farm fire lines of business were made by the American Association of Insurance Services (AAIS) on behalf of the Company. The provisions stipulated under 11 NCAC 10.1102(10)(f) exempt the Company from having to submit rate filings to the Department. The Company's rates for the homeowners line of business are based on NCRB rates. The Company promulgates its own rates for the dwelling fire line of business. The Company's rates for farmowners and farm fire lines of business are based on AAIS rates.

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 for review from populations of 192 and 265, 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.

UNDERWRITING AND RATING

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 types of active policies for the period under examination:

1. Homeowners
2. Dwelling Fire
3. Farmowners
4. Farm Fire

A random selection of 200 policies was made from a total population of 2,672. 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 2,021 active homeowners policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's homeowners coverages were written utilizing rates based on those developed by the NCRB. Policies were written on an annual 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. All policy files contained sufficient documentation to support the Company's classification of the risk.

As a limited assessable mutual, the Company is not required to file their rates. However, rates must be applied in a fair and consistent manner and in accordance with the Company's rate structure. All premiums charged were deemed correct.

Dwelling Fire

The Company provided a listing of 237 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's dwelling fire coverages were written utilizing independent rates. Policies were written on an annual 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. All policy files contained sufficient documentation to support the Company's classification of the risk. The Company was reminded of its Dwelling Fire Manual rules as a new business credit was incorrectly applied to one policy (2.0 percent error ratio) that did not qualify for the credit.

Farmowners

The Company provided a listing of 282 active farmowners policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's farmowners coverages were written utilizing rates based on those developed by AAIS. Policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and 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. All premiums charged were deemed correct.

Farm Fire

The Company provided a listing of 132 active farm fire policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's farm fire coverages were written utilizing rates based on those developed by AAIS. Policies were written on an annual basis. Risk placement was determined by the Company's underwriting guidelines and 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. All premiums charged were deemed correct.

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. Homeowners
2. Dwelling Fire
3. Farmowners
4. Farm Fire

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 1,396 policies were terminated during the period under examination. The examiners randomly selected 366 terminations for review.

Homeowners Cancellations

Fifty cancelled homeowners policies were randomly selected for review from a population of 716.

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
Nonpayment of premium	10	20.0
Insured's request	27	54.0
Underwriting reasons	13	26.0
Total	50	100.0

The Company was not required to issue cancellation notices for 27 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 23 policies stated the specific reason for cancellation.

The Company was deemed to be in violation of the policy cancellation provisions as the notice of cancellation did not provide the insured at least ten days notice before the date the cancellation was effective for ten files reviewed (20.0 percent error ratio).

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.

Dwelling Fire Cancellations

Fifty cancelled dwelling fire policies were randomly selected for review from a population of 188.

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	34	68.0
Nonpayment of premium	12	24.0
Underwriting reasons	3	6.0
Premium finance company request	1	2.0
Total	50	100.0

The Company was not required to issue cancellation notices for 35 of the cancellations reviewed as these policies were cancelled at the request of the insured or premium finance company. Cancellation notices for the remaining 15 policies stated the specific reason for cancellation.

The Company was deemed to be in violation of the policy cancellation provisions as the notice of cancellation did not provide the insured at least ten days notice before the date the cancellation was effective for nine files reviewed (18.0 percent error ratio).

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.

Farmowners Cancellations

Fifty cancelled farmowners policies were randomly selected for review from a population of 109.

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	24	48.0
Underwriting reasons	14	28.0
Nonpayment of premium	12	24.0
Total	50	100.0

The Company was not required to issue cancellation notices for 24 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 26 policies stated the specific reason for cancellation.

The Company was deemed to be in violation of the policy cancellation provisions as the notice of cancellation did not provide the insured at least ten days notice before the date the cancellation was effective for six files reviewed (12.0 percent error ratio).

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.

Farm Fire Cancellations

Fifty cancelled farm fire policies were randomly selected for review from a population of 51.

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	32	64.0
Nonpayment of premium	10	20.0
Policy rewritten	8	16.0
Total	50	100.0

The Company was not required to issue cancellation notices for 40 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining ten policies stated the specific reason for cancellation.

The Company was deemed to be in violation of the policy cancellation provisions as the notice of cancellation did not provide the insured at least ten days notice before the date the cancellation was effective for ten files reviewed (20.0 percent error ratio).

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.

Homeowners Nonrenewals

Fifty nonrenewed homeowners policies were randomly selected for review from a population of 165.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	16	32.0
Producer no longer appointed	33	66.0
Policy rewritten	1	2.0
Total	50	100.0

The Company was not required to issue a nonrenewal notice for one of the nonrenewals reviewed as the coverage was rewritten. The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification 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.

Dwelling Fire Nonrenewals

Fifty nonrenewed dwelling fire policies were randomly selected for review from a population of 101.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Producer no longer appointed	36	72.0
Underwriting reasons	14	28.0
Total	50	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification of nonrenewal.

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.

Farmowners Nonrenewals

All nonrenewed farmowners policies were selected for review from a population of 49.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	17	34.7
Producer no longer appointed	32	65.3
Total	49	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification of nonrenewal.

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.

Farm Fire Nonrenewals

All nonrenewed farm fire policies were selected for review from a population of 17.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Agent no longer appointed	9	52.9
Underwriting reasons	8	47.1
Total	17	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification of nonrenewal.

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.

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, third party bodily injury, closed without payment, subrogated, and litigated claims.

Claims service in North Carolina is provided through the home office in Enfield, North Carolina under the direction of the Company's Claims Manager. The Company has both a company licensed adjuster and independent contract adjusters to handle its claims. Independent adjusters do not have draft authority. The Company's agency force does not have draft authority.

One hundred eleven claims were randomly selected for review from a population of 718.

Paid Claims

The examiners randomly selected 56 of the 526 third party property damage and first 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
Third party property damage	19.0
First party property damage	17.3

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. The review of paid claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

Third Party Bodily Injury Claims

All bodily injury claims were selected for review from a population of two. 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.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 187. 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 13 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

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

No errors were noted where the Company failed to reimburse the insured's deductible in a timely manner. The reimbursements were issued on a 3-year average of 1 calendar day from the date the Company collected the monies.

Litigated Claims

The Company reported no claims were litigated during the examination period.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

For Company-initiated cancellations for non-payment of premium, the Company must give the insured at least ten days notice before the date the cancellation is effective.

The Company must include its NAIC company code on all written responses to an inquiry or complaint made by a consumer to the Department.

Upon acceptance of the Report the Company shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Company successfully implemented its statement of corrective action.

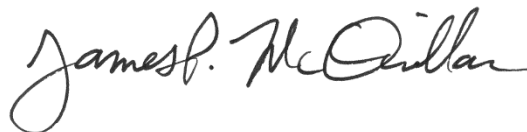
CONCLUSION

An examination has been conducted on the market conduct affairs of Halifax Mutual Insurance Company for the period July 1, 2015 through June 30, 2018 with analyses of certain operations of the Company being conducted through August 27, 2019.

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 policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

In addition to the undersigned, Brooke Hinnant, MCM, North Carolina Market Conduct Senior Examiner, and Casondria Cheek, AIC, AINS, 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.

A handwritten signature in black ink, reading "Teresa R. Knowles". The signature is written in a cursive style with a long horizontal flourish at the end.

Teresa Knowles, ACS
Deputy Commissioner
Market Regulation Division
State of North Carolina