



Report on

Market Conduct Examination

of the

Southern General Insurance Company
Marietta, Georgia

by Representatives of the
North Carolina Department of Insurance

as of

June 25, 2018

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Raleigh, North Carolina
June 25, 2018

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
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Raleigh, North Carolina 27603

Honorable Ralph T. Hudgens
Commissioner of Insurance
Office of Insurance and Safety Fire Commissioner
Two Martin Luther King, Jr. Drive
West Tower, Suite 704
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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 through 58-2-134, a target examination has been made of the market conduct activities of

Southern General Insurance Company (NAIC #37141)
NAIC Exam Tracking System Exam Number: NC-NC094-4
Marietta, Georgia

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. This examination commenced on March 12, 2018, and covered the period of July 1, 2015, through June 30, 2017, with analyses of certain operations of the Company being conducted through June 22, 2018. This action was taken due to market analysis on underwriting, terminations, and claims practices. All comments made in this report reflect conditions observed during the period of 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, and consisted of an examination of the Company's practices and procedures in marketing, underwriting, terminations, and claims. 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 producers/adjusters 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; 3 percent for claims; and 5 percent for all other areas reviewed. Sample sizes were generated using Audit Command Language software. The Department utilized a 95% Confidence Level to determine the error tolerance level.

EXECUTIVE SUMMARY

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

Underwriting Practices – Accepting business from producers who were not properly appointed with the Company.

Terminations – Failure to notify the Division of Motor Vehicles (DMV) properly and timely of terminations of liability coverage.

Claims Practices – Paying claims without properly identifying under which coverage the claim was paid.

Specific violations 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 Industry”, and then “Legislative Services” under “Other Divisions”.

This examination identified various statutory violations, 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 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 Company 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 (NCRB) on behalf of the Company.

UNDERWRITING PRACTICES

Overview

The Company’s marketing in North Carolina is directed to the Private Passenger Automobile line of business. The Company provided the examiners with listings of the following type of active policies for the period under examination:

- Private Passenger Automobile

A random selection of 119 policies was made from a total population of 22,785. 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's private passenger automobile policies were written on a semi-annual and annual basis. Coverages were written utilizing manual rates and deviated rates. 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. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company did not adhere to the provisions of NCGS 58-33-26(i) and NCGS 58-33-40 as the producers were not properly appointed for eight of the policies reviewed.

TERMINATIONS

Overview

The Company's termination procedures for its private passenger automobile policies were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. 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 15,992 policies were terminated during the period under examination. The examiners randomly selected 119 terminations for review.

Private Passenger Automobile Cancellations

The Company did not adhere to the provisions of NCGS 20-309.2(a)(2) as it did not send the required notice of termination (FS-4 form) for 117 files to the Division of Motor Vehicles (DMV) when liability coverages were cancelled. The Company contracted with a third-party vendor for

this function during the exam period. On the remaining two files, the Company was not required to transmit an FS-4 to the DMV.

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 private passenger automobile physical damage paid claims and physical damage closed without pay claims. Two hundred sixty-two claims were randomly selected for review from a population of 1,996.

Private Passenger Automobile Physical Damage Paid Claims

One hundred thirty-one private passenger automobile physical damage paid claims were randomly selected for review from a population of 1,137. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) and NCGS 58-33-26(a) for timeliness of payment, supporting documentation, accuracy of payment, and licensure of the adjuster.

The following average payment time noted in calendar days was observed:

Type of Claim	Payment Time
Private Passenger Automobile Physical Damage Paid	14.0

The Company did not adhere to the provisions of NCGS 58-63-15(11)(j) as 37 claims were paid without identifying under which coverage the payments were made.

Private Passenger Automobile Physical Damage Closed Without Pay Claims

One hundred thirty-one private passenger automobile physical damage claims were randomly selected for review from a population of 859. The claim files were reviewed to determine

compliance with the provisions of NCGS 58-63-15(11) and NCGS 58-33-26(a) for timeliness of payment, supporting documentation, accuracy of payment and licensure of the adjuster.

The following average denial time noted in calendar days was observed:

Type of Claim	Denial Time
Private Passenger Automobile Physical Damage Closed Without Pay	10.0

No violations were noted.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to refrain from accepting any business produced by agents that are not appointed with the Company. The Company must submit an FS-4 form/record to the DMV whenever the liability coverages are terminated on a personal automobile policy. Additionally, the Company must specify to the claimant under which coverage the claim is being paid.

CONCLUSION

An examination has been conducted on the market conduct affairs of Southern General Insurance Company for the period July 1, 2015, through June 30, 2017, with analyses of certain operations of the Company being conducted through June 22, 2018.

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 Company's operations in the areas of marketing, underwriting practices, terminations, and claims practices.

In addition to the undersigned, Eshita Patel, North Carolina Market Conduct Examiner participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, AAI, 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.



Bill George, CPCU, AIS, MCM
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Market Regulation Division
State of North Carolina