



Report on

Market Conduct Examination

of

Lititz Mutual Insurance Company

Lititz, Pennsylvania

by Representatives of the
North Carolina Department of Insurance

as of

April 28, 2014

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Raleigh, North Carolina
April 28, 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 Michael F. Consedine
Commissioner of Insurance
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

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

Lititz Mutual Insurance Company (NAIC #14400)
NAIC Exam Tracking System Exam Number: NC299-M53
Lititz, Pennsylvania

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Lititz Mutual Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This examination commenced on March 24, 2014, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 28, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices, terminations, and claims practices.

EXECUTIVE SUMMARY

This market conduct examination revealed no concerns with Company procedures and practices in the following areas: underwriting practices, terminations, and claim practices.

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".

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina is directed to the homeowners line of business. The Company's homeowners policies were 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 8,721 active homeowners policies issued during the period under examination. One hundred policies were randomly selected for review.

The Company's homeowners coverages were written utilizing manual and deviated 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 their underwriting guidelines. All policy files contained sufficient documentation to support the Company's classification of the risk. The premium for all policies reviewed was deemed to be correct.

TERMINATIONS

Overview

The Company's termination procedures for its homeowners 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 10,228 policies were terminated during the period under examination. The examiners randomly selected 200 terminations for review.

Homeowners Cancellations

One hundred cancelled homeowners policies were randomly selected for review from a population of 7,633.

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	51	51.0
Nonpayment of premium	22	22.0
Underwriting reasons	20	20.0
Rewritten	7	7.0
Total	100	100.0

The Company was not required to issue cancellation notices for 58 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining 42 policies stated the specific reason for cancellation. The 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 426.

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 represents company	34	68.0
Underwriting reasons	16	32.0
Total	50	100.0

All nonrenewal notices stated the specific reason for nonrenewal. All insureds 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.

Declinations/Rejections

Fifty declined/rejected new business applications were randomly selected for review from a population of 2,169. The reason for declination/rejection was deemed valid for all applications reviewed. The review revealed the following reason for declination/rejection:

Reason for Declination/Rejection	Number of Declinations/Rejections
Underwriting reasons	50
Total	50

All reasons for declination/rejection were deemed valid and handled in a timely manner. All files 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, bodily injury, closed without payment, and subrogated claims.

Two hundred three claims were randomly selected for review from a population of 978.

Paid Claims

The examiners randomly selected 75 of the 238 first and third party property damage claims paid during the period under examination. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) 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
First party property damage	27
Third party property damage	14

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 the first and third party property damage claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Bodily Injury Claims

The entire population of 39 bodily injury claims was selected for review. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and whether the Company had engaged in any unfair claims practices. The review of the bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 662. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see 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 29 calendar days for the 5-year period of examination. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

The entire population of 39 subrogated claims was selected for review. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and whether the insured's deductible was properly reimbursed by the Company when subrogation was successful.

All reimbursements were deemed to be correct and were issued on a 5-year average of one calendar day from the date the Company collected the monies.

Litigated Claims

The Company reported they did not have any litigated claims during the examination period.

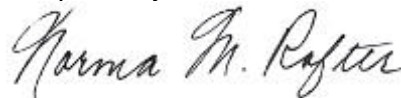
CONCLUSION

An examination has been conducted on the market conduct affairs of Lititz Mutual Insurance Company for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 28, 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 underwriting practices, terminations, and claims practices.

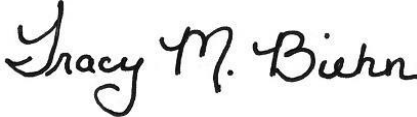
In addition to the undersigned, Sharon O'Quinn, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



Norma M. Rafter, CPCU
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 M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina