

Report on
Market Conduct Examination

of

North Carolina Farm Bureau Mutual Insurance Company
Farm Bureau Insurance of N.C., Inc.

Raleigh, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

August 21, 2014

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Raleigh, North Carolina
August 21, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable 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 compliance examination has been made of the market conduct activities of

North Carolina Farm Bureau Mutual Insurance Company (NAIC #14842)
Farm Bureau Insurance of N.C., Inc. (NAIC #10034)
NAIC Exam Tracking System Exam Number: NC299-M60
Raleigh, North Carolina

hereinafter generally referred to as the Companies, at the Companies' office located at 5301 Glenwood Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of North Carolina Farm Bureau Mutual Insurance Company and Farm Bureau Insurance of N.C., Inc. 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 compliance examination commenced on July 28, 2014, and covered the period of January 1, 2013, through December 31, 2013, with analyses of certain operations of the Companies being conducted through August 20, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of March 18, 2011.

The examination was arranged and conducted by the North Carolina Department of Insurance (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 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 producers who were not appointed and/or licensed and the use of rates that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed.

Previous Examination Findings

A compliance examination covering the period January 1, 2009, through December 31, 2009, was performed on the Companies and a report dated March 18, 2011, was issued. The compliance examination report identified concerns in the area of underwriting practices.

Specific previous violations relating to this area are listed within the appropriate sections of the report.

EXECUTIVE SUMMARY

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

Underwriting Practices – Rating errors for Commercial Automobile.

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 statutory violations. 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.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina does not constitute acceptance of such violations.

UNDERWRITING PRACTICES

Commercial Automobile

The Companies’ underwriting practices and procedures for active commercial automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Commercial Automobile Manual.

The previous examination revealed the following:

- The Companies were deemed to be in violation of the provisions of NCGS 58-41-50 as 28.0 percent of the active commercial automobile policies were rated incorrectly.

The Companies provided a listing of 4,316 active commercial automobile policies issued during the period under examination. Fifty policies were randomly selected for review. **The current examination revealed the following:**

- The Companies were again deemed to be in violation of the provisions of NCGS 58-41-50 as 17 active commercial automobile policies reviewed (34.0 percent error ratio) contained a total of 18 rating errors. The rating errors consisted of the following:
 - Fifteen policies were rated using incorrect uninsured/underinsured motorist rates.
 - One policy was rated using an incorrect territory.
 - One policy was rated as non-fleet in lieu of fleet.
 - One policy applied a truck classification to two private passenger type vehicles.

The rating errors resulted in 17 premium undercharges. The remaining premiums charged were deemed correct.

SPECIAL REVIEW

Overview

As a result of the Department's market surveillance activities, the Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed homeowners denied claims.

Homeowners Denied Claims

The examiners randomly selected 50 of the 4,475 homeowners claims denied during the period under examination. The claim files were reviewed to determine if the Companies' reasons for denying the claims were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for denying the claims. All reasons for denial were deemed valid. Claims were denied on an average of four calendar days for the 1-year period. The review of denied claims disclosed no violations of the provisions of NCGS 58-63-15.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Companies incorrectly rated the uninsured/underinsured (UM/UIM) premium on eight of the voluntary commercial automobile policies reviewed. Due to a programming error, when the insured entity type was identified as "Married Couple", the bodily injury base rate was incorrectly pulled from the "All Other" column of the rate table. This error was detected by the Companies prior to the commencement of the examination. The total number of policies affected by this error was 2,616, eight of which were included in the sample reviewed for this exam. To be in compliance with the provision of NCGS 58-41-50, the Companies have implemented a correction that will apply to all voluntary commercial automobile policies that will be effective on or after September 1, 2014.

The Companies generated an incorrect UM/UIM premium on seven policies ceded to the North Carolina Reinsurance Facility. Each of these policies had limits in excess of the basic limits. The impetus of the error was due to an incorrect allocation of the base rate. The Companies have advised that a correction has been initiated with a projected effective date of December 1, 2014.

The Companies failed to assign the correct territory on one policy, resulting in an undercharge to the policyholder. The Companies are directed to confirm the proper territory before issuance of a policy.

The Companies misclassified each vehicle on one policy with five vehicles. All vehicles were classified incorrectly as "non-fleet" in lieu of "fleet". Two of the vehicles were classified as trucks when they were actually private passenger type automobiles. The Companies are directed to assign the appropriate classification to each vehicle when issuing a policy.

CONCLUSION

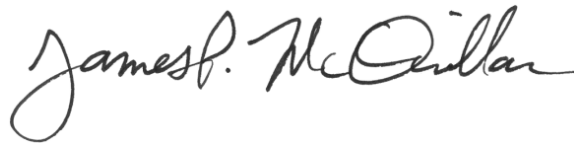
An examination has been conducted on the market conduct affairs of North Carolina Farm Bureau Mutual Insurance Company and Farm Bureau Insurance of N.C., Inc. for the

period January 1, 2013, through December 31, 2013, with analyses of certain operations of the Companies being conducted through August 20, 2014.

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

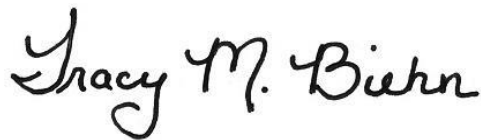
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, looped initial "J".

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 style with a large, looped initial "T".

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