

REPORT ON  
MARKET CONDUCT EXAMINATION

of the

SYNERGY INSURANCE COMPANY

Charlotte, North Carolina

BY REPRESENTATIVES OF THE  
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

December 21, 2011

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Raleigh, North Carolina  
December 21, 2011

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, a general examination has been made of the market conduct activities of

**SYNERGY INSURANCE COMPANY**  
**(NAIC #12773)**

NAIC Exam Tracking System Exam Number: NC170-M116  
Charlotte, 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 Synergy 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 improprieties were omitted.

## **SCOPE OF EXAMINATION**

This examination commenced on October 10, 2011 and covered the period of January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through December 21, 2011. 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 and terminations.

It is the Department's practice to cite companies in apparent 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 an apparent 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:

*Consumer Complaints* - NAIC company code was not included on Departmental response.

*Appointment of Producers* - background checks were not performed and confirmation of appointment was not provided.

*Underwriting Practices* - applications accepted from a producer who was not appointed and incorrect Terrorism rate applied.

*Terminations* - failure to provide sufficient notice of cancellation and notice of nonrenewal did not state the specific reason for nonrenewal.

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, 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 should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions 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

Synergy Insurance Company (SIC) is a North Carolina domestic workers' compensation company. The Company was licensed October 16, 2006 and began operations on January 1, 2007. The parent company of SIC is Synergy Holdings, LLC. Senior management owns the majority of the holding company. SIC's sister company Synergy Coverage Solutions provides the policy and claims administration.

### Company Operations and Management

The Company writes workers' compensation insurance coverages exclusively. The Company is licensed in Illinois, North Carolina and South Carolina.

Direct written premium for the Company's 2010 countrywide property and casualty operations was \$6,311,821. North Carolina's production for the same period was \$5,767,507. Premiums written in North Carolina between 2008 and 2010 decreased approximately 8.4 percent. The charts below outline the Company's mix of business for selected lines in 2010 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Workers' Compensation	\$5,767,507	100.0
<b>Total</b>	<b>\$5,767,507</b>	<b>100.0</b>

Year	Written Premium	Earned Premium	Incurred Losses*	Loss Ratio
2008	\$6,296,002	\$6,053,130	\$3,596,491	59.4
2009	\$5,004,587	\$4,215,464	\$2,396,375	56.8
2010	\$5,767,507	\$5,785,057	\$3,287,790	56.8
<b>* Does not include IBNRs</b>				



### Certificates of Authority

The Certificates of Authority issued to the Company were reviewed for the period under examination. These certificates were 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 has developed a comprehensive Emergency Operation Plan (EOP) that is activated by order of the Emergency Response Team (ERT) when there is damage or shutdown that results in the Synergy Coverage Solutions (SCS) being unable to have either access to its computer services or premises in Charlotte, North Carolina. An alternate site in Atlanta, Georgia is designated as SCS's alternate environment for hosting critical software and data processing throughout the period of disruption until the return of normal operations.

The Company's software vendor, StoneRiver and hardware vendor, Premise are required to assist in the setup of the server environment. An SCS employee will be appointed by the ERT to be present in Atlanta for the software and server load. Software referred to as GO will be the only software housed in the Atlanta location. GO is the critical software that will allow SCS employees to manage claims, policy and bill review processing. General purpose laptops and PC's have been setup with GO and stored at an offsite location.

## **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 for the period under examination was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

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 selected and received for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

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

The Company's response to the complaint was deemed to be appropriate to the circumstances. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as its response to 1 Departmental inquiry (100 percent error ratio) did not include its NAIC company code.

The service time to respond to the Departmental complaint was 7 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>

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. Filings for the workers' compensation line of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

### Sales and Advertising

Sales and advertising practices of the Company were reviewed to determine compliance with the provisions of NCGS 58-63-15.

The Company does not distribute sales material directly to insureds or prospective insureds. No media advertising is done by the Company, so the Company does not maintain a Marketing manual or have an advertising objective statement. If any agent, broker, agency or brokerage firm desires to distribute marketing material referring to Synergy Coverage Solutions or indicating a partnership with Synergy Coverage Solutions, approval is first required by the VP of Marketing of Synergy Coverage Solutions. It will be confirmed in writing from the VP of Marketing to the requestor if the advertising material is approved and the parameters surrounding the material approved. This communication should include but is not limited to; details of who will be the recipients of the material, a copy of the material approved and the media in which the material will be distributed.

The Company has a marketing brochure for agents explaining Synergy Coverage Solutions as well as a questionnaire used for potential agencies who have shown an interest in Synergy. The Company sends 3 to 4 newsletters a year via email. The Company also maintains a website at [www.synergyinsurance.net](http://www.synergyinsurance.net).

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

### 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. Fifty appointed producer files were randomly selected and received for review from a population of 74.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on 11 of the appointed producers

reviewed (22.0 percent error ratio). The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as confirmation of appointment was not provided for 30 of the appointed producer files reviewed (60.0 percent error ratio).

No producer appointments were terminated during the period under examination.

### Agency Management

The Company's marketing effort in North Carolina is under the direction of the VP of Marketing who works from the Synergy Coverage Solutions home office in Charlotte, North Carolina. Synergy Coverage Solutions is the only contracted agency for Synergy Insurance Company. As a Managing General Agent, Synergy Coverage Solutions maintains relationships with various agencies.

There are currently 2 field marketing representatives in North Carolina, the VP of Marketing and the Sr. Marketing Representative. The VP of Marketing is responsible for the activities of the agency force for Synergy Coverage Solutions. Agency reviews are completed twice a year and are conducted by the VP of Marketing, Sr. Marketing Representative, Underwriters and Chief Underwriting Officer. The Marketing Assistant completes all appointments, terminations and confirms licensing.

## **UNDERWRITING PRACTICES**

### Overview

The Company's marketing philosophy in North Carolina focuses on the workers' compensation line of business. The Company's workers' compensation policies were 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.

### Workers' Compensation

The Company provided a listing of 33 active workers' compensation policies issued during the period under examination. The entire population was selected and received for review.

The Company's workers' compensation coverages were written utilizing manual and deviated rates. Policies were written on an annual 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. All policy files contained sufficient documentation to support the Company's classification of the risk.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 19 applications (57.6 percent error ratio) were accepted from a producer who was not appointed.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-100 as an incorrect Terrorism rate was applied to 21 policies reviewed (63.6 percent error ratio) resulting in premium overcharges to the insureds. As a result of the incorrect Terrorism rate being applied, the Department requested the Company to conduct a self-audit in that area. The Company identified an additional 215 policies affected (excluding those that were reviewed by the examiners as noted above). Refunds totaling \$105,408.35 were issued for overcharges. All refunds checks were mailed to the insureds by December 9, 2011.

## **TERMINATIONS**

### Overview

The Company's termination procedures for its workers' compensation 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. The entire population of 17 files that were terminated during the period under examination was selected for review.

#### Workers' Compensation Cancellations

The entire population of 14 cancelled workers' compensation policies was received for review.

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>
Insured's request	8	57.1
Nonpayment of premium	4	28.6
Coverage rewritten	2	14.3
<b>Total</b>	<b>14</b>	<b>100.0</b>

The Company was not required to issue cancellation notices for 10 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. Cancellation notices for the remaining 4 policies stated the specific reason for cancellation. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-105(b) as they failed to provide 15 days notice of cancellation for 3 policies reviewed (21.4 percent error ratio).

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.

#### Workers' Compensation Nonrenewals

The entire population of 3 nonrenewed workers' compensation policies was received for review.

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

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Underwriting reasons	3	100.0
<b>Total</b>	<b>3</b>	<b>100.0</b>

The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-110(e) as 1 termination notice reviewed (33.3 percent error ratio) did not state the precise reason for nonrenewal. All insureds were given timely notification of nonrenewal.

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.

### **SUMMARY**

The Market Conduct examination revealed the following:

1. Policyholder Treatment

a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 4.0123 as the response to 100 percent of the Departmental inquiries reviewed did not include its National Association of Insurance Commissioners code.

2. Marketing

a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 6A.0412(2) as background checks were not performed on 22.0 percent of the appointed producers reviewed.

b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) as confirmation of appointment was not provided for 60.0 percent of the appointed producers reviewed.

3. Underwriting Practices

a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 57.6 percent of the workers' compensation applications reviewed were accepted from a producer who was not appointed.

b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-100 as an incorrect Terrorism rate was applied to 63.6 percent of the active workers' compensation policies reviewed.

4. Terminations

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-105(b) as they failed to provide 15 days notice of cancellation for 21.4 percent of the cancelled workers' compensation policies reviewed.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-110(e) as they failed to state the precise reason for nonrenewal on the termination notice for 33.3 percent of the nonrenewed workers' compensation policies 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 58-7-15	Kinds of insurance authorized.
NCGS 58-33-40	Appointment of agents.
NCGS 58-36-100	Prospective loss costs filings and final rate filings for workers' compensation and employers' liability insurance.
NCGS 58-36-105	Certain workers' compensation insurance policy cancellations prohibited.
NCGS 58-36-110	Notice of nonrenewal, premium rate increase, or change in workers' compensation insurance coverage required.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 4.0123	Use of Specific Company Name in Responses.
11 NCAC 6A.0412	Appointment of Agent: Responsibility of Company.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0106	Records Required for Examination.



## CONCLUSION

An examination has been conducted on the market conduct affairs of Synergy Insurance Company for the period January 1, 2008 through December 31, 2010 with analyses of certain operations of the Company being conducted through December 21, 2011. The Company's response to this report, if any, is available upon request.

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 and terminations.

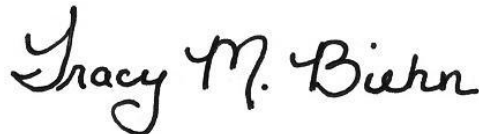
In addition to the undersigned, Kelvin A. Owens, North Carolina Market Conduct Examiner, participated in this examination.

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.



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