



Report on

Market Conduct Examination

of the

Integon National Insurance Company  
Integon Indemnity Corporation  
Integon General Insurance Corporation  
Integon Preferred Insurance Company  
New South Insurance Company

Winston-Salem, North Carolina

by Representatives of the  
North Carolina Department of Insurance

as of

February 4, 2021

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Raleigh, North Carolina  
February 4, 2021

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 entities

**Integon National Insurance Company (NAIC #29742)**  
**Integon Indemnity Corporation NAIC #22772)**  
**Integon General Insurance Corporation (NAIC #22780)**  
**Integon Preferred Insurance Company (NAIC #31488)**  
**New South Insurance Company (NAIC #12130)**  
NAIC Exam Tracking System Exam Number: NC-NC094-22  
Winston-Salem, North Carolina  
(herein generally referred to as the Companies)

The examination was conducted at the Companies' home office located at 5630 University Parkway, Winston-Salem, North Carolina 27105 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

The examination commenced on November 4, 2019, and covered the period of January 1, 2016, through December 31, 2018. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on February 2, 2021. 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 comprehensive and included review of the Companies' practices and procedures in consumer complaints, producer appointments and terminations, 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/adjusters who were not properly appointed and/or licensed, 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 Companies' procedures and practices in the following areas:

*Company Overview - Anti-Fraud Plan:* Insufficient number of documents in files to prove residency or eligible risk status for commercial auto policies.

*Marketing Practices – Producer Licensing:* The Department was not notified of an appointed producer. Termination files were missing or had inaccurate information on

termination notices. One notice did not provide the Department the required number of days notice of termination.

*Underwriting Practices* – Private Passenger Automobile and Commercial Automobile: listing discounts on the policy declarations page that were not applicable; Commercial Automobile: Incorrect premiums charged due to unfiled rates, misclassified vehicles, use of wrong rating factors, and failure to rate a non-fleet private passenger automobile (on a commercial policy) out of the personal lines manual.

*Terminations* – Commercial Automobile Nonrenewals: Failure to state the specific reason for nonrenewal.

*Claims Practices* – Total Losses: attempting to settle a claim for less than the amount to which a reasonable man would have believed he was entitled.

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 at <https://www.ncdoi.gov/insurance-industry/market-regulation>.

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.

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.

## **COMPANY OVERVIEW**

### **Antifraud Plan**

The Companies' rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Companies were deemed to be in violation of the provisions of NCGS 58-2-164(c) & (c2) as 72 commercial automobile files did not include two acceptable documents to provide proof of residency or eligible risk status. For the private

passenger automobile files, which require only one acceptable document to prove residency or eligible risk status, no errors were noted. The Companies were reminded of the provisions of the North Carolina Reinsurance Facility Manual, Section 3.P.1. as three policies were issued without the proper garaging territory being determined. The presence on the policy of drivers licensed in states other than North Carolina (Out-Of-State drivers) indicates at least some of the vehicles should have been rated using the residual market rates in those other states, unless there is compelling evidence that the vehicle is garaged in North Carolina.

### **POLICYHOLDER TREATMENT**

#### Consumer Complaints

The Companies' complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Companies' complaint register for the period under examination was in compliance with provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103.

From the Companies' complaint register, 50 complaints were chosen for review from a total of 645. Each complaint was on file with the Department. The distribution of complaints requiring a response to the Department is shown in the chart below.

<b>Type of Complaint</b>	<b>Total</b>
Claims	39
Underwriting	8
Policyholder Service	3
<b>Total</b>	<b>50</b>

The Companies' response to each complaint was deemed to be appropriate to the circumstances. The Companies were deemed to not be in violation of the provisions of 11 NCAC 1.0602 as the response time to the Department for all 50 complaints was within seven calendar days.



The average service time to respond to a Departmental complaint was 3.2 calendar days.

A chart of the Companies' response time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	50	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

#### Privacy of Financial and Health Information

The Companies provided privacy of financial and health information documentation for the examiners' review. The Companies 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 Companies were found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

### **MARKETING PRACTICES**

#### 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
- Commercial Automobile

Filings for the private passenger automobile and the commercial automobile lines of business were made by the North Carolina Reinsurance Facility (NCRF) and the Companies. Files reviewed for this examination included both ceded and voluntary coverages.

#### Producer Licensing

Agent appointments and terminations were reviewed for the examination period. The Companies' procedures for appointment and termination of their 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 5,602 and 1,517, respectively.

The Companies rely on a third party vendor to verify agent licensing and to report agent appointments and terminations to the Department. The Companies were deemed to be in violation of the provisions of NCGS 58-33-40(b) as one appointed producer file had no indication of being reported to the state. The Companies were deemed to be in violation of the provisions of NCGS 58-33-56(d) and administrative codes 11 NCAC 19.0102(a), 19.0106(a)(3), and 19.0106(g) as file documentation was incomplete for 17 of the terminated producer files reviewed. Ten files did not contain a copy of the termination letter sent to the producer. The termination letter in three files had no date on it. The termination letter in three files was sent beyond the 15-day time limit. One file had a termination letter advising the producer of being terminated in a state other than North Carolina.

## **UNDERWRITING PRACTICES**

### Overview

The Companies' marketing in North Carolina is directed to both 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
- Commercial Automobile

A random selection of 200 policies was made from a population of 888,190. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. 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 865,458 active private passenger automobile policies issued during the period under examination. One hundred policies were selected for review. The

Companies' private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written utilizing manual rates and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were deemed to be in violation of the provisions of NCGS 58-63-15(1) as 42 policies (42.0 percent error ratio) listed discounts on the declarations page that were not applied. There was no financial impact to the insureds because the discounts didn't apply and therefore, should not have been displayed on the declarations.

The Companies were reminded of the provisions of NCGS 58-37-40(e) as one policy (1.0 percent error ratio) was issued using an incorrect rate. For that one policy the examiners directed the Companies to refund premium and statutory interest in the amount of \$28.90.

#### Commercial Automobile

The Companies provided a listing of 22,732 active commercial automobile policies issued during the period under examination. One hundred policies were selected for review. The Companies' commercial automobile policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies were deemed to be in violation of the provisions of NCGS 58-63-15(1) as 20 policies (20.0 percent error ratio) listed discounts on the declarations page that were not applied. There was no financial impact to the insureds because the discounts didn't apply and therefore, should not have been displayed on the declarations.

The Companies were deemed to be in violation of the provisions of NCGS 58-41-50(b) as six policies (6.0 percent error ratio) were issued with rates that had not been filed with and approved by the Department.

The Companies were reminded of the provisions of administrative codes 11 NCAC 19.0102, 19.0104, 19-0106; and the requirements of the North Carolina Reinsurance Facility (NCRF or Facility) Manual, Section 3 General Rules, Paragraph C. Eligibility, as two files (2.0 percent error ratio) with policies ceded to the Facility did not include a completed application. There was no financial impact to the insureds.

The Companies were reminded of the provisions of administrative codes 11 NCAC 19.0102, 19.0104, 19-0106, and the requirements of the North Carolina Reinsurance Facility (NCRF or Facility) Manual, Section 3 General Rules, Paragraph P.2.g. (formerly P.2.h.), as five files (5.0 percent error ratio) with policies ceded to the Facility did not include a copy of a completed and signed form NCRF-30. There was no financial impact to the insureds.

The Companies were reminded of the provisions of administrative codes 11 NCAC 19.0102, 19.0104, 19-0106, and the requirements of the North Carolina Reinsurance Facility (NCRF or Facility) Manual, Section 3 General Rules, Paragraph P.2.j.(6) (formerly P.2.k.(6)), as three files (3.0 percent error ratio) with policies ceded to the Facility did not include a copy of a completed and signed form NCRF-47. There was no financial impact to the insureds.

The Companies were reminded of the provisions of the NCRF Standard Practice Manual, Section 3, Paragraph P.1. as three policies (3.0 percent error ratio) were issued with misclassified vehicles. The examiners directed the Companies to refund premium and statutory interest in the amount of \$62.68.

The Companies were deemed to be in violation of the provisions of the North Carolina Personal Auto Manual, Rule 2, Note, as 26 non-fleet policies (26.0 percent error ratio) were issued with at least 1 vehicle classified as a private passenger automobile, but those vehicles were not

rated using the rules and rates from the North Carolina Personal Auto Manual. Each error resulted in an undercharge to the insured.

The Companies were deemed to be in violation of the provisions of NCGS 58-41-50(f) (for voluntary coverages) and NCGS 58-37-5 and NCRF Standard Practice Manual, Section 3.I. (for ceded coverages) as 18 policies (18.0 percent error ratio) were issued with incorrect rating factors applied. Of the 18 policies, 8 resulted in undercharges and 10 resulted in overcharges. The examiners directed the Companies to refund premium and statutory interest in the amount of \$9,307.73.

The Companies were reminded of the provisions of the NCRF Commercial Automobile Manual, Rule 58.A.3., and the NCRF Standard Practice Manual, Section 3.I. as one policy (1.0 percent error ratio) included an ambulance on the vehicle schedule, but failed to include form CA2018 as part of the policy.

## **TERMINATIONS**

### Overview

The Companies' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. The following lines of business were reviewed:

- Private Passenger Automobile
- Commercial Automobile

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 745,820 policies were terminated during the period under examination. The examiners randomly selected 300 terminations for review.

### Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 727,672.

The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment of premium	76	76.0
Insured's request	18	18.0
Finance Company's request	5	5.0
Rewrite	1	1.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

Cancellation notices stated the specific reason for cancellation. The Companies 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 Companies. The Companies sent the North Carolina Notice of Termination form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled on 99 of the 100 files. Therefore, the Companies are reminded of the provisions in NCGS 20-309.2 and administrative codes 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as one file (1.0 percent error ratio) did not include proof that the FS-4 was transmitted to the DMV.

Commercial Automobile Cancellations

One hundred cancelled commercial automobile policies were randomly selected for review from a population of 17,450.

The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment of premium	62	62.0
Insured's request	29	29.0
Finance Company's request	2	2.0
Rewrite	4	4.0
Adverse Underwriting Decision	3	3.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Companies were reminded of the provisions in NCGS 58-41-15(b) as two cancellation notices did not state the specific reason for cancellation. Refunds were issued in a timely manner.

All policy files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the North Carolina Notice of Termination form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled.

Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were randomly selected for review from a population of 639.

The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Adverse Underwriting Decision	24	48.0
Agent No Longer Appointed	26	52.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The reason for nonrenewal was deemed valid for 49 of the 50 policies. Therefore, the Companies were reminded of the provisions of NCGS 58-41-20(e) as one nonrenewal notice did not state the specific reason for the nonrenewal. The Companies were reminded of the provisions of NCGS 20-309.2 and administrative codes 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as four files did not include proof that the FS-4 had been transmitted to the DMV. The remaining files reviewed contained sufficient documentation to support the action taken by the Companies.

Commercial Automobile Nonrenewals

Fifty nonrenewed commercial automobile policies were randomly selected for review from a population of 59.

The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Adverse Underwriting Decision	36	72.0
Agent No Longer Appointed	14	28.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were deemed to be in violation of the provisions of NCGS 58-41-20(e) as 12 nonrenewal notices did not state the specific reason for the nonrenewal. The Companies were reminded of the provisions of administrative codes 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as one file did not contain the required proof of mailing. The remaining files reviewed contained sufficient documentation to support the action taken by the Companies. The Companies sent the FS-4 to the DMV when liability coverage was cancelled.

**CLAIMS PRACTICES**

Overview

The Companies’ claims practices were reviewed to determine compliance with the appropriate North Carolina statutes, rules, and policy provisions. The review encompassed paid, automobile medical payment, bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims.

Seven hundred fifty claims were randomly selected from a population of 1,092,689.

Paid Claims

Two hundred paid first party physical damage and third party property damage claims were randomly selected for review from a population of 286,042. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, accuracy of payment, and supporting documentation.

The following types of claims were reviewed and the average payment times are noted in calendar days:

<b>Type of Claim</b>	<b>Payment Time</b>
Automobile Physical Damage	15.0
Third Party Property Damage	25.0



Documentation consisted of appraisals, estimates, repair bills, and adjusters' notes. Each file reviewed contained documentation necessary to support the Companies' payments. Deductibles were correctly applied, and depreciation taken was reasonable. The review of paid physical damage and property damage claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### First and Third Party Bodily Injury Paid Claims

One hundred paid first and third party bodily injury claims were randomly selected for review from a population of 365,273. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices. The review of bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### Medical Payments Paid Claims

One hundred paid medical payments claims were randomly selected for review from a population of 215,863. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices. The review of medical payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

#### Closed Without Payment Claims

One hundred closed without payment claims were randomly selected for review from a population of 149,806. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies' reasons for closing the claims without payment were valid.

All reasons for denial or closing the files without payment were deemed valid. The review of the closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Total Loss Claims

One hundred total loss claims were randomly selected for review from a population of 68,229. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices.

The Companies were reminded of the provisions of NCGS 58-63-15(11) (f) and (n) as one claim reflected an undue delay in settlement. The Companies were reminded of the provisions of NCGS 58-63-15(11)(a) as two claims did not have the deductible properly applied. The examiners directed the Companies to refund additional payments and statutory interest in the amount of \$1,329.13.

The Companies were deemed to be in violation of the provisions of NCGS 58-63-15(11) (h) as the initial settlement offer in 94 claims was based on the Kelly Blue Book (KBB) Private Party Sales figures rather than the Retail Sales figures. This can be construed as an attempt to settle the claim for less than the amount to which a reasonable man would have believed he was entitled.

### Subrogated Claims

One hundred subrogated claims were randomly selected for review from a population of 6,585. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as four claims required additional payments because subrogation recovery had been successful and the Companies failed to make those payments at the time of recovery. The examiners directed the Companies to make the additional payments and statutory interest in the amount of \$792.43.

The review of subrogated claims disclosed no violations of the provisions of NCGS 59-63-15(11).

### Litigated Claims

Fifty litigated claims were randomly selected for review from a population of 891. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies had engaged in any unfair claims practices. The review of the litigated claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### **COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Companies must obtain and retain acceptable documents to prove residency or eligible risk status for each automobile account; at least one document for non-fleet private passenger auto policies and at least two forms for other than non-fleet private passenger (i.e., commercial) policies. The Companies are directed to maintain documentation, properly notify the Department, and include proper information on producer appointment and termination forms. The Companies are directed to refrain from listing discounts on the declarations when those discounts were not applied. Proper rates must be used, but also filed with and approved by the Department prior to use. The Companies must properly classify each vehicle and attach the proper form(s) based on those classifications. Commercial automobile nonrenewal notices must state the specific reason for nonrenewal. The Companies are directed to cease from attempting to settle claims for less than an amount to which a reasonable person would believe he/she was entitled.

Upon acceptance of the Report the Companies 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 Companies successfully implemented their statement of corrective action.

### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Integon National Insurance Company, Integon Indemnity Corporation, Integon General Insurance Company, Integon Preferred Insurance Company, and New South Insurance Company for the period

January 1, 2016, through December 31, 2018, with analyses of certain operations of the Companies being conducted through February 2, 2021.

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 anti-fraud (rate evasion), policyholder treatment, marketing practices, underwriting practices, terminations, and claims practices.

In addition to the undersigned, Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Examiner II, Eshita Patel, MCM, North Carolina Market Conduct Examiner I, and Jeffrey O'Bannon, North Carolina Market Conduct Examiner II, participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,  
AIAF, AIC, ARC, AAI, 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.



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