

Report on
Market Conduct Examination

of

Selective Insurance Company of the Southeast
Carmel, Indiana

by Representatives of the
North Carolina Department of Insurance

as of

September 25, 2014

TABLE OF CONTENTS

SALUTATION	1
FOREWORD	2
SCOPE OF EXAMINATION	2
Previous Examination Findings.....	2
EXECUTIVE SUMMARY.....	3
UNDERWRITING PRACTICES	3
Commercial Automobile	3
TERMINATIONS.....	4
Workers' Compensation Nonrenewals.....	4
COMMENTS, RECOMMENDATIONS AND DIRECTIVES.....	5
CONCLUSION	5

Raleigh, North Carolina
September 25, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
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Honorable Kenneth E. Kobylowski
Commissioner of Insurance
Department of Banking and Insurance
State of New Jersey
20 West State Street
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Trenton, New Jersey 08625-0325

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 compliance examination has been made of the market conduct activities of

Selective Insurance Company of the Southeast
(NAIC #39926)
NAIC Exam Tracking System Exam Number: NC299-M50
Carmel, Indiana

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 Selective Insurance Company of the Southeast. 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 June 2, 2014, and covered the period of January 1, 2013, through December 31, 2013, with analyses of certain operations of the Company being conducted through September 25, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of January 31, 2011.

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 underwriting practices and terminations.

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 forms and rates that were neither filed with nor approved by the Department; 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 Company and a report dated January 31, 2011, was issued. The compliance examination report identified concerns in the areas of underwriting practices and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report.

EXECUTIVE SUMMARY

This market conduct examination revealed no concerns with Company procedures and practices in the following areas: underwriting practices and terminations.

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.”

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.

UNDERWRITING PRACTICES

Commercial Automobile

The Company’s 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 Company was again deemed to be in violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 8.0 percent of the commercial automobile applications reviewed.
- The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a) as 10.0 percent of the active commercial automobile files reviewed contained rating errors for private passenger type vehicles.
- The Company was deemed to be in violation of the provisions of NCGS 58-41-50(b) as 22.0 percent of the active commercial automobile files reviewed applied incorrect loss costs for comprehensive coverages.

The Company provided a listing of 188 active commercial automobile policies issued during the period under examination. Fifty policies were randomly selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-33-40 as all commercial automobile applications reviewed were accepted from a producer who was properly appointed by the Company.
- Three policies reviewed (6.0 percent error ratio) containing non-fleet private passenger type vehicles, contained a total of nine rating errors that consisted of the following:
 - The airbag deviation was not applied to Medical Payments coverage on three policies.
 - Incorrect physical damage base rates were applied on three policies.
 - Incorrect increased limit factor was applied on one policy.
 - An incorrect rate modification factor was applied on one policy.
 - The private passenger automobile deviation was not applied on one policy.
- Four policies reviewed (8.0 percent error ratio), contained rating errors that consisted the following:
 - Two policies were incorrectly rated as fleet.
 - Non-Owned Auto Coverage was incorrectly rated on one policy.
 - Schedule credit was applied to one policy which was ineligible for deviation.

The rating errors resulted in three premium overcharges and two premium undercharges to the insureds. At the request of the examiners, refunds in the amount of \$334.00 were issued by the Company for the overcharges. The remaining premiums were deemed correct.

TERMINATIONS

Workers' Compensation Nonrenewals

The Company's nonrenewal procedures for workers' compensation policies were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable rules of the National Council on Compensation Insurance manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-36-110(b) as the nonrenewal notice for 25.0 percent of the workers' compensation nonrenewal files reviewed was not issued at least 45 days prior to the nonrenewal date.

The entire population of five workers' compensation policies nonrenewed during the period under examination was selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the of the provisions of NCGS 58-36-110(b) as all of the nonrenewal notices for the workers' compensation nonrenewal files reviewed were issued at least 45 days prior to the nonrenewal date.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

No violations needed to be addressed by the Company.

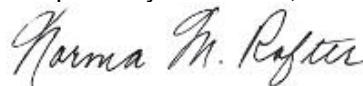
CONCLUSION

An examination has been conducted on the market conduct affairs of Selective Insurance Company of the Southeast for the period January 1, 2013, through December 31, 2013, with analyses of certain operations of the Company being conducted through September 25, 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 practices and terminations.

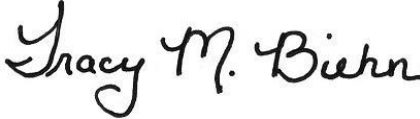
In addition to the undersigned, Sharon O'Quinn, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



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.

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