

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

December 17, 2014

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Raleigh, North Carolina
December 17, 2014

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 through 58-2-134, a target examination has been made of the market conduct activities of

**Halifax Mutual Insurance Company
(NAIC #44377)**

NAIC Exam Tracking System Exam Number: NC299-M63
Enfield, North Carolina

hereinafter generally referred to as the Company, at the Company's headquarters located at 114 S/W Railroad Street, Enfield, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The North Carolina Department of Insurance (Department) conducted a limited-scope examination of the Company. The examination commenced on November 3, 2014, and covered the period of January 1, 2012, through December 31, 2013, with analyses of certain operations of the Company being conducted through December 10, 2014.

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 Company's practices and procedures in marketing and underwriting practices. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate section 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 at or above the following levels: 0 percent for 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 – Farmowners and Farm Fire: Rating errors.

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 DIVISIONS" then "Legislative Services".

This examination identified various statutory violations. 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. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and provide consumer protection.

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:

1. Homeowners
2. Farmowners
3. Dwelling Fire
4. 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 Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 10, Section 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.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy 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. Farmowners
3. Dwelling Fire
4. Farm Fire

A random selection of 181 policies was made from a total population of 1,588. 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 1,203 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. All premiums charged were deemed correct.

Farmowners

The Company provided a listing of 164 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 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 its underwriting manual as nine policies (18.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Weight of ice, sleet, and snow coverage was not included for a scheduled building on one policy.
- Farm chemical liability coverage was included on one policy, but was specifically declined by the insured.
- Protective device credits were incorrect or not applied on four policies.
- Open perils coverage was not included for miscellaneous tools on one policy.
- Two farm locations were not included on Farmers Comprehensive Personal Liability coverage on one policy.
- An incorrect construction type was used on one policy.

The rating errors resulted in three undercharges and six overcharges to the insureds. At the request of the examiners, refunds in the amount of \$469.00 were issued by the Company for the overcharges. The remaining premiums were deemed correct.

Dwelling Fire

The Company provided a listing of 190 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 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 31 active farm fire policies issued during the period under examination. All 31 policies were 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 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 its underwriting manual as five policies (16.1 percent error ratio) had a total of six rating errors. The rating errors consisted of the following:

- Blanket rate was charged in lieu of scheduled rate for open perils coverage on one policy.
- Replacement cost coverage was not included for two structures on one policy.
- Vandalism & Malicious Mischief and Other Perils coverage was not included for a tenant occupied mobilehome, unscheduled mobile agricultural equipment, and unscheduled farm personal property on one policy.
- An incorrect protection class credit was applied for a tenant occupied mobilehome on one policy.
- A hog house was rated as a poultry house on one policy.
- The deductible credit was not applied to scheduled equipment and unscheduled farm personal property on one policy.

The rating errors resulted in two undercharges and three overcharges to the insureds. At the request of the examiners, refunds in the amount of \$487.00 were issued by the Company for the overcharges. The remaining premiums were deemed correct.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

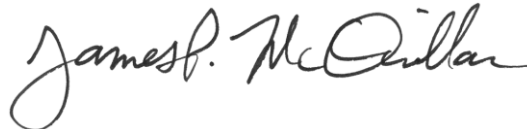
The Company must ascertain that farmowners and farm fire policies are rated correctly. The Company has indicated that a newly implemented agency interface and policy issuance system will prevent many of the rating errors that were discovered during this review. An internal audit procedure is recommended to monitor the rating accuracy of that system.

CONCLUSION

An examination has been conducted on the market conduct affairs of Halifax Mutual Insurance Company for the period January 1, 2012, through December 31, 2013, with analyses of certain operations of the Company being conducted through December 10, 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 areas of marketing and underwriting practices.

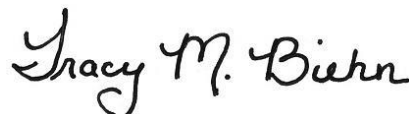
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



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.



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