

Report on

Market Conduct Examination

of the

Nationwide Mutual Insurance Company

Columbus, Ohio

by Representatives of the

North Carolina Department of Insurance

as of

April 2, 2014

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Raleigh, North Carolina
April 2, 2014

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Honorable Wayne Goodwin
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Honorable Director and 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 general examination has been made of the market conduct activities of

Nationwide Mutual Insurance Company (NAIC #23787)
NAIC Exam Tracking System Exam Number: NC299-M26
Columbus, Ohio

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 Nationwide 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 May 20, 2013, and covered the period of January 1, 2008, through December 31, 2011, with analyses of certain operations of the Company being conducted through March 26, 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 policyholder treatment, marketing, underwriting practices, terminations, and claims 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 consumer complaints, 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; 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 Company procedures and practices in the following areas:

Policy Forms and Filings – Unfiled homeowners consent to rate form, unfiled homeowners adverse underwriting decision (AUD) notice, unfiled homeowners installment waiver deviation for electronic funds transfer, and unfiled installment waiver deviation for account billed policies.

Terminations – Private Passenger Automobile Cancellations: Missing North Carolina Notice of Termination form (FS-4) sent to the Division of Motor Vehicles (DMV). Homeowners Cancellations: Missing documentation to support cancellation. Commercial Automobile Cancellations: Missing FS-4 sent to DMV. Businessowners Cancellations: Missing documentation to support cancellation. Private Passenger Automobile Nonrenewals: Missing documentation to support nonrenewal. Commercial Automobile Nonrenewals: Missing FS-4 sent to DMV.

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 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 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. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OPERATIONS AND MANAGEMENT

The Company is a writer of a wide variety of insurance coverages, but the majority of business written is personal lines. The Company opened for new business in North Carolina in 1928 and is licensed in the District of Columbia, U.S. Virgin Islands and all states except New Jersey, where it operates on a non-admitted basis.

Direct written premium for the Company's 2011 countrywide property and casualty operations was \$3,408,088,111. North Carolina's production for the same period was \$486,909,106. Premiums written in North Carolina between 2008 and 2011 decreased approximately 16.4 percent. The charts below outline the Company's mix of business for selected lines in 2011 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile Liability	\$174,207,068	35.8
Homeowners	\$131,486,063	27.0
Private Passenger Automobile Physical Damage	\$121,701,730	25.0
Commercial Multiple Peril Fire	\$ 20,796,357	4.3
Other Liability	\$ 9,884,419	2.0
Commercial Multiple Peril Liability	\$ 7,909,686	1.6
Commercial Automobile Liability	\$ 6,894,522	1.4
Workers' Compensation	\$ 5,793,714	1.2
Inland Marine	\$ 3,948,312	0.8
Commercial Automobile Physical Damage	\$ 2,029,470	0.4
Other	\$ 2,257,765	0.5
Total	\$486,909,106	100.0

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$ 582,698,815	\$ 578,148,544	\$ 307,437,025	53.2
2009	\$ 548,022,552	\$ 551,205,129	\$ 288,226,549	52.3
2010	\$ 519,780,485	\$ 529,003,115	\$ 233,564,037	44.2
2011	\$ 486,909,106	\$ 493,278,978	\$ 332,202,622	67.3

POLICYHOLDER TREATMENT

Consumer Complaints

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

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. The Company's complaint register was in compliance with provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

Fifty of the 990 complaints from the Department's listing were randomly selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	26
Underwriting	21
Administrative	3
Total	50

The Company's response to each complaint was deemed to be appropriate to the circumstances. Six complaints were responded to in excess of seven calendar days. However, extensions were requested and granted for those complaints.

The average service time to respond to a Departmental complaint was five calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	44	88.0
8 - 14	4	8.0
15 - 21	2	4.0
Total	50	100.0

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. The review was based on the following lines of business:

1. Private Passenger Automobile
2. Homeowners
3. Commercial Automobile
4. Businessowners

Filings for the private passenger automobile and homeowners lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Filings for the commercial automobile line of business were made by the Insurance Services Office on behalf of the Company. Deviations for the private passenger automobile, homeowners, and commercial automobile lines of business were made to the Department by the Company. The Company's businessowner coverages were written utilizing independently filed rates.

The Company was deemed to be in violation of the provisions of NCGS 58-36-55 as the homeowners consent to rate form was not filed with and approved by the Commissioner. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as the homeowners AUD notice was not filed with and approved by the Commissioner. The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a) and Rule A2 of the Homeowners Policy Program Manual as an installment waiver deviation for electronic funds transfer was not filed with and approved by the Commissioner. The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a), Rule A2 of the Homeowners Policy Program Manual, and Rule 22 of the Personal Auto Manual as an installment waiver deviation for account billed policies was not filed with and approved by the Commissioner. The manual rules cited apply to each policy issued, not to each account, unless a deviation to the rules is filed with and approved by the Commissioner.

Producer Licensing

The Company's procedures for appointment and termination of its 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 1,404 and 2,561, respectively.

All appointment forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40. The Company was reminded of the provisions of NCGS 58-33-56(b) as it failed to notify the Department of the termination within 30 days for four terminated producers reviewed (8.0 percent error ratio). The Company was reminded of the provisions of NCGS 58-33-56(b) as it failed to notify the producer within 15 days of notification to the Department for three terminated producers (6.0 percent error ratio). The Company was reminded of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as the notification of termination letter was not included in the file for two producers reviewed (4.0 percent error ratio).

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina is directed to personal and commercial lines. The Company provided the examiners with listings of the following types of active policies for the period under examination:

1. Private Passenger Automobile
2. Homeowners
3. Commercial Automobile
4. Businessowners

A random selection of 350 policies was made from a total population of 217,491. 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

The Company provided a listing of 5,791 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The Company's private passenger automobile policies were written on a 6 or 12-month basis. Liability coverages were written utilizing manual rates. Physical damage coverages were written using both manual rates and 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. All premiums charged were deemed correct.

Homeowners

The Company provided a listing of 190,819 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 its underwriting guidelines.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as five files did not contain applications, and one file did not contain a Wind or Hail Rejection Form signed by the insured (6.0 percent error ratio).

The Company was reminded of the provisions of NCGS 58-36-30(a) as four policies reviewed (4.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- The home purchase discount was not applied on two policies.
- The personal status deviation was improperly applied on one policy.
- An endorsement premium was not charged on one policy.

The rating errors resulted in two premium undercharges and two premium overcharges to the insureds. At the request of the examiners, refunds covering multiple terms in the amount of \$126.79 were issued by the Company for the overcharges. The remaining 96 premiums charged were deemed correct.

Commercial Automobile

The Company provided a listing of 2,534 active commercial automobile policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's commercial automobile 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 its underwriting guidelines.

All policy files contained sufficient documentation to support the Company's classification of the risk. All policy premiums were deemed correct.

Businessowners

The Company provided a listing of 18,347 active businessowners policies issued during the period under examination. One hundred policies were randomly selected for review.

The Company's businessowners 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. All files contained sufficient

documentation to support the Company's classification of the risk. No discrepancies were noted in the Company's use of its underwriting guidelines.

The Company was reminded of the provisions of NCGS 58-41-50(f) as six policies reviewed (6.0 percent error ratio) had multiple rating errors. The rating errors consisted of the following:

- Territorial factor was incorrectly applied to business income coverage on three policies.
- Incorrect territory was used on one policy.
- Incorrect protection class was used on one policy.
- Incorrect building class was used on one policy.
- Incorrect town group factor was applied on one policy.
- Incorrect class modifier was applied on one policy.
- Incorrect liability exposure factor was applied on one policy.
- Incorrect business personal property special increment modifier was applied on one policy.

The rating errors resulted in two premium undercharges and four premium overcharges to the insureds. At the request of the examiners, refunds covering multiple terms were issued by the Company in the amount of \$342.36. The remaining 94 premiums were deemed correct.

As a result of the premium calculation errors, the Company, on its own initiative, started an expanded self-audit prior to a formal request by the Department. The Company reviewed 193,168 policies, identifying 237 policies in error. All 237 policies in error resulted in overcharges. Overcharges for the self-audit totaling \$13,253.19 were reimbursed to the policyholders prior to the conclusion of the examination.

TERMINATIONS

Overview

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

1. Private Passenger Automobile
2. Homeowners
3. Commercial Automobile
4. Businessowners

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 290,841 policies were terminated during the period of time subject to this examination. The examiners randomly selected 632 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 121,823.

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	45	45.0
Nonpayment of premium	37	37.0
Coverage rewritten	18	18.0
Total	100	100.0

The Company was not required to issue cancellation notices for 63 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten.

The Company was reminded of the provisions of NCGS 58-36-30(a) and Rule 10 of the North Carolina Personal Automobile Manual as one policy reviewed (1.0 percent error ratio) was cancelled using an incorrect cancellation method. The error resulted in an understatement of refund to the insured. At the request of the examiners, the Company issued an additional refund in the amount of \$452.85. The remaining 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. The Company was reminded of the provisions of NCGS 58-36-85(b)(3) as it did not send a written termination notice for eight files reviewed (8.0 percent error ratio) for which there was no written request from the insured to terminate the policy.

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102, 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the FS-4 submitted to the DMV when liability coverage was cancelled for 15 policies reviewed (15.0 percent error ratio).

The remaining policy files reviewed contained sufficient documentation to support action taken by the Company.

Homeowners Cancellations

One hundred cancelled homeowners policies were randomly selected for review from a population of 129,741.

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	53	53.0
Nonpayment of premium	35	35.0
Coverage rewritten	9	9.0
Underwriting reasons	3	3.0
Total	100	100.0

The Company was not required to issue cancellation notices for 62 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 38 policies stated the specific reason for cancellation. All insureds and mortgagees were given proper and timely notification of cancellation.

The Company was reminded of the policy provisions as one policy was not cancelled on the date requested by the insured (1.0 percent error ratio). This error resulted in a \$7.40 refund due the insured, which was issued at the request of the examiners.

The final area of this review encompassed documentation of the policy file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for 15 policies reviewed (15.0 percent error ratio).

Commercial Automobile Cancellations

One hundred cancelled commercial automobile policies were randomly selected for review from a population of 10,666.

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	49	49.0
Nonpayment of premium	45	45.0
Underwriting reasons	4	4.0
Coverage rewritten	2	2.0
Total	100	100.0

The Company was not required to issue cancellation notices for 51 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten.

The Company was reminded of the provisions of Rule 11 of the Commercial Automobile Manual as two policies (2.0 percent error ratio) were cancelled pro-rata rather than .90 of the pro-rata unearned premium when the policy was cancelled at the request of the insured. The errors resulted in overstatement of refund to the insureds. The remaining premium refund calculations were deemed correct. The Company issued the refunds in a timely manner.

The Company was reminded of the policy provisions as one policy was cancelled on the renewal date in lieu of the date requested by the insured (1.0 percent error ratio). This error resulted in a \$12.96 refund due the insured, which was issued at the request of the examiners.

The final area of this review encompassed documentation of the policy file. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the refund issued to the insured for one policy reviewed (1.0 percent error ratio). The Company issued a refund of \$8.64 to the insured at the request of the examiners. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for five policies reviewed (5.0 percent error ratio).

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the FS-4 submitted to the DMV when liability coverage was cancelled for all policies reviewed (100 percent error ratio).

Businessowners Cancellations

One hundred cancelled businessowners policies were randomly selected for review from a population of 6,915.

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	67	67.0
Nonpayment of premium	24	24.0
Underwriting reasons	5	5.0
Coverage rewritten	4	4.0
Total	100	100.0

The Company was not required to issue cancellation notices for 71 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 29 policies stated the specific reason for cancellation.

The Company was reminded of the provisions of Rule 11 of the Businessowners Manual as seven policies (7.0 percent error ratio) were cancelled pro-rata rather than .90 of the pro-rata unearned premium when the policy was cancelled at the request of the insured. The remaining premium refund calculations were deemed correct. The Company issued the refunds in a timely manner.

The Company was reminded of the provisions of NCGS 58-41-15(b) as the notice of cancellation was not sent at least 15 days prior to the termination date for one cancelled policy reviewed (1.0 percent error ratio).

The final area of this review encompassed documentation of the policy file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for 12 cancelled policies reviewed (12.0 percent error ratio). The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the proof of mailing for one cancelled policy reviewed (1.0 percent error ratio).

Private Passenger Automobile Nonrenewals

The entire population of thirty-two nonrenewed private passenger automobile policies was selected for review.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	32	100.0
Total	32	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The insureds and lienholders were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as the Company was unable to provide documentation supporting nonrenewal for 11 of the policies reviewed (34.4 percent error ratio).

The Company sent the FS-4 to the DMV when liability coverages were nonrenewed. The Company was deemed to be in compliance with the provisions of NCGS 20-309.2.

Homeowners Nonrenewals

One hundred nonrenewed homeowners policies were randomly selected for review from a population of 21,113.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal.

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	100	100.0
Total	100	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was reminded of the policy provisions as the notice of nonrenewal was not sent at least 30 days prior to the termination date for five policies reviewed (5.0 percent error ratio).

The final area of this review encompassed documentation of the policy file. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for one policy file reviewed (1.0 percent error ratio).

Commercial Automobile Nonrenewals

Fifty nonrenewed commercial automobile policies were randomly selected for review from a population of 217.

The reason for nonrenewal was deemed valid for all files reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	50	100.0
Total	50	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal.

The final area of this review encompassed file documentation. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for two policies reviewed (4.0 percent error ratio).

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4),(g) as it was unable to provide the proof of mailing for one policy reviewed (2.0 percent error ratio).

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the FS-4 submitted to the DMV when liability coverage was nonrenewed for all policies reviewed (100.0 percent error ratio).

Businessowners Nonrenewals

Fifty nonrenewed businessowners policies were randomly selected for review from a population of 334.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	50	100.0
Total	50	100.0

The Company was reminded of the provisions of NCGS 58-41-20(c) as the nonrenewal notice was not sent at least 45 days prior to the termination date for three policies reviewed (6.0 percent error ratio).

The final area of this review encompassed file documentation. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for one policy file reviewed (2.0 percent error ratio).

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, automobile medical payments, first and third party bodily injury, closed without payment, subrogated, total loss settlement, and litigated claims.

Eight hundred fifty claims were randomly selected for review from a population of 382,923.

Paid Claims

The examiners randomly selected 300 of the 212,916 first party automobile physical damage, first party property damage, and third party property damage claims paid during the

period under examination. The claim files were reviewed 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
Automobile physical damage	14.0
First party (excluding automobile physical damage)	10.0
Third party property damage	12.0

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.

First party property damage claims were not investigated in a timely manner for one claim (1.0 percent error ratio) and were not paid in a timely manner for one claim (1.0 percent error ratio). This matter could result in a violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice.

Automobile Medical Payment Claims

One hundred automobile medical payment claims were randomly selected for review from a population of 19,012. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no violations of the provisions of NCGS 58-63-15.

First and Third Party Bodily Injury Claims

One hundred first and third party bodily injury claims were randomly selected for review from a population of 27,654. The claim files were reviewed to determine whether the Company

had engaged in any unfair claims practices. The review of first and third party bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15.

Closed Without Payment Claims

One hundred closed without payment claims were randomly selected for review from a population of 81,713. The claim files were reviewed to determine 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 six calendar days for the 3-year period. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15.

Subrogated Claims

One hundred subrogated claims were randomly selected for review from a population of 8,609. The claim files were reviewed to determine if the insured's deductible was properly reimbursed by the Company when subrogation was successful.

The insured's deductible was not reimbursed in a timely manner for one claim (1.0 percent error ratio). This matter could result in a violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice. The remaining reimbursements were deemed to be correct and were issued on an average of one calendar day from the date the Company collected the monies.

Total Loss Settlement Claims

One hundred total loss settlement claims were randomly selected for review from a population of 30,798. The claim files were reviewed to determine if the settlements were equitable and timely.

The Company primarily used CCC Information Services, Inc. in addition to on-site independent adjusters to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. The Company settled all claims in a timely manner. The payments were issued on a 3-year average of 22 calendar days. No violations of the provisions of NCGS 58-63-15(11)(h), 11 NCAC 4.0418, or 11 NCAC 4.0421 were noted during this review.

Litigated Claims

Fifty litigated claims were selected for review from a population of 2,221. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of litigated claims disclosed no violations of the provisions of NCGS 58-63-15.

SUMMARY

The Market Conduct examination revealed the following:

1. Marketing

- a. The Company was deemed to be in violation of the provisions of NCGS 58-63-55 as the homeowners consent to rate form was not filed with and approved by the Commissioner.
- b. The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as the homeowners AUD notice had not been filed with and approved by the Commissioner.
- c. The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a) and Rule A2 of the Homeowners Policy Program Manual as an installment waiver deviation for electronic funds transfer was not filed with and approved by the Commissioner.
- d. The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a), Rule A2 of the Homeowners Policy Program Manual, and Rule 22 of the Personal Auto Manual as an installment waiver deviation for account billed policies was not filed with and approved by the Commissioner.
- e. The Company was reminded of the provisions of NCGS 58-33-56(b) as it failed to notify the Department of the termination within 30 days for 8.0 percent of the terminated producers reviewed.
- f. The Company was reminded of the provisions of NCGS 58-33-56(d) as it failed to notify the producer within 15 days of notification to the Department for 6.0 percent of the terminated producers reviewed.

- g. The Company was reminded of the provisions of 11 NCAC 19.0102(a), and 19.0106(a)(3) as the notification of termination letter was not included in the file for 4.0 percent of the terminated producers reviewed.

2. Underwriting Practices

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 6.0 percent of the active homeowners files reviewed did not contain proper file documentation.
- b. The Company was reminded of the provisions of NCGS 58-36-30(a) as 4.0 percent of the active homeowners policies reviewed were rated incorrectly.
- c. The Company was reminded of the provisions of NCGS 58-41-50(f) as 6.0 percent of the active businessowners policies reviewed were rated incorrectly.

3. Terminations

- a. The Company was reminded of the provisions of NCGS 58-36-30(a) and Rule 10 of the North Carolina Personal Automobile Manual as 1.0 percent of the cancelled private passenger automobile policies reviewed were cancelled using an incorrect cancellation method.
- b. The Company was reminded of the provisions of NCGS 58-36-85(b) as it did not send a written termination notice for 8.0 percent of the cancelled private passenger automobile files reviewed for which there was no written request from the insured to terminate the policy.
- c. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the North Carolina Notice of Termination form submitted to the Division of Motor Vehicles for 15.0 percent of the cancelled private passenger automobile files reviewed.
- d. The Company was reminded of the policy provisions as 1.0 percent of the cancelled homeowners files reviewed were not cancelled on the date requested by the insured.
- e. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for 15.0 percent of the cancelled homeowners files reviewed.
- f. The Company was reminded of the provisions of Rule 11 of the Commercial Automobile Manual as 2.0 percent of the cancelled commercial automobile policies reviewed were cancelled pro-rata rather than .90 percent of the pro-rata unearned premium when the policy was cancelled per the insured's request.
- g. The Company was reminded of the policy provisions as 1.0 percent of the cancelled commercial automobile files reviewed were cancelled on the renewal date in lieu of the date requested by the insured.

- h. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the refund issued to the insured for 1.0 percent of the cancelled commercial automobile policies reviewed.
- i. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for 5.0 percent of the cancelled commercial automobile files reviewed.
- j. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the North Carolina Notice of Termination form sent to the Division of Motor Vehicles for 100 percent of the cancelled commercial automobile files reviewed.
- k. The Company was reminded of the provisions of Rule 11 of the Businessowners Manual as 7.0 percent of the cancelled businessowners files reviewed were cancelled pro-rata rather than .90 percent of the pro-rata unearned premium when the policy was cancelled at the request of the insured.
- l. The Company was reminded of the provisions of NCGS 58-41-15(b) as the notice of cancellation was not sent at least 15 days before the effective date of cancellation for 1.0 percent of the cancelled businessowners files reviewed.
- m. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support cancellation for 12.0 percent of the cancelled businessowners files reviewed.
- n. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide proof of mailing for 1.0 percent of the cancelled businessowners files reviewed.
- o. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support nonrenewal for 34.4 percent of the nonrenewed private passenger automobile files reviewed.
- p. The Company was reminded of the policy provisions as the notice of nonrenewal was not sent at least 30 days prior to the termination date for 5.0 percent of the nonrenewed homeowners files reviewed.
- q. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for 1.0 percent of the nonrenewed homeowners files reviewed.
- r. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for 4.0 percent of the nonrenewed commercial automobile files reviewed.

- s. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the proof of mailing for 2.0 percent of the nonrenewed commercial automobile files reviewed.
- t. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide documentation to support the North Carolina Notice of Termination form was sent to the Division of Motor Vehicles for 100 percent of the nonrenewed commercial automobile files reviewed.
- u. The Company was reminded of the provisions of NCGS 58-41-20(c) as the nonrenewal notice for 6.0 percent of the nonrenewed businessowner files reviewed was not sent at least 45 days prior to the nonrenewal date.
- v. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as it was unable to provide the nonrenewal notice for 2.0 percent of the nonrenewed businessowner files reviewed.

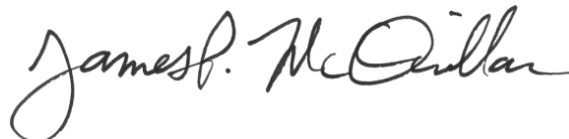
CONCLUSION

An examination has been conducted on the market conduct affairs of Nationwide Mutual Insurance Company for the period January 1, 2008, through December 31, 2011, with analyses of certain operations of the Company being conducted through March 26, 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 policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

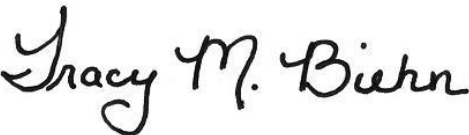
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, and Bill George, CPCU, AIS, North Carolina Market Conduct Assistant Chief Property & Casualty Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT
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, flowing style.

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