

Report on

Market Conduct Examination

of the

IDS Property Casualty Insurance Company
De Pere, Wisconsin

by Representatives of the
North Carolina Department of Insurance

as of

October 9, 2017

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Raleigh, North Carolina
October 9, 2017

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

Honorable Ted Nickel
Commissioner of Insurance
Office of the Commissioner of Insurance
State of Wisconsin
125 South Webster Street
GEF III – 2nd Floor
Madison, Wisconsin 53703

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

IDS Property Casualty Insurance Company (NAIC #29068)
NAIC Exam Tracking System Exam Number: NC-NC131-18
De Pere, Wisconsin

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 May 15, 2017, and covered the period of January 1, 2015, through December 31, 2016, with analyses of certain operations of the Company being conducted through September 27, 2017. This action was taken due to market analysis on underwriting, terminations, and claims practices. 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, 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 producers/adjusters 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; 3 percent for claims; 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 areas:

Underwriting Practices – Private Passenger Automobile: Incorrect policy rating and incorrect recoupment surcharges.

Terminations – Private Passenger Automobile: Ineligible reasons for termination and insufficient number of days' notice to the insured.

Claims Practices – Private Passenger Automobile Physical Damage Paid Claims and Homeowners First Party Property Damage Paid Claims: Unlicensed adjusters.

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”, then “Legislative Services” under “Other Divisions”.

This examination identified various statutory violations, some of 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 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 Company. Deviations for the homeowners 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 lines of business. The Company 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 238 policies was made from a total population of 6,608. 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

One hundred nineteen policies were randomly selected for review from a population of 1,457. The Company's private passenger automobile policies were written on a semi-annual basis. Coverages were written utilizing manual and deviated 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 58-36-30(a) and Rule 3 of the Personal Auto Manual as 75 policies had a total of 76 rating errors:

- Incorrect physical damage symbols were used to rate 75 policies.
- An incorrect territory was used to rate one policy.

The Company did not adhere to the provisions of NCGS 58-37-40(e) and Section 4, Chapter 13, Item C of the North Carolina Reinsurance Facility Standard Practice Manual as eight policies were rated using an incorrect recoupment charge.

The rating errors resulted in 22 overcharges and 53 undercharges to the insureds. At the request of the examiners, refunds in the amount of \$2,311.85, 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 the additional refunds to the insureds and report the total dollar amount refunded to the Department.

Homeowners

One hundred nineteen policies were randomly selected for review from a population of 5,151. The Company's homeowners policies were written on an annual basis. Coverages were written utilizing manual and deviated 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. All premiums charged were deemed correct.

TERMINATIONS

Overview

The Company's termination procedures for its private passenger automobile policies were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. 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 2,314 policies were terminated during the period under examination. The examiners randomly selected 238 terminations for review.

Private Passenger Automobile Cancellations

One hundred nineteen cancelled private passenger automobile policies were randomly selected and received for review from a population of 2,043.

The Company was not required to issue cancellation notices for 105 of the cancellations reviewed as these policies were cancelled at the request of the insured. The cancellation notices for the remaining 14 policies stated the specific reason for cancellation.

All policy files reviewed contained sufficient documentation to support the action taken by the Company. All premium refunds were deemed correct and issued in a timely manner.

The final area of this review encompassed documentation of the policy file. The Company sent the FS-4 to the DMV when liability coverages were cancelled. The Company was deemed to be in compliance with the provisions of NCGS 20-309.

Private Passenger Automobile Nonrenewals

One hundred nineteen nonrenewed private passenger automobile policies were randomly selected and received for review from a population of 271.

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company did not adhere to the provisions of NCGS 58-36-85 and 58-37-50 as 74 policies were nonrenewed using an ineligible reason for termination.

The Company did not adhere to the provisions of NCGS 58-36-85(c) as 10 policies were nonrenewed giving an insufficient number of days' notice to the insured.

The final area of this review encompassed documentation of the policy file. The Company sent the FS-4 to the DMV when liability coverages were nonrenewed. The Company was deemed to be in compliance with the provisions of NCGS 20-309.

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 private passenger automobile physical damage paid claims and homeowners first party property damage paid claims. Two hundred sixty-two claims were randomly selected for review from a population of 2,256.

Private Passenger Automobile Physical Damage Paid Claims

One hundred thirty-one private passenger automobile physical damage paid claims were randomly selected for review from a population of 1,354. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and NCGS 58-33-26(a) for

timeliness of payment, supporting documentation, accuracy of payment, and licensure of the adjuster.

The following average payment time noted in calendar days was observed:

Type of Claim	Payment Time
Private Passenger Automobile Physical Damage Paid	11.0

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 Company did not adhere to the provisions of NCGS 58-33-26(a) as two claims were adjusted by individuals who were not properly licensed in the state of North Carolina.

Homeowners First Party Property Damage Paid Claims

One hundred thirty-one homeowners first party property damage paid claims were randomly selected for review from a population of 902. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and NCGS 58-33-26(a) for timeliness of payment, supporting documentation, accuracy of payment, and licensure of the adjuster.

The following average payment time noted in calendar days was observed:

Type of Claim	Payment Time
Homeowners First Party Property Damage Paid	13.0

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 Company did not adhere to the provisions of NCGS 58-33-26(a) as three claims were adjusted by individuals who were not properly licensed in the state of North Carolina.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must utilize the latest symbol updates published by the Insurance Services Office when rating vehicles for new physical damage coverage on private passenger automobile policies. The Company must utilize the correct recoupment surcharge formula on private passenger automobile policies. The Company is directed to refrain from terminating any nonfleet private passenger automobile liability insurance policy that is an eligible risk for cession to the North Carolina Reinsurance Facility. The Company must provide the insured at least 60 days' notice of termination when a nonfleet private passenger automobile liability insurance policy not eligible for cession to the North Carolina Reinsurance Facility is terminated by the Company. The Company must confirm that all adjusters and appraisers assigned to handle claims in North Carolina are properly licensed by the North Carolina Department of Insurance.

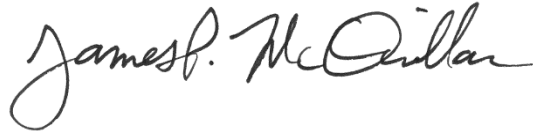
CONCLUSION

An examination has been conducted on the market conduct affairs of IDS Property Casualty Insurance Company for the period January 1, 2015, through December 31, 2016, with analyses of certain operations of the Company being conducted through September 27, 2017.

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, underwriting practices, terminations, and claims practices.

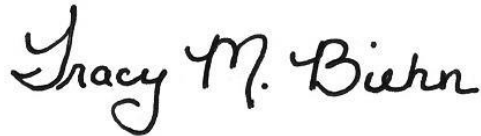
In addition to the undersigned, Corey Gordon, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

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

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 that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, looped initial 'T'.

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