

Report on

Market Conduct Examination

of the

Rowan Mutual Fire Insurance Company

Salisbury, North Carolina

by Representatives of the

North Carolina Department of Insurance

as of

October 8, 2013

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Raleigh, North Carolina  
October 8, 2013

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 general examination has been made of the market conduct activities of

**Rowan Mutual Fire Insurance Company  
(NAIC #14022)**

NAIC Exam Tracking System Exam Number: NC299-M29  
Salisbury, North Carolina

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 Rowan Mutual Fire 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 concerns were omitted.

### **SCOPE OF EXAMINATION**

This examination commenced on August 12, 2013, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through October 7, 2013. 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, 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 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:

*Producer Licensing* – Producer not appointed.

*Underwriting Practices* – Dwelling Fire: failure to include notice to property insurance policyholder about flood, earthquake, mudslide, mudflow, and landslide insurance coverage.

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](http://www.ncdoi.com) by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified various non-compliant practices. 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.

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 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

The Company was incorporated under the laws of North Carolina in 1902 as a local farm mutual doing business in Rowan County and adjoining counties. It was initially incorporated as the Rowan Mutual Fire Insurance Company. There have been no name changes since incorporation. The Company was chartered to write property insurance and continues to write

property coverage only, consisting of fire and allied lines. Management of the Company is vested in the Board of Directors and its officers. The Board of Directors is elected by the policyholders at the Company's annual meeting. The Board of Directors, in turn, elects the officers and establishes the management of the Company. The Board of Directors consists of 12 directors who elect the President, Vice-President, and Secretary/Treasurer.

#### Company Operations and Management

The Company is a writer of personal lines insurance coverage only and is licensed only in North Carolina.

Direct written premium for the Company in 2012 was \$700,217. Premium writings in North Carolina between 2008 and 2012 increased approximately 21.5 percent. The charts below outline the Company's line of business in 2012 and loss ratios for the examination period.

<b>Line of Business</b>	<b>Written Premium</b>	<b>Percentage</b>
Dwelling Fire	\$560,173	80.0
Allied Lines	\$140,044	20.0
<b>Total</b>	<b>\$700,217</b>	<b>100.0</b>

<b>Year</b>	<b>Written Premium</b>	<b>Earned Premium</b>	<b>Incurred Losses</b>	<b>Loss Ratio</b>
2008	\$576,223	\$577,893	\$181,379	31.4
2009	\$580,248	\$581,201	\$263,810	45.4
2010	\$606,008	\$601,229	\$303,332	50.5
2011	\$617,635	\$613,162	\$581,501	94.8
2012	\$700,217	\$683,944	\$102,008	14.9

#### Certificate of Authority

The Certificate of Authority issued to the Company was reviewed for the period under examination. The certificate was 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 relies on its proximity to local police and fire protection to mitigate any damage to its office. All documents pertinent to Company operations, as well as policy and claim files, are maintained in one of two fire proof vaults on the premises. Electronic data is backed up onto portable media each work day and kept offsite until the next business day.

### **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 one complaint contained in the Department's listing was received for review. The complaint requiring a response to the Department is shown in the chart below.

<b>Type of Complaint</b>	<b>Total</b>
Claims	1
<b>Total</b>	<b>1</b>

The Company's response to the complaint was deemed to be appropriate to the circumstances.

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

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	1	100.0
<b>Total</b>	<b>1</b>	<b>100.0</b>

### 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. The review was based on the dwelling fire line of business. Policy form filings for the dwelling fire line of business were made to the Department directly by the Company.

The provisions stipulated under Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 10, Section 1102(10)(e) exempt the Company from having to submit rate filings to the Department. The Company promulgates its own rates.

### Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15. No retail advertising is done directly by the Company, with the exception of a weekly advertisement in the local paper.

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

### Social Media

The Company reported it does not currently use social media outlets for marketing or advertising purposes.

### 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. The one appointed and one terminated producer were selected for review.

The Company was deemed to be in violation of the provisions of NCGS 58-33-40 as one producer (100.0 percent error ratio) was not properly appointed by the Company.

The termination form reviewed was submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-56.

### Producer Management

Producer management is a function performed by the Secretary/Treasurer who is also a licensed producer. The Company has two full-time producers and three licensed producers, with additional duties within the Company.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing philosophy in North Carolina is directed to personal lines and provides dwelling fire coverage only. 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.

### Dwelling Fire

The Company provided a listing of 775 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's dwelling fire coverages were written utilizing independent rates. Policies were written on a 7-year continuous renewal 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 violation of the provisions of NCGS 58-44-60(a) as it did not include the required notice to the property insurance policyholder about flood, earthquake, mudslide, mudflow, and landslide insurance coverage with any of the dwelling fire policies reviewed (100.0 percent error ratio).

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

## **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 dwelling fire line of business.

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 847 policies were terminated during the period under examination. The examiners randomly selected 50 terminations for review.

### Dwelling Fire Cancellations

Fifty cancelled dwelling fire policies were randomly selected for review from a population of 847.

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

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Nonpayment	26	52.0
Insured's request	24	48.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 24 of the cancellations reviewed as these policies were cancelled at the request of the insured or coverage was rewritten.

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

#### Dwelling Fire Nonrenewals

The Company reported there were no dwelling fire nonrenewals for the period under examination.

#### Declinations/Rejections

The Company reported that no applications were declined/rejected during 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, closed without payment, subrogated, and litigated claims.

Claims service in North Carolina is provided through the home office in Salisbury, North Carolina. The Company has no resident adjusters or appraiser employees and assigns all claims and appraisals to independent adjusters. These firms do not have draft authority and all of their activities are directed by the Company, which issues all payments. One hundred claims were randomly selected for review from a population of 554.

### Paid Claims

The examiners randomly selected 50 of the 452 first 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 type of claim was reviewed and the average payment time is noted in calendar days:

Type of Claim	Payment Time
First party property damage	10.3

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(a)(5)(e) as the Company was unable to provide required documentation for one of the claim files reviewed (2.0 percent error ratio).

The review of paid claims disclosed no violations of the provisions of NCGS 58-63-15(11).

### Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 102. The claims 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 seven calendar days during the examination period. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Subrogated Claims

The Company informed the examiners that it did not have any subrogated claims during the period under examination.

Litigated Claims

The Company informed the examiners that it did not have any litigated claims during the period under examination.

**SUMMARY**

The Market Conduct examination revealed the following:

1. Producer Licensing

- a. The Company was deemed to be in violation of the provisions of NCGS 58-33-40 as one producer was not properly appointed by the Company for 100.0 percent of the producer appointments.

2. Underwriting Practices

- a. The Company was deemed to be in violation of the provisions of NCGS 58-44-60(a) as it did not include the required notice to property insurance policyholder about flood, earthquake, mudslide, mudflow, and landslide insurance coverage for 100.0 percent of the dwelling fire policies reviewed.

3. Claims Practices

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0105, and 19.0106(a)(5)(e) as it was unable to provide required documentation for 2.0 percent of the claim files reviewed.

**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 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.
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 58-39-25	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 58-44-60	Notice to property insurance policyholder about flood, earthquake, mudslide, mudflow, and landslide insurance coverage.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 10.1102	Applicability.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0105	Claim Records.
11 NCAC 19.0106	Records Required for Examination.

### **CONCLUSION**

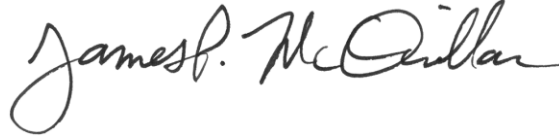
An examination has been conducted on the market conduct affairs of Rowan Mutual Fire Insurance Company for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Company being conducted through October 7, 2013.

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, participated in this examination.

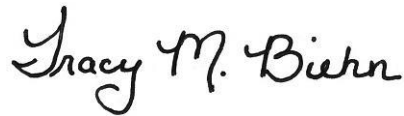


Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large 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 initial 'T'.

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