

REPORT ON
MARKET CONDUCT EXAMINATION

of the

NATIONWIDE PROPERTY AND CASUALTY INSURANCE COMPANY

Columbus, Ohio

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

October 19, 2011

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Raleigh, North Carolina
October 19, 2011

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Honorable Commissioners:

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

NATIONWIDE PROPERTY AND CASUALTY INSURANCE COMPANY (NAIC #37877)
NAIC Exam Tracking System Exam Number: NC170-M87
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 Property and Casualty 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 manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This examination commenced on October 25, 2010 and covered the period of January 1, 2007 through December 31, 2009 with analyses of certain operations of the Company being conducted through October 19, 2011. 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 apparent 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, sales and advertising, 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 an apparent 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:

Consumer Complaints – Complaints not listed on the company’s complaint register, response time to Departmental inquiries, Company mailing address and official corporate name not included on response.

Appointment of Producers – Failure to perform background checks on appointed producers.

Underwriting Practices – Private passenger automobile: rating errors, Businessowners: rating errors, Personal inland marine: incorrect service fee charged.

Terminations – Private passenger automobile cancellations: Notice of adverse underwriting decisions was not filed with and approved by the Department. Businessowners cancellations: premium refunds were calculated incorrectly. Personal inland marine cancellations: incorrect reinstatement charge/service fee applied. Private passenger automobile nonrenewals: ineligible reason used to terminate coverage. Personal inland marine nonrenewals: no evidence that termination notice was sent to the insured.

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 “NCDOI 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 or criticize 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 OVERVIEW

History and Profile

Nationwide Property and Casualty Insurance Company was incorporated on November 9, 1979 under the laws of Ohio and commenced business on July 1, 1981. The Company is a stock company, with all outstanding capital owned by the parent, Nationwide Mutual Insurance Company in Columbus, Ohio.

Company Operations and Management

The Company's operations emphasize the underwriting of personal lines coverages but also includes some commercial lines coverages. The Company is licensed in all states and the District of Columbia except; Hawaii, Louisiana, New Jersey, and Wyoming.

Direct written premium for the Company's 2009 countrywide property and casualty operations was \$1,438,395,171. North Carolina's production for the same period was \$332,261,318. Premiums written in North Carolina between 2007 and 2009 increased approximately 25.2 percent. The charts below outline the Company's mix of business for selected lines in 2009 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile	\$309,308,124	93.09
Commercial Multiple Peril	\$ 14,755,540	4.44
Personal Inland Marine	\$ 2,895,006	.87
Commercial Automobile	\$ 2,877,918	.87
Other	\$ 2,424,730	.73
Total	\$332,261,318	100.00

Year	Written Premium	Earned Premium	Incurred Losses*	Loss Ratio
2007	\$265,324,191	\$245,618,149	\$172,594,205	70.3
2008	\$320,266,458	\$307,140,247	\$196,451,011	64.0
2009	\$332,261,318	\$334,382,650	\$207,157,056	62.0
* Does not include IBNRs				

Certificates of Authority

The Certificates of Authority issued to the Company were reviewed for the period under examination. These certificates were reviewed to determine compliance with the provisions of NCGS 58-7-15. The Company's writings in North Carolina were deemed to be in compliance with the authority granted.

Disaster Recovery Procedures

The Company has developed a comprehensive Business Continuity program to increase its chances of preventing disasters, as well as providing continuing operations following natural or man-made disasters. The plans address individual business functions, applications and systems architectures throughout the organization. These plans are reviewed, updated and exercised on a regular basis. Should an event occur that hinders the Company's ability to conduct normal business operations, the plan encompasses multiple business recovery strategies that allow resumption of critical business operations within a reasonable period of time. The plan includes the relocation of work and employees to other business locations or to remotely secured locations. Data processing systems, critical files and data backed and stored at alternate data centers are utilized to enable the resumption of business operations. Business functions and system applications have pre-assigned recovery windows to ensure resources are appropriately allocated. In addition, the Company utilizes external vendors to deliver a high level of service to their customers. Should an event occur that hinders

the ability to conduct vendor transactions, the Company will appropriately re-direct those vital operations elsewhere in order to maintain continued service to customers.

Rate Evasion Procedures

The Company has established procedures to address nonfleet private passenger automobile insurance rate evasion fraud by identifying any ineligible risk as defined in NCGS 58-37-1(4a) and verifying residency of the policyholder who owns a motor vehicle registered or principally garaged in North Carolina. The Company was found to be in compliance with the provisions of NCGS 58-2-164.

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. Fifty complaints from the Department's listing of 306 were randomly selected and received for review. The Company was deemed to be in apparent violation of the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103 as 3 complaints (6.0 percent error ratio) were not listed on the Company's complaint register. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	29
Underwriting	16
Administrative	5
Total	50

The Company's response to each complaint was deemed to be appropriate to the circumstances. Seventeen complaints were responded to in excess of seven calendar days

however, extensions were requested and granted for 10 of the complaints. Of the 10 extensions granted, 1 response was received after the extension date. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as 8 complaints reviewed (16.0 percent error ratio) were responded to in excess of the 7 calendar day requirement of this rule or the extension date.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as 1 response to a Departmental inquiry (2.0 percent error ratio) did not include the Company's mailing address and official corporate name.

The average service time to respond to a Departmental complaint was 7 calendar days.

A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	33	66.0
8 - 14	12	24.0
15 - 21	5	10.0
Total	50	100.0

Privacy of Financial and Health Information

The Company provided privacy of financial and health information documentation for the examiners' review. The Company exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or consumer has authorized the disclosure. The Company was found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

MARKETING

Policy Forms and Filings

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

1. Private Passenger Automobile
2. Businessowners
3. Personal Inland Marine

Filings for private passenger automobile were made by the North Carolina Rate Bureau on behalf of the Company. Deviations were made to the Department by the Company. The Company's businessowners and personal inland marine coverages were written utilizing independently filed rates.

Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15.

The Company creates a range of advertising material that it makes available to its producers for purchase through a forum entitled Marketing Storefront. However, because most Nationwide Insurance producers are independent contractors, they have the ability to create their own advertising on behalf of their individual agencies. With respect to such producer created advertising, producers are advised to consult with their own advisors and attorneys and also to bring such advertising to the attention of the Company for review and approval. Nationwide's marketing department will review it for both brand standard and substantive issues and utilize the services of product, legal and other specialists as needed and then communicate back to the producer.

The examiners reviewed advertisements, producer marketing solicitation kits, telemarketing scripts, bulletins and brochures that are provided for promotional use. The Company also maintains an internet site: <http://www.nationwide.com/>. The website provides background information relative to its operations, as well as products and services offered.

No unfair or deceptive trade practices were noted in this segment of the examination.

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 and received for review from populations of 1,248 and 1,709, 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 deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on 5 appointed producers reviewed (10.0 percent error ratio).

The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185 and 19.0106(a)(4) as 1 file provided for review (2.0 percent error ratio) was an invalid receipt as the termination date was outside the period under examination. The remaining 49 terminated appointment forms were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-56(b).

Agency Management

The Company has 719 active agencies with approximately 4,348 producers appointed in North Carolina as well as 16 field marketing representatives. The North Carolina marketing efforts are under the direction of the Vice President, Distribution Marketing, who works in the Home Office in Columbus, Ohio. There is a Senior Consultant, Distribution of Marketing located in the Raleigh, North Carolina Service Center. National efforts are under the direction of the Senior Vice President, Nationwide Insurance Brand Marketing, also located in the Home Office.

The Manager of Licensing and Compensation is responsible for verifying producer licenses and completing company appointments and terminations. The Manager reports to the Associate Vice President of the Sales Service Center.

Sales Compliance conducts audits on the agency force. These audits vary by type to include items that are required by State and company guidelines. The frequency is typically determined by the agency type and results of previous compliance audits.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina focuses on 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. Businessowners
3. Personal Inland Marine

A random selection of 250 policies was made from a total population of 92,345. 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 83,504 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's private passenger automobile policies were written on a 6 month basis. Liability coverages were written utilizing manual rates. Physical damage 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.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a), 58-37-35(l) and Rules 3 and 5 of the North Carolina Personal Automobile Manual as 16

policies reviewed (16.0 percent error ratio) contained multiple rating errors. The rating errors consisted of the following:

- Incorrect territory was used to rate 7 policies.
- Incorrect Safe Driver Incentive Plan points were applied on 4 policies.
- Incorrect Inexperienced Operator Surcharge was applied on 3 policies.
- Incorrect company deviations were applied on 3 policies.

The rating errors resulted in 10 premium undercharges and 6 premium overcharges to the insureds. At the request of the examiners, refunds covering multiple terms were issued by the Company in the amount of \$201.20. The remaining 84 premiums charged were deemed correct.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 2 files reviewed (2.0 percent error ratio) did not contain a copy of the application.

Businessowners

The Company provided a listing of 1,961 active businessowners policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's businessowners policies 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 deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 5 policies reviewed (10.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Years in business factor was not applied on 1 policy.

- Number of stories factor was not applied on 1 policy.
- Protection class factor was not applied on 1 policy.
- Incorrect property deductible was applied on 1 policy.
- General Liability occupancy modifier was not applied on 1 policy.

The rating errors resulted in 2 premium undercharges and 2 premium overcharges to the insureds. At the request of the examiners, refunds covering multiple terms were issued by the Company in the amount of \$92.28. The remaining 45 premiums were deemed correct.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as the Individual Risk Premium Modification worksheets provided for 3 policies reviewed (6.0 percent error ratio) were invalid.

Personal Inland Marine

The Company provided a listing of 6,880 active personal inland marine policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's personal inland marine coverage is an independently filed program which covers pleasure boats. 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 deemed to be in apparent violation of the provisions of 11 NCAC 10.1102(11) as the service fee charged on 32 policies reviewed (32.0 percent error ratio) was not in accordance with the Company's filed plan.

The Company was reminded of the provisions of 11 NCAC 10.1102(11) as 5 policies reviewed (5.0 percent error ratio) were not rated in accordance with the Company's filed rating plan. The errors consisted of the following:

- Multi-policy discount was not applied to 3 policies.
- Intra-agency discount was not applied to 1 policy.
- Out-of-state surcharge was applied in error to 1 policy.

The 5 rating errors resulted in premium overcharges to the insureds. At the request of the examiners, refunds covering multiple terms were issued by the Company in the amount of \$458.41.

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 focused on the following lines of business:

1. Private Passenger Automobile
2. Businessowers
3. Personal Inland Marine

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 121,574 policies were terminated during the period under examination. The examiners randomly selected 317 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected and received for review from a population of 113,884.

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	46	46.0
Nonpayment of premium	38	38.0
Rewritten	15	15.0
Underwriting reasons	1	1.0
Total	100	100.0

The Company was not required to issue cancellation notices for 61 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten. Cancellation notices for the remaining 39 policies stated the specific reason for cancellation.

The Company was reminded of the provisions of NCGS 58-36-30(a) and Rule 10 of the North Carolina Personal Automobile Manual as 3 policies reviewed (3.0 percent error ratio) were cancelled using an incorrect cancellation method. One of the errors resulted in an understatement of refund to the insured. At the request of the examiners, an additional refund was issued by the Company in the amount of \$10.90. The remaining premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The Company was reminded of the provisions of NCGS 58-37-50 as 1 insured (1.0 percent error ratio) was not offered coverage in the North Carolina Reinsurance Facility when she no longer met the company's voluntary guidelines. The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the notice of adverse underwriting decision sent to 1 insured (1.0 percent error ratio) had not been filed with and approved by the Department.

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) as it did not send a written termination notice for 5 files reviewed (5.0 percent error ratio) for which there was no written request from the insured to terminate the policy. The Company sent the North Carolina Notice of Termination Form (FS-4) to the North Carolina Division of Motor Vehicles (DMV) when liability coverages were cancelled. The Company was deemed to be in compliance with the provisions of NCGS 20-309.

Businessowners Cancellations

Fifty cancelled businessowners policies were randomly selected and received for review from a population of 1,200.

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	27	54.0
Nonpayment of premium	15	30.0
Coverage rewritten	6	12.0
Underwriting reasons	2	4.0
Total	50	100.0

The Company was not required to issue cancellation notices for 33 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 67 policies stated the specific reason for cancellation.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 5 policies (10.0 percent error ratio), cancelled at the request of the insured, were cancelled pro rata rather than .90 of the pro rata unearned premium resulting in overstatement of refund to the insured. 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 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 4 files (8.0 percent error ratio) did not contain proper file documentation. Two files did not contain proof of mailing of the cancellation notice to the insured and 2 files did not contain documentation of the insureds request to cancel the policy.

Personal Inland Marine Cancellations

One hundred cancelled personal inland marine policies were randomly selected and received for review from a population of 6,407.

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	52	52.0
Nonpayment of premium	47	47.0
Underwriting reasons	1	1.0
Total	100	100.0

The Company was not required to issue cancellation notices for 52 of the cancellations reviewed as these policies were cancelled at the request of the insured. Cancellation notices for the remaining 48 policies stated the specific reason for cancellation.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 3 files reviewed (3.0 percent error ratio) did not contain documentation of the insureds request to cancel the policy.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 as an incorrect reinstatement charge or service fee was applied on 25 files reviewed (25.0 percent error ratio). The charge/fees applied were less than those that were filed with and approved by the Department.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were randomly selected for review from a population of 66. One file (2.0 percent error ratio) was an invalid receipt as it was a cancellation rather than a nonrenewal. The Company was reminded of the provisions of

NCGS 58-2-131(i), 58-2-185 and 11 NCAC 19.0106(a)(4). The review was based on the remaining 49 files.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(b) as 9 policies reviewed (18.4 percent error ratio) were nonrenewed due to lack of underwriting information, which is an ineligible reason. The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	49	100.0
Total	49	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was reminded of the provisions of NCGS 58-36-85(c) as 4 nonrenewal notices (8.2 percent error ratio) were not issued at least 60 days prior to the nonrenewal date of the policy.

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 the notice of nonrenewal and proof of mailing were not included in 2 files reviewed (4.1 percent error ratio). The remaining 47 policy files reviewed contained sufficient documentation to support the action taken by the Company. The Company was reminded of the provisions of NCGS 20-309 as the FS-4 was not sent to the DMV when liability coverages were nonrenewed for 3 policies reviewed (6.1 percent error ratio).

Businessowners Nonrenewals

The entire population of 14 nonrenewed businessowners policies was selected and received 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	14	100.0
Total	14	100.0

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

The final area of this review encompassed file documentation. All policy files contained sufficient documentation to support the action taken by the Company.

Personal Inland Marine Nonrenewals

The entire population of 3 nonrenewed personal inland marine policies was selected and received 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	3	100.0
Total	3	100.0

The Company was deemed to be in apparent violation of the Policy Conditions as the 3 files provided for review (100.0 percent error ratio) contained no evidence that the notice of nonrenewal was sent to the insured.

Declinations/Rejections

The Company reported there were no declinations/rejections for the period under examination.

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

Claims service in North Carolina is under the direction of the Associate Vice President of Claims and is provided predominantly from the service center located in Raleigh, North Carolina. The staff is comprised of 107 claims managers, 3 training specialists, 526 claims adjusters and 25 administrative personnel. There are also field based associates spread throughout North Carolina to handle customers face to face. Company adjusters provide the claim service with assistance, at times, from independent adjusters. Independent adjusters have no check or draft authority. The Company agency force does not adjust any claims and does not have claims draft authority. With regard to total losses, a salvage log is maintained by Mitchell Salvage Systems. That system is maintained by the North Carolina claims manager.

Eight hundred claims were randomly selected for review from a population of 301,274.

Paid Claims

The examiners randomly selected and received 250 of the 64,959 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	18.0
First Party Property damage	19.0
Third party property damage	20.0

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 paid in a timely manner for 2 claims (4.0 percent error ratio). First party property damage claims were not investigated in a timely manner for 2 claims (4.0 percent error ratio).

Third party property damage claims were not paid in a timely manner for 2 claims (2.0 percent error ratio). Third party property damage claims were not investigated in a timely manner for 1 claim (1.0 percent error ratio). This matter could result in an apparent 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 and received for review from a population of 5,582. 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 apparent violations of the provisions of NCGS 58-63-15(11).

First and Third Party Bodily Injury Claims

One hundred first and third party bodily injury claims were randomly selected and received for review from a population of 7,898. 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 apparent violations of the provisions of NCGS 58-63-15(11).

Closed Without Payment Claims

One hundred closed without payment claims were randomly selected and received for review from a population of 155,078. 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 11 calendar days for the 3-year period. The review of closed without payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

One hundred subrogated claims were randomly selected and received for review from a population of 60,286. The claim files were reviewed to determine if 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 3-year average of 1 calendar day from the date the Company collected the monies. The review of subrogated claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

Total Loss Settlement Claims

One hundred total loss settlement claims were randomly selected and received for review from a population of 7,034. The claim files were reviewed to determine if the settlements were equitable and timely.

Claims were not appraised in a timely manner for 2 claims (2.0 percent error ratio). Claims were not paid in a timely manner for 2 claims (2.0 percent error ratio). This matter could result in an apparent 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 documentation. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 11 NCAC 19.0105 and 11 NCAC

19.0106(a)(5) as claims did not contain documentation of an owner retention form for 1 claim (1.0 percent error ratio).

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 payments were issued on a 3-year average of 21 calendar days. No apparent violations of the provisions of NCGS 58-63-15(11)(h), 11 NCAC 4.0418 or 4.0421 were noted during this review.

Litigated Claims

Fifty litigated claims were randomly selected and received for review from a population of 437. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of litigated claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

SUMMARY

The Market Conduct examination revealed the following:

1. Policyholder Treatment

- a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0103 as 6.0 percent of the consumer complaints were not listed on the Company's complaint register.
- b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 1.0602 as the responses to 16.0 percent of the Departmental inquiries reviewed were in excess of the 7 calendar day requirement of this rule.
- c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the response to 2.0 percent of the Departmental inquiries reviewed did not include its mailing address and official corporate name.

2. Marketing

- a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412 (2) as background checks were not performed on 10.0 percent of the appointed producers reviewed.
- b. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185 and 19.0106(a)(4) as (2.0 percent error ratio) of the terminated producer files provided

were invalid receipts as the termination date was outside the period under examination.

3. Underwriting Practices

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a), 58-37-35(l), and Rules 3 and 5 of the North Carolina Personal Automobile Manual as 16.0 percent of the active private passenger automobile policies reviewed were rated incorrectly.
- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a)(b), 19.0104, and 19.0106(a)(4) as 2.0 percent of the active private passenger automobile files reviewed did not contain a copy of the application.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as 10.0 percent of the active businessowners policies reviewed were rated incorrectly.
- d. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as the Individual Risk Premium Modification worksheets provided for 6.0 percent of the active businessowners policies reviewed were invalid.
- e. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 10.1102(11) as the service fee charged on 32.0 percent of the active personal inland marine policies reviewed was not in accordance with the Company's filed plan.
- f. The Company was reminded of the provisions of 11 NCAC 10.1102(11) as 5.0 percent of the active personal inland marine policies reviewed were not rated in accordance with the Company's filed rating plan.

4. 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 the return premium was calculated incorrectly on 3.0 percent of the cancelled private passenger automobile policies reviewed.
- b. The Company was reminded of the provisions of NCGS 58-37-50 as 1.0 percent of the private passenger automobile insureds were not offered coverage in the North Carolina Reinsurance Facility when they no longer met the company's voluntary guidelines.
- c. The Company was deemed to be in apparent violation of the provisions of NCGS 58-39-55(a) as the notice of adverse underwriting decision sent for 1.0 percent of the cancelled private passenger automobile policies reviewed had not been filed with and approved by the Department.
- d. The Company was reminded of the provisions of NCGS 58-36-85(b)(3) as it did not send a written notice of termination for 5.0 percent of the cancelled private

passenger automobile policies reviewed for which there was no written request from the insured to terminate the policy.

- e. The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50(f) as the return premium was calculated incorrectly on 10.0 percent of the cancelled businessowners policies reviewed.
- f. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 8.0 percent of the cancelled businessowners files reviewed did not contain proper file documentation.
- g. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as 3.0 percent of the cancelled personal inland marine files reviewed did not contain documentation of the insureds request for cancellation.
- h. The Company was deemed to be in apparent violation of the provisions of NCGS 58-41-50 as an incorrect reinstatement charge or service fee was applied on 25.0 percent of the cancelled personal inland marine files reviewed.
- i. The Company was reminded of the provisions of NCGS 58-2-131(i), 58-2-185, and 11 NCAC 19.0106(a)(4) as 2.0 percent of the nonrenewed private passenger automobile files reviewed were invalid receipts.
- j. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(b) as an ineligible reason for nonrenewal was used to terminate 18.4 percent of the nonrenewed private passenger automobile policies reviewed.
- k. The Company was reminded of the provisions of NCGS 58-36-85(c) as the notice of nonrenewal was not issued at least 60 days prior to the termination date for 8.2 percent of the nonrenewed private passenger automobile policies reviewed.
- l. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) as the nonrenewal notice and proof of mailing were not included in 4.1 percent of the nonrenewed private passenger automobile files reviewed.
- m. The Company was reminded of the provisions of NCGS 20-309 as the North Carolina Notice of Termination Form was not delivered to the North Carolina Division of Motor Vehicles for 6.1 percent of the nonrenewed private passenger automobile files reviewed.
- n. The Company was deemed to be in apparent violation of the Policy Conditions as 100.0 percent of the nonrenewed personal inland marine files provided for review contained no evidence that the nonrenewal notice was sent to the insured.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-164	Rate evasion fraud; prevention programs.
NCGS 58-2-185	Record of business kept by companies and producers; Commissioner may inspect.
NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of producers.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-1	Definitions.
NCGS 58-37-35	The Facility; functions; administration.
NCGS 58-37-50	Termination of insurance.
NCGS 58-39-25	Notice of insurance information practices.
NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-39-55	Reasons for adverse underwriting decisions.
NCGS 58-41-50	Policy form and rate filings; punitive damages; data required to support filings.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
NCGS 20-309	Motor vehicle registration.

11 NCAC 1.0602	Insurance Companies' Response to Departmental Inquiries.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 4.0418	Total Losses on Motor Vehicles.
11 NCAC 4.0421	Handling of Loss and Claim Payments.
11 NCAC 6A.0412	Appointment of Producer: Responsibility of Company.
11 NCAC 10.1102	Applicability
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0105	Claim Records.
11 NCAC 19.0106	Records Required for Examination.

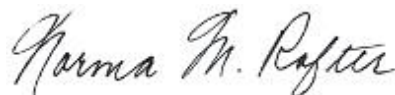
CONCLUSION

An examination has been conducted on the market conduct affairs of Nationwide Property and Casualty Insurance Company for the period January 1, 2007 through December 31, 2009 with analyses of certain operations of the Company being conducted through October 19, 2011. The Company's response to this report, if any, is available upon request.

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.

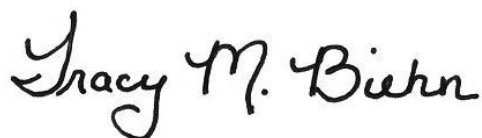
In addition to the undersigned, James P. McQuillan, CPCU, AIT, Letha Lombardi and Dana Eaves, North Carolina Market Conduct Examiners, participated in this examination.

Respectfully submitted,

Handwritten signature of Norma M. Rafter in black ink.

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.

Handwritten signature of Tracy M. Biehn in black ink.

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