

Report on

Market Conduct Examination

of the

Nationwide Agribusiness Insurance Company
Farmland Mutual Insurance Company
National Casualty Company

Columbus, Ohio

by Representatives of the
North Carolina Department of Insurance

as of

May 14, 2014

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Raleigh, North Carolina
May 14, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
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Honorable Ted Nickel
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Honorable Mary Taylor
Lieutenant Governor/Director
Ohio Department of Insurance
50 West Town Street
Third Floor, Suite 300
Columbus, Ohio 43215

Honorable Commissioners 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 target examination has been made of the market conduct activities of

Nationwide Agribusiness Insurance Company (NAIC #28223)
Farmland Mutual Insurance Company (NAIC #13838)
National Casualty Company (NAIC #11991)
NAIC Exam Tracking System Exam Number: NC299-M58
Columbus, Ohio

hereinafter generally referred to as the Companies, 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 Nationwide Agribusiness Insurance Company, Farmland Mutual Insurance Company, and National Casualty 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 10, 2014, and covered the period of January 1, 2011, through December 31, 2013, with analyses of certain operations of the Companies being conducted through May 14, 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.

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: 0 percent for producers 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; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following area:

Underwriting Practices – Workers' Compensation: Producers not properly appointed and rating errors.

Specific violations related to each area of concern 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 non-compliant practices, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their 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

Overview

The Companies’ underwriting practices and procedures for active workers’ compensation policies were reviewed to determine 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.

Workers’ Compensation

The entire population of 56 workers’ compensation policies issued during the period under examination was selected for review.

The Companies’ workers’ compensation coverages were written utilizing manual and deviated rates. Policies were written on an annual basis. Risk placement was determined by the Companies’ underwriting guidelines and the underwriter. No discrepancies were noted in

the Companies' use of their 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 58-33-26 and NCGS 58-33-40 as the producer was not properly appointed by the Companies for nine of the active workers' compensation files reviewed (16.1 percent error ratio)

The Companies were deemed to be in violation of the provisions of NCGS 58-36-100(I) as 41 of the active workers' compensation files reviewed (73.2 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- An incorrect rate was used to calculate the terrorism premium on 34 policies.
- An incorrect experience modification was applied on one policy.
- The Blanket Waiver of Subrogation was calculated incorrectly on three policies.
- An incorrect loss cost multiplier was applied on three policies.

The rating errors resulted in 12 premium overcharges and 29 premium undercharges to the insureds. The 12 premium overcharges were a result of the incorrect terrorism rate.

As a result of the incorrect rate used to calculate the terrorism premium, the examiner requested that the Companies conduct a self-audit. The Companies identified 105 policies resulting in overcharges in the amount of \$13,969.80. A system issue related to the limitation on utilization of three decimal places was identified as the cause for the incorrect terrorism rate being used. The Companies are in the process of issuing refunds and enhancing the rating system. The system change is expected to be completed by June 16, 2014, with an effective date of July 1, 2014.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Companies should reinforce procedures to ensure that producers who submit applications for insurance to the Companies are properly appointed. Additionally, the change

to enhance the rating system to allow for three decimal places in the final rate should be completed.

CONCLUSION

An examination has been conducted on the market conduct affairs of Nationwide Agribusiness Insurance Company, Farmland Mutual Insurance Company, and National Casualty Company for the period January 1, 2011, through December 31, 2013, with analyses of certain operations of the Companies being conducted through May 14, 2014.

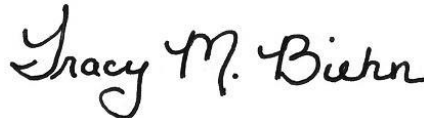
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the area of underwriting practices.

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.



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