

Report on

Market Conduct Examination

of

The Members Insurance Company

Charlotte, NC

by Representatives of the
North Carolina Department of Insurance

as of

April 26, 2016

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Raleigh, North Carolina
April 26, 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 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

The Members Insurance Company (NAIC #12617)
NAIC Exam Tracking System Exam Number: NC299-M81
Charlotte, NC

hereinafter generally referred to as the Company, at the Company's home office located at 6600 AAA Drive, Charlotte, North Carolina 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 target examination of the Company. This examination commenced on July 27, 2015, and covered the period of January 1, 2014, through December 31, 2014, with analyses of certain operations of the Company being conducted through April 19, 2016. 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 this examination was not comprehensive, but included a limited review of the Company's practices and procedures in marketing and underwriting. 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 the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language (ACL) 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:

Marketing – Use of a previous edition of the private passenger automobile application.

Underwriting Practices – Private Passenger Automobile: Signed consent to rate form not obtained, use of incorrect rates, and written consent was not obtained to charge a policy fee.

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, 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 these lines of business were made to the Department by the Company.

The Company did not adhere to the provisions of NCGS 58-3-150(a) and 11 NCAC 10.1201(c) as the application used for five private passenger automobile policies was not the current edition filed with and approved by the Department.

UNDERWRITING PRACTICES

Overview

The Company's marketing in North Carolina is directed to personal 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
- Homeowners

A random selection of 238 policies was made from a total population of 9,494. 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

A random selection of 119 policies was made from a population of 6,752. The Company's private passenger automobile policies were written on an annual and semi-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 the provisions of NCGS 58-36-30(a) as incorrect rates were used for five policies, resulting in four undercharges and one overcharge. At the request of the examiners, the Company refunded \$63.14.

The Company did not adhere to the provisions of 11 NCAC 10.0602 and NCGS 58-36-30(b) as the signed consent to rate form was not obtained for seven policies. At the request of the examiners, the Company refunded \$487.37.

The Company did not adhere to the provisions of NCGS 58-33-85(b) as written consent was not obtained to charge a policy fee for eight policies. At the request of the examiners, the Company refunded \$190.08.

Homeowners

A random selection of 119 policies was made from a total population of 2,742. The Company's homeowners policies were written on an annual basis. Coverages were written on a consent to rate 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.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must reinforce procedures to ascertain the correct rates are used to calculate the premium for private passenger automobile policies. A signed consent to rate form must be obtained for all consent to rate private passenger automobile policies. The Company must obtain written consent in order to charge policy fees. The Company must utilize the current edition of the application that has been filed with and approved by the Department.

CONCLUSION

An examination has been conducted on the market conduct affairs of The Members Insurance Company for the period January 1, 2014, through December 31, 2014, with analyses of certain operations of the Company being conducted through April 19, 2016.

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 and underwriting practices.

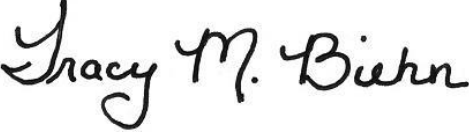
In addition to the undersigned, Brooke Hinnant, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gina L. Abate".

Gina L. Abate, 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 initial 'T' and 'B'.

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