

Report on

Market Conduct Examination

of

Kanawha Insurance Company

Lancaster, South Carolina

by Representatives of the
North Carolina Department of Insurance

as of

January 15, 2016

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Raleigh, North Carolina
January 15, 2016

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Raymond G. Farmer
Director of Insurance
South Carolina Department of Insurance
Capitol Center
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Commissioner and Honorable Director:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a compliance and target examination has been made of the market conduct activities of

Kanawha Insurance Company
(NAIC # 65110)
NAIC Exam Tracking System Exam Number: NC299-M82
Lancaster, South Carolina

hereinafter generally referred to as the Company, at the Company's office located at 500 W. Main Street, Louisville, Kentucky, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a compliance and target examination of the Company. This examination commenced on September 8, 2015, and covered the period of January 1, 2014, through December 31, 2014, with analyses of certain operations of the Company being conducted through December 22, 2015. The compliance review was due to previous examination findings referenced in the Market Conduct Report of August 16, 2012, and the target review was due to market analysis on long-term care. 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 the examination was not comprehensive, but included a limited review of the Company's practices and procedures in underwriting and claims. The findings and conclusion 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 at or above the following levels: 7 percent for claims practices; and 10 percent for all other areas reviewed.

Previous Examination Findings

A general examination covering the period of January 1, 2008, through December 31, 2010, was performed on the Company and a report dated August 16, 2012, was issued. The general examination report identified concerns in the area of underwriting practices. Specific previous violations relating to this area are listed within the appropriate sections of this report.

EXECUTIVE SUMMARY

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

Underwriting Practices – Individual Life Issued Substandard, Individual Life Declined, Individual Other Health Declined: Failure to use an approved Adverse Underwriting Decision (AUD) notice. Individual Life Replacements: Failure to notify the existing insurer within five business days of receipt of the application.

Claims Practices – Individual Medicare Supplement Paid: Failure to maintain complete records for at least five years after a claim is settled.

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 Department's Web Site www.ncdoi.com by clicking "INSURANCE DIVISIONS" then "Legislative Services".

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 should 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.

UNDERWRITING PRACTICES

Individual Life Issued Substandard

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of NCGS 58-39-55 as 84.6 percent of the application files contained an AUD notice that had neither been filed with nor approved by the Department.
- The Company did not adhere to the provisions of 11 NCAC 4.0507(a) and (b) as:
 - 42.3 percent of the application files did not contain evidence that a revised illustration was provided to the insured at the time of policy issue.
 - 19.2 percent of the application files contained an illustration that was provided to the insured that was not labeled "Revised Illustration".

The entire population of 15 application files was reviewed. **The current examination revealed the following:**

- The Company again did not adhere to the provisions of 58-39-55 as:
 - Thirteen application files (86.7 percent error ratio) contained an AUD notice that was not approved.
 - Two application files (13.3 percent error ratio) did not contain an AUD notice.

The average service time to underwrite and issue a policy was 20 calendars days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	11	73.3
8 - 14	3	20.0
Over 60	1	6.7
Total	15	100.0

Individual Life Declined

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of NCGS 58-39-55 as 61.2 percent of the application files contained an AUD notice that had neither been filed with nor approved by the Department.

The entire population of 11 application files was reviewed. **The current examination revealed the following:**

- The Company again did not adhere to the provisions of NCGS 58-39-55 as:
 - Nine application files (81.8 percent error ratio) did not contain an approved AUD notice.
 - Two application files (18.2 percent error ratio) did not contain an AUD notice.

The average service time to underwrite and decline an application was two calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	11	100.0
Total	11	100.0

Individual Disability Declined

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of NCGS 58-39-55 as:
 - 96.0 percent of the application files contained an AUD notice that had neither been filed with nor approved by the Department.
 - 4.0 percent of the application files did not contain evidence that an AUD notice was sent to the applicant.

The entire population of one application file was reviewed. **The current examination revealed the following:**

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to underwrite and decline an application was nine calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
8 - 14	1	100.0
Total	1	100.0

Individual Other Health Declined

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of NCGS 58-39-55 as 70.0 percent of the application files contained an AUD notice that had neither been filed with nor approved by the Department.

The entire population of eight application files was reviewed. **The current examination revealed the following:**

The Company again did not adhere to the provisions of NCGS 58-39-55 as eight application files (100.0 percent error ratio) did not contain an approved AUD notice.

The average service time to underwrite and decline an application was 10 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	5	62.5
15 - 21	3	37.5
Total	8	100.0

Individual Life Replacement

The Company's replacement practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of 11 NCAC 12.0612(a)(2) as:
 - Written notification to the replaced insurer was not sent within five business days from receipt of the application in the home office for 44.9 percent of the policy files.
 - Written notification was not sent to the replaced insurer for 24.5 percent of the policy files.

The entire population of 17 policy files was reviewed. **The current examination revealed the following:**

The Company again did not adhere to the provisions of 11 NCAC 12.0612(a)(2) as eight policy files (47.1 percent error ratio) did not contain evidence that the existing insurer was notified within five business days from the receipt of the application.

The average service time from the date the application was received to the date on the notification letter to the existing insurer was 12 calendar days. A chart of the service time to notify the existing insurer of replacement from the date of receipt of the application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	9	52.9
8 - 14	1	5.9
15 - 21	6	35.3
31 - 60	1	5.9
Total	17	100.0

CLAIMS PRACTICES

Individual Medicare Supplement Claims Paid

The Company's claims practices were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company did not adhere to the provisions of 11 NCAC 19.0102(a) and 19.0105 as:
 - One percent of the claim files did not contain a copy of the EOB to the Insured.
 - Seven percent of the claim files did not contain a copy of the policy application.

The Company provided a listing of 263 Individual Medicare Supplement Claims Paid. Fifty claim files were randomly selected for review. **The current examination revealed the following:**

The Company did not adhere to the provisions of 11 NCAC 19.0102(a) and 19.0105 as four claim files (8.0 percent error ratio) were incomplete, because the Medicare Explanation of Benefits was not evidenced.

The average service time to process a claim payment line was four calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	43	86.0
8 - 14	3	6.0
15 - 21	4	8.0
Total	50	100.0

Individual Long-Term Care Claims Paid

The Company provided a listing of 98 Individual Long-Term Care Claims Paid. Fifty claims files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to process a claim payment was 49 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	8	16.0
8 - 14	1	2.0
15 - 21	5	10.0
22 - 30	6	12.0
31 - 60	11	22.0
Over 60	19	38.0
Total	50	100.0

Individual Long-Term Care Claims Denied

The entire population of three Individual Long-Term Care Claims Denied files was reviewed. No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to process a claim denial was 92 days. All claim files in excess of 30 days contained documentation of status reports. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
31 - 60	1	33.3
Over 60	2	66.7
Total	3	100.0

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must implement the use of the filed and approved AUD notice. The Company must notify the existing insurer of a replacement within five business days of receipt of the application. The Company must maintain a copy of all claims records.

CONCLUSION

A target and compliance examination has been conducted on the market conduct affairs of Kanawha Insurance Company for the period of January 1, 2014, through December 31, 2014, with analyses of certain operations of the Company conducted through December 22, 2015.

This examination was conducted in accordance with the Department and the NAIC Market Regulation Handbook procedures, including analyses of Company operations in the area of underwriting and claims practices.

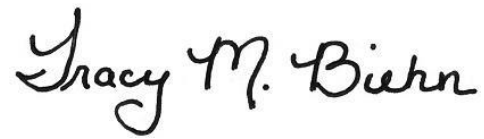
In addition to the undersigned, Marion Flemmings, HIA, HIPAAP, HCSA, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Vicki. S. Royal, CPM, MCM, ACS, AIAA, AIRC
 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 initial 'T' and 'B'.

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