



Report on

Market Conduct Examination

of the

Southern General Insurance Company

Marietta, Georgia

by Representatives of the
North Carolina Department of Insurance

as of

May 25, 2021

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Raleigh, North Carolina
May 25, 2021

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Honorable Commissioners:

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 the following entity:

Southern General Insurance Company (NAIC #37141)
NAIC Exam Tracking System Exam Number: NC-NC094-29
Marietta, Georgia
(hereinafter generally referred to as the Company)

The examination was conducted 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

This examination commenced on November 9, 2020, and covered the period of January 1, 2019, through December 31, 2019. Analyses of certain operations of the Company were concluded during the Wrap-Up Conference which was held on April 7, 2021. This action was taken due to the previous examination as of June 25, 2018. 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, but rather was a compliance examination and included review of the Company's marketing, private passenger automobile underwriting and rating, private passenger automobile cancellations, and private passenger automobile 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 sales and advertising, producers/adjusters who were not properly appointed and/or licensed, 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 the Company's procedures and practices in the following areas:

Underwriting and Rating — Accepted business from producers that had not been properly appointed by the Company.

Claims Practices – Applying the comprehensive deductible to an automobile fire loss, application of incorrect deductible, and allowing an unlicensed adjuster to handle a claim.

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 at <https://www.ncdoi.gov/insurance-industry/market-regulation>

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.

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.

COMPANY OVERVIEW

Antifraud Plan

The Company's rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. No errors were noted and the Company was deemed to be in compliance with the provisions of NCGS 58-2-164(c) & (c1).

MARKETING PRACTICES

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:

- Personal Automobile

Filings for the personal automobile line of business were made by the North Carolina Rate Bureau (NCRB) and the Company. Files reviewed for this examination included both ceded and voluntary coverages.

No problems were noted with the Company's forms.

UNDERWRITING AND RATING

Overview

The Company's marketing in North Carolina is directed to personal lines of business. The Company provided the examiners with listings of the following type of active policies for the period under examination:

- Personal Automobile

Out of a total population of 9,525 personal (non-fleet private passenger) automobile policies, 100 policies were selected for review. Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. The policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

The Company's personal automobile policies were written on an annual or semi-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 was reminded of the provisions of NCGS 58-36-30(a) as four policies (4.0 percent error ratio) were issued in which the premium had been miscalculated. The rating errors consisted of the following:

- Failure to provide credits on two policies.
- Application of incorrect class factor on one policy.
- Application of incorrect base rate on one policy.

The rating errors resulted in two undercharges and two overcharges in premium. At the Company's own volition it refunded \$2.22 in premium.

The Company was deemed to be in violation of NCGS 58-33-40(b) as 11 policies (11.0 percent error ratio) were submitted by producers that had not been properly appointed by the Company.

TERMINATIONS

Overview

The Company's cancellation procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. The following line of business was reviewed:

- Private Passenger Automobile

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 8,601 policies were cancelled during the period under examination. The examiners randomly selected 100 files for review.

The review revealed the following reasons for cancellation:

Reason for Cancellation	Number of Policies	Percentage
Nonpayment of premium	72	72
Insured's request	16	16
Finance Company's request	8	8
Rewrite	1	1
Risk No Longer Eligible	3	3
Total	100	100

Cancellation notices stated the specific reason for cancellation. 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. The Company sent the North Carolina Notice of Termination form (FS-4) to the

North Carolina Division of Motor Vehicles (DMV) when liability coverage was cancelled on all 100 files.

The Company was reminded of the provisions of NCGS 58-36-85(c) and the termination provisions of form NC 00 01 06 05, Termination – Cancellation, Nonrenewal, Automatic Termination, Other Termination Provisions, second paragraph as the Company failed to give the proper number of days notice prior to cancelling coverage in three policies (3.0 percent error ratio).

CLAIMS PRACTICES

Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes, rules, and policy provisions. The review encompassed paid and closed without payment claims.

One hundred fifty claims were randomly selected from a population of 3,077.

Paid Claims

One hundred first party physical damage claims and third party property damage claims were randomly selected for review from a population of 2,012. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, accuracy of payment, and supporting documentation.

The following types of claims were reviewed and the average payment times are noted in calendar days:

Type of Claim	Payment Time
Automobile Physical Damage	16
Third Party Property Damage	26

Documentation consisted of appraisals, estimates, repair bills, and adjusters' notes. Each file reviewed contained documentation necessary to support the Company's payments. Depreciation taken was reasonable. The Company was deemed to be in violation of the provisions of NCGS 58-63-15(11)(a)(b) and policy form NC 00 01 06 05, Part D in that four out of 50 first party physical damage claim files (8.0 percent error ratio) were handled in error as follows:

- Delay in settling one claim.
- Applied incorrect deductible for one claim.
- Applied comprehensive deductible to a fire loss for two claims.

Clerical errors resulted in two incorrect claim payments, but were not deemed a violation of NCGS 58-63-15.

The paid claim errors resulted in three underpayments and two overpayments. At the request of the examiners, the Company made additional payments, including statutory interest, of \$1,527.32.

As a result of the application of the deductible to fire losses, the examiners directed the Company to conduct a self-audit. The Company identified 8 claim files that warranted a reimbursement for the deductible. Reimbursements, including statutory interest, totaling \$3,756.54 were made to the policyholders prior to the conclusion of the examination.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 1,065. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Company's reasons for closing the claims without payment were valid.

All reasons for denial or closing the files without payment were deemed valid. The review of the closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

The Company was deemed to be in violation of NCGS 58-3-130 and NCGS 58-33-26(a) as one claim file was handled by an adjuster who had not been properly licensed.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to refrain from accepting any business from producers that have not been properly appointed by the Company. Deductibles must be applied correctly when adjusting claims. Adjusters must be properly licensed to adjust claims.

Upon acceptance of the Report the Company shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Company successfully implemented its statement of corrective action.

CONCLUSION

An examination has been conducted on the market conduct affairs of Southern General Insurance Company for the period January 1, 2019, through December 31, 2019, with analyses of certain operations of the Company being conducted through April 7, 2021.

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 practices, underwriting practices, terminations, and claims practices.

In addition to the undersigned, Jeffrey O'Bannon, North Carolina Market Conduct Examiner II, participated in this examination.

Respectfully submitted,



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

A handwritten signature in black ink that reads "Teresa Knowles". The signature is written in a cursive style with a large initial 'T' and a long, sweeping underline.

Teresa Knowles, ACS, MCM
Deputy Commissioner
Market Regulation Division
State of North Carolina