



Report on

Market Conduct Examination

of the

Stonewood Insurance Company
Chapel Hill, North Carolina

by Representatives of the
North Carolina Department of Insurance

as of

February 19, 2019

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Raleigh, North Carolina
February 19, 2019

Honorable Mike Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

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 the following entity:

Stonewood Insurance Company (NAIC #11828)
NAIC Exam Tracking System Exam Number: NC-NC094-12
Chapel Hill, North Carolina
(hereinafter generally referred to as the Company)

The examination was conducted at the Company's headquarters located at 6131 Falls of Neuse Road, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The examination commenced on November 19, 2018, and covered the period of January 1, 2016, through December 31, 2017. Analyses of certain Company operations were concluded during the Wrap-Up conference which was held on February 19, 2019. 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 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 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; 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 no concerns with the Company's procedures and practices in the following areas: marketing and underwriting practices.

All North Carolina General Statutes cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com.

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:

- Commercial Automobile

Filings for the commercial automobile line of business were made to the Department by the Company.

UNDERWRITING PRACTICES

Overview

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

- Commercial Automobile

A random selection of 357 policies was made from a total population of 2,503. 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.

Rate Evasion Procedures

The Company's rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Company was deemed to be in compliance with the provisions of NCGS 58-2-164 as they have procedures in place to address other than nonfleet private passenger automobile rate evasion fraud.

Commercial Automobile – Livery Types

One hundred nineteen policies were randomly selected for review from a population of 322. The Company's livery type commercial automobile policies were written on an annual basis.

Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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.

Commercial Automobile – Extra-heavy Trucks/Tractors – Local and Intermediate

One hundred nineteen policies were randomly selected for review from a population of 1,815. The Company's local and intermediate radius extra-heavy commercial automobile policies were written on an annual basis. Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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.

Commercial Automobile – Extra-heavy Trucks/Tractors – Long Distance

One hundred nineteen policies were randomly selected for review from a population of 366. The Company's long distance radius extra-heavy commercial automobile policies were written on an annual basis. Liability coverages were ceded to the North Carolina Reinsurance Facility. Excess liability coverages were written utilizing the Company's independently filed programs. 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.

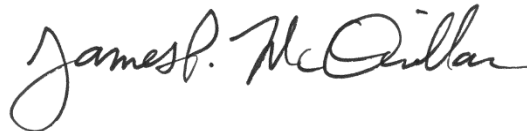
CONCLUSION

An examination has been conducted on the market conduct affairs of Stonewood Insurance Company for the period January 1, 2016, through December 31, 2017, with analyses of certain operations of the Company being conducted through February 19, 2019.

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 and underwriting practices.

In addition to the undersigned, Brooke Hinnant, MCM, and Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Senior Examiners, participated in this examination.

Respectfully submitted,



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.



Teresa Knowles
Deputy Commissioner
Market Regulation Division
State of North Carolina