

Report on

Market Conduct Examination

of the

Peak Property and Casualty Insurance Corporation

Stevens Point, Wisconsin

by Representatives of the

North Carolina Department of Insurance

as of

November 6, 2015

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Raleigh, North Carolina
November 6, 2015

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

Honorable Ted Nickel
Commissioner of Insurance
Office of the Commissioner of Insurance
125 South Webster Street
GEF III – Second Floor
Madison, Wisconsin 53703-3474

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

Peak Property and Casualty Insurance Corporation (NAIC #18139)

NAIC Exam Tracking System Exam Number: NC299-M85
Stevens Point, Wisconsin

hereinafter generally referred to as the Corporation, at the Corporation's regional office located at 1800 Deming Way, Middleton, Wisconsin, and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The North Carolina Department of Insurance conducted a target examination of the Corporation. This examination commenced on August 24, 2015, and covered the period of June 1, 2014, through May 31, 2015, with analyses of certain operations of the Corporation being conducted through November 6, 2015. This action was taken due to market analysis on youthful operators and the inexperienced operator surcharge. All comments made in this report reflect conditions observed during the period of the examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, but included a limited review of the Corporation's practices and procedures in marketing and underwriting. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department and 5 percent for all other areas reviewed. Sample sizes were generated via an Audit Command Language (ACL) program with a random sample taken from a given population. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

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

Underwriting Practices - Private Passenger Automobile: Rating and underwriting errors and errors involving the inexperienced operator surcharge.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com, by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Corporation is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions must be addressed.

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

MARKETING

Policy Forms and Filings

Policy forms and filings for the Corporation were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Private Passenger Automobile

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau and the North Carolina Reinsurance Facility on behalf of the Corporation. Deviations for this line of business were made to the Department by the Corporation.

UNDERWRITING PRACTICES

Overview

The Corporation’s marketing in North Carolina is directed to private passenger automobile. The Corporation provided the examiners with listings of active policies for the period under examination.

A random selection of 119 policies was made from a total population of 40,238. An additional 13 policies were chosen from the total population as a special review of policyholders under the age of 16. 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

One hundred nineteen policies were randomly selected for review from a population of 1,771, consisting of owner and named non-owner policies with policyholders 16 and 17 years of age. The Corporation's private passenger automobile policies were written on an annual or semi-annual basis. Coverages were written utilizing manual and deviated rates. Risk placement was determined by the Corporation's underwriting guidelines and the underwriter.

The Corporation did not adhere to the provisions of NCGS 58-36-30(a), NCGS 58-37-35(l), and Rule 4.F of the North Carolina Rate Bureau Personal Auto Manual (Personal Auto Manual) as 59 policies were not properly endorsed to reflect the inexperienced operator surcharge when the Level Two Limited Provisional License went into effect for the operator.

The Corporation did not adhere to the provisions of NCGS 58-36-30(a), NCGS 58-37-35(l), and Rule 4.F of the Personal Auto Manual as 14 policies were rated using an incorrect inexperienced operator surcharge.

The Corporation did not adhere to the provisions of NCGS 58-36-30(a), NCGS 58-37-35(l), and Rule 4.F of the Personal Auto Manual as ten policies were improperly issued without the inexperienced operator surcharge.

The Corporation did not adhere to the provisions of NCGS 58-37-35(l) and Rule 3.B.5 of the Personal Auto Manual as 35 policies were incorrectly rated using voluntary rates in lieu of

facility rates due to the vehicle owner having less than two years' experience as a licensed driver.

Special Review

Thirteen policies, consisting of policyholders under the age of 16, were identified and selected from the total population of private passenger automobile policies.

The Corporation did not adhere to the provisions of NCGS 58-36-30(a), NCGS 58-37-35(l), and Rule 4.F of the Personal Auto Manual as ten policies were not properly endorsed to reflect the inexperienced operator surcharge when the Level Two Limited Provisional License went into effect for the operator.

The Corporation did not adhere to the provisions of NCGS 58-37-35(l) and Rule 3.B.5 of the Personal Auto Manual as eight policies were incorrectly rated using voluntary rates in lieu of facility rates due to the operator having less than two years' experience as a licensed driver.

The Corporation did not adhere to the provisions of NCGS 58-37-35(l) and the North Carolina Reinsurance Facility (NCRF) Standard Practice Manual, Section 3, General Rules, P.1.a.1 and 3 as a motor vehicle record was not obtained within 60 days of cession to the NCRF and the date of original licensing was not determined for one policy.

The Corporation did not adhere to the provisions of NCGS 58-37-35(l) and Rule 3.B.5 of the Personal Auto Manual as one policy was incorrectly rated using voluntary rates in lieu of facility rates due to the lack of proof of driving experience. A "no-hit" driving record or ID card only both disqualify a ceded risk from being rated as a "clean risk".

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Corporation is directed to properly rate policies with youthful operators by proactively determining when the Level One permit holder obtains the Level Two provisional license. As soon as the Level Two license is verified, the Corporation must apply the inexperienced operator surcharge to the policy and, if ceded, facility rates, as stated in the

North Carolina Rate Bureau Personal Auto Manual. These charges are to be made mid-term as soon as the Level Two license is verified. The Department recommends the Corporation order a driving record for the permitted operator 45 days after issuing either the policy or Form DL-123 to verify the Level Two license was obtained. It is not acceptable to delay verification until policy renewal or anniversary.

The Corporation is directed to train its agency force on the proper application of driving experience. The period of time an operator holds a Level One learner permit does not count toward driving experience. Experience begins with issuance of the Level Two provisional license to the youthful operator, and never before the age of 16.

The Corporation is directed to charge facility rates in lieu of voluntary rates on policies ceded to the North Carolina Reinsurance Facility that do not qualify as "clean risk". Vehicle owners holding a Level One learner permit, a Level Two provisional license with less than two years driving experience, a North Carolina ID only, or individuals with a "no-hit" driving record do not qualify as "clean risk" and must be charged facility rates if the policy is ceded.

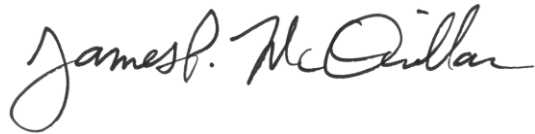
CONCLUSION

An examination has been conducted on the market conduct affairs of Peak Property and Casualty Insurance Corporation for the period June 1, 2014, through May 31, 2015, with analyses of certain operations of the Corporation being conducted through November 6, 2015.

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

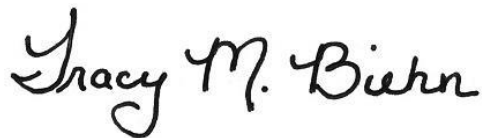
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, MCM, North Carolina Market Conduct Examiner, participated in this examination.

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, MCM
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, looped initial "T".

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