

Report on

Market Conduct Examination

of the

Titan Indemnity Company

San Antonio, Texas

by Representatives of the
North Carolina Department of Insurance

as of

April 10, 2017

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Raleigh, North Carolina
April 10, 2017

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

Honorable Doug Slape
Deputy Commissioner Financial Regulation
Texas Department of Insurance
333 Guadalupe Street
Austin, Texas 78701

Honorable Jillian Froment
Director of Insurance
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, OH 43215

Honorable Commissioner, Deputy Commissioner, and Director:

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

Titan Indemnity Company (NAIC #13242)
NAIC Exam Tracking System Exam Number: NC-NC131-1
San Antonio, Texas

hereinafter generally referred to as the Company, at the Company's home office located at One Nationwide Plaza, Columbus, Ohio and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, 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 May 2, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through March 21, 2017. This action was taken due to market analysis on private passenger automobile cancellations. All comments made in this report reflect conditions observed during the period of the examination.

The 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 terminations. The findings and conclusions contained within the report are based 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 of certain tolerance levels. The Department applied a 0 percent tolerance level for 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 concerns with the Company's procedures and practices in the following area:

Terminations – Private Passenger Automobile Cancellations: Proof of mailing was not satisfactorily maintained, the physical damage cancellation notice did not state an effective date indicating at least ten days' advance notice, premium refunds were not calculated correctly, premiums incorrectly displayed on the consent to rate forms, and premiums charged above the proposed consent to rate premium.

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” 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 Cancellations

Filings for the private passenger automobile line of business were made by the North Carolina Rate Bureau on behalf of the Company.

TERMINATIONS

Overview

The Company’s termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Rate Bureau Manual.

Private Passenger Automobile Cancellations

The Company provided the examiner with a listing of 1,388 private passenger automobile policies where the physical damage coverages were cancelled due to not receiving a signed

consent to rate form for the period under examination. One hundred and nineteen policies were randomly selected for review.

The Company did not adhere to the policy provisions as proof of mailing was not satisfactorily maintained for 119 policies.

The Company did not adhere to the policy provisions as the physical damage cancellation notice did not state an effective date indicating the insured had at least ten days' advance notice for 119 policies.

The Company did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602(2)(3) as the premium charged on the declarations page was higher than the proposed premium shown on the consent to rate form for 11 policies. In all 11 instances, no signed consent to rate form was obtained.

The Company did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602(a)(2)(3) as the standard premium and/or the premium without application of consent to rate were incorrectly displayed on the consent to rate form for 15 policies.

The Company did not adhere to the provisions of NCGS 58-36-30(a)(b) and 11 NCAC 10.0602(a)(2)(3) as premium refunds were not calculated correctly for cancellation of physical damage coverages due to not receiving a signed consent to rate form for 119 policies.

At the request of the examiner, the Company refunded \$10,497.04 due to the incorrect premiums on the declarations page, incorrect premiums on the consent to rate form, and the incorrect methodology to calculate premium refunds.

As a result of the incorrect calculation of refunds, the examiner requested that the Company conduct a self-audit. The Company refunded an additional \$392,052.17.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company's physical damage cancellation notice must state an effective date indicating at least ten days' advance notice when a consent to rate form is not received. The Company must maintain proof of mailing bearing the date stamp of the United States Postal

Service (or similar proof of mailing) for notices cancelling physical damage coverages. When physical damage coverages are cancelled due to a consent to rate form not being received, the company must return the consent to rate portion of the premium above the earned premium without application of consent to rate in addition to the unearned premium. The Company must display the correct proposed premiums and premiums without application of consent to rate on the consent to rate form.

CONCLUSION

An examination has been conducted on the market conduct affairs of Titan Indemnity Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Companies being conducted through March 21, 2017.

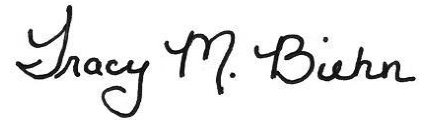
This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Company's operations in the areas of marketing and terminations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Gina L. Abate".

Gina Abate, 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 "Tracy M. Biehn". The signature is written in a cursive style with a large, stylized 'T' and 'B'.

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