

REPORT ON
MARKET CONDUCT EXAMINATION

of the

USAA CASUALTY INSURANCE COMPANY
San Antonio, Texas

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

January 14, 2011

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Raleigh, North Carolina
January 14, 2011

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

USAA CASUALTY INSURANCE COMPANY (NAIC #25968)
NAIC Exam Tracking System Exam Number: NC170-M63
San Antonio, Texas

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 USAA Casualty 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 March 29, 2010 and covered the period of January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through January 12, 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, terminations, and claims practices.

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 – Complaints not listed on the Company’s complaint register.

Policy Forms and Filings - Unable to provide a copy of the approved filing for the adverse underwriting decision notice for property coverage.

Termination of Producers – Unable to provide a copy of the termination letter sent to producers.

Underwriting and Rating – Private Passenger Automobile: producers not appointed and incorrect recoupment/allocation surcharge. Homeowners: producers not appointed and/or licensed in North Carolina. Dwelling Fire: incorrect rating.

Terminations – Dwelling Fire Cancellations: improper file documentation. Private Passenger Automobile Nonrenewals: ineligible reason used and ceded liability not offered.

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 by clicking “NCDOI 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

USAA Casualty Insurance Company (CIC) is a stock property and casualty insurer specializing in personal lines property and casualty insurance for family members of USAA members. CIC was originally incorporated in Texas on September 6, 1968, under the laws of Texas and began business on December 1, 1969. The Company operated under the title United Services Casualty Insurance Company until December 2, 1970, when the current title was adopted. Effective July 16, 1990, the Company merged with and into the USAA Casualty Insurance Company of Florida and redomesticated from San Antonio, Texas, to Tampa, Florida. Effective January 1, 2000, the Company redomesticated from Florida back to Texas. Simultaneously, the name was changed back to USAA Casualty Insurance Company.

Company Operations and Management

The Company is a writer of personal lines insurance coverages and is licensed in all 50 states, the District of Columbia, Guam and the US Virgin Islands.

Direct written premium for the Company's 2008 countrywide property and casualty operations was \$3,138,694,249. North Carolina's production for the same period was \$99,360,848. Premiums written in North Carolina between 2006 and 2008 increased approximately 4.0 percent. The charts below outline the Company's mix of business for selected lines in 2008 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Private Passenger Automobile	67,075,774	67.5
Homeowners	25,931,383	26.1
Inland Marine	3,003,021	3.0
Fire and Allied Lines	2,188,900	2.2
Other Liability	896,987	.9
Ocean Marine	175,238	.2
Earthquake	89,545	.1
Total	\$99,360,848	100.0

Year	Written Premium	Earned Premium	Incurred Losses*	Loss Ratio
2006	\$95,550,156	\$94,364,344	\$53,276,399	56.5
2007	\$94,219,439	\$93,499,283	\$62,299,103	66.6
2008	\$99,360,848	\$97,769,154	\$62,950,833	64.4
* Does not include IBNRs				

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 a detailed business continuation plan established to increase its chances of preventing disasters, as well as providing continuing operations following natural or man-made disasters. The mission of business continuation is to implement crisis management best practices by appropriately identifying the risks and ensuring adequate risk mitigation strategies to ensure continuation of business with minimal impact on consumers. The Company conducts exercises to validate emergency response and recovery strategies and capabilities. USAA has geographically separated regional offices in Arizona, California, Colorado, Florida and Virginia in the event the home office in San Antonio, Texas is unavailable. The Company

has an offsite data center available in the event the home office data center is impacted. Technical teams are in place to begin system recovery efforts until a third data center is up and running. The data center architecture is a three geographically dispersed data center redundancy model that provides effective recovery for critical applications. USAA records and documents are maintained electronically and are systematically managed through a document retentions schedule. USAA has contracted with several third party call centers to provide additional call center support should any facility or call center become impacted. Each USAA division has a Situation Management Team that is activated by the Situation Manager in an emergency or disaster situation. The teams are responsible for identifying the impact to business operations and coordinating responses to minimize impact and to restore business operations effectively and efficiently.

Rate Evasion Procedures

The Company has established procedures to address nonfleet private passenger automobile insurance rate evasion fraud by identifying any ineligible risk as defined in NCGS 58-37-1(4a) and verifying residency of the policyholder who owns a motor vehicle registered or principally garaged in North Carolina. The Company was found to be in compliance with the provisions of NCGS 58-2-164.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Company was deemed to be in apparent violation of the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103 as 8 complaints (16.0 percent error ratio) were not listed on the Company's complaint register.

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. Fifty of the 107 complaints contained in the

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

Type of Complaint	Total
Claims	41
Underwriting	8
Administrative	1
Total	50

The Company's response to each complaint was deemed to be appropriate to the circumstances. The average service time to respond to a Departmental complaint was 5 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	48	96.0
8 - 14	1	2.0
22 - 30	1	2.0
Total	50	100.0

Privacy of Financial and Health Information

The Company provided privacy of financial and health information documentation for the examiners' review. The Company exhibited policies and procedures in place so that nonpublic personal financial or health information is not disclosed unless the customer or consumer has authorized the disclosure. The Company was found to be compliant with the provisions of NCGS 58-39-25, 58-39-26, and 58-39-27.

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. Emphasis of the review was placed on the following lines of business:

1. Private Passenger Automobile

2. Homeowners/Renters
3. Dwelling Fire
4. Personal Inland Marine (Valuable Personal Property)

Filings for the private passenger automobile, homeowners and dwelling fire lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for these lines of business were made to the Department by the Company. The Company's personal inland marine coverages were written utilizing independently filed rates.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4)(h) as it was unable to provide a copy of the approved filing for the adverse underwriting decision notice for property coverage.

Sales and Advertising

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

As a direct writer, the Company markets directly to insureds or prospective insureds. The Company also provides information about its products through its website at www.usaa.com. The advertising objective statement was reviewed along with the Company website and sales brochures.

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 and 50 terminated producer files were randomly selected and received for review from populations of 2,786 and 1,792, respectively.

All appointment and termination files reviewed contained evidence that notification was submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and NCGS 58-33-56.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as 20 of the terminated producer files reviewed (40.0 percent error ratio) did not contain a copy of the notification of termination that was sent to the producer.

Agency Management

The Company is a direct writer based in San Antonio, Texas and does not have a marketing effort specifically directed for North Carolina. A phone sales and service team is maintained and led by the Executive Director of Policy Service.

Approximately 3,900 representatives are licensed and appointed to handle transactions for North Carolina. Appointments, terminations, and licensing for service representatives are handled by the Licensing Department.

UNDERWRITING PRACTICES

Overview

The Company's marketing philosophy in North Carolina focuses on personal lines. The Company provided the examiners with listings of the following types of active policies for the period under examination:

1. Private Passenger Automobile
2. Homeowners/Renters
3. Dwelling Fire
4. Personal Inland Marine (Valuable Personal Property)

A random selection of 300 policies was made from a total population of 39,673. 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 provided a listing of 14,432 active private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's private passenger automobile coverages were written utilizing manual and deviated rates. Policies were written on a 6-month 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(h) as 3 policies reviewed (3.0 percent error ratio) were quoted/issued by a producer who was not appointed.

The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) and 58-37-40(f) as an incorrect recoupment/allocation surcharge was applied on 12 policies reviewed (12.0 percent error ratio).

The Company was reminded of the provisions of NCGS 58-36-30(a) and Rule 5 of the Personal Auto Manual as 5 policies reviewed (5.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Incorrectly applied Safe Driver Incentive Plan (SDIP) points on 3 policies.
- Incorrectly applied a deviation to bodily injury and property damage liability premium prior to computing the SDIP surcharge on 2 policies.

The Company was reminded of the provisions of NCGS 58-37-40(e) and the North Carolina Reinsurance Facility Standard Practices Manual, Section 4, Rule 10 as it failed to utilize standard undeviated liability premiums in determining the recoupment/allocation surcharge on 2 policies reviewed (2.0 percent error ratio). The rating errors resulted in 16 premium undercharges and 3 premium overcharges to the insureds. At the request of the

examiners, refunds in the amount of \$102.60 were issued by the Company for the overcharges. The remaining 81 premiums charged were deemed correct.

Homeowners/Renters

The Company provided a listing of 19,756 active homeowners/renters policies issued during the period under examination. One hundred policies were randomly selected and received for review.

The Company's homeowners 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. The Company's renters coverage is an independently filed program. 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 58-33-5 and 58-33-26(a) as 3 policies reviewed (3.0 percent error ratio) were quoted/issued by a producer who was not licensed in North Carolina. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 6 policies reviewed (6.0 percent error ratio) were quoted/issued by a producer who was not appointed.

The Company was reminded of the provisions of NCGS 58-36-30(a) as 4 policies reviewed (4.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- The North Carolina Rate Bureau premium for Coverage A was calculated incorrectly on 2 policies.
- Incorrect territory was used to calculate the premium on 1 policy.
- Territory deviation was not applied on 1 policy.

The rating errors resulted in 2 premium undercharges and 2 premium overcharges to the insureds. At the request of the examiners, refunds in the amount of \$40.00 were issued by the Company for the overcharges. The remaining 46 premiums charged were deemed correct.

The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 2 policies reviewed (2.0 percent error ratio) inaccurately stated that the premium included an Academy Residence credit.

Dwelling Fire

The Company provided a listing of 832 active dwelling fire policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's dwelling fire 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 58-36-30(a) as 9 policies reviewed (18.0 percent error ratio) were rated incorrectly. The rating errors consisted of the following:

- Incorrect rounding procedures were used to calculate the premium on 4 policies.
- A 5% deductible debit for a \$100 all perils deductible was not applied to the Coverage B premium on 2 policies when Coverage A was not present on the policy.
- The premium for increased limits of Coverage B was not calculated using Rule 500 – Miscellaneous Rates on 1 policy when Coverage A was present on the policy.
- The premium credit for a 2% Wind and Hail deductible was incorrectly applied to only a portion of the Special Form premium on 1 policy.
- The \$25 minimum deductible credit was not applied for a \$100 all perils deductible on 1 policy.

The rating errors resulted in 4 premium undercharges and 5 premium overcharges to the insureds. At the request of the examiners, refunds in the amount of \$185.00 were issued by the Company for the overcharges. The remaining 41 premiums charged were deemed correct.

As a result of the incorrect rounding procedures, the incorrect premium calculation for increased limits of Coverage B when Coverage A was present on the policy and the incorrect application of the premium credit for the 2% Wind and Hail deductible, the Department requested the Company to conduct a self audit in those areas. The Company identified an additional 5,216 policy terms affected (excluding those that were reviewed by the examiners as noted above) that resulted in refunds being made in the amount of \$118,808.64. All refund checks were mailed to the insureds by November 22, 2010.

Personal Inland Marine (Valuable Personal Property)

The Company provided a listing of 4,653 active personal inland marine policies issued during the period under examination. Fifty policies were randomly selected and received for review.

The Company's personal inland marine coverages were written utilizing independently filed 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. All premiums charged were deemed correct.

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 policy manual rules. The review focused on the following lines of business:

1. Private Passenger Automobile

2. Homeowners/Renters
3. Dwelling Fire
4. Personal Inland Marine (Valuable Personal Property)

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 51,170 policies were terminated during the period under examination. The examiners randomly selected 380 terminations for review.

Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected and received for review from a population of 25,464.

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

Reason for Cancellation	Number of Policies	Percentage
Coverage rewritten	56	56.0
Insured's request	22	22.0
Nonpayment of premium	22	22.0
Total	100	100.0

The Company was not required to issue cancellation notices for 78 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 22 policies stated the specific reason for cancellation. All insureds and loss payees were given proper and timely notification of cancellation.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 1 file reviewed (1.0 percent error ratio) did not contain accounting records that documented the cancellation return premium.

The remaining 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 coverages were cancelled. The Company was deemed to be in compliance with the provisions of NCGS 20-309(e).

Homeowners/Renters Cancellations

One hundred cancelled homeowners/renters policies were randomly selected and received for review from a population of 22,399 policies.

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

Reason for Cancellation	Number of Policies	Percentage
Coverage rewritten	64	64.0
Insured's request	25	25.0
Nonpayment of premium	10	10.0
Underwriting reasons	1	1.0
Total	100	100.0

The Company was not required to issue cancellation notices for 89 of the cancellations reviewed as these policies were cancelled at the request of the insured, nonpayment of premium, or the coverage was rewritten.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 3 documents (3.0 percent error ratio) were not provided for review.

- One file did not contain a copy of the notice of cancellation to the insured.
- One file did not contain proof of mailing of the notice of cancellation.
- One file did not contain accounting information.

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.

Dwelling Fire Cancellations

Fifty cancelled dwelling fire policies were randomly selected and received for review from a population of 1,839.

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

Reason for Cancellation	Number of Policies	Percentage
Insured's request	30	60.0
Coverage rewritten	19	38.0
Underwriting reasons	1	2.0
Total	50	100.0

The Company was not required to issue cancellation notices for 49 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten.

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 11 files reviewed (22.0 percent error ratio) did not contain proper documentation of the cancellation:

- Six files did not contain documentation of the insured's request to cancel.
- Five files did not contain any documentation referencing the cancellation.

The 5 files not containing any documentation were electronic files provided by the Company that did not provide the detail needed to determine the validity and reason for termination.

The remaining policy files reviewed contained sufficient documentation to support the action taken by the Company.

Personal Inland Marine (Valuable Personal Property) Cancellations

Fifty cancelled personal inland marine policies were randomly selected and received for review from a population of 1,334 policies.

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

Reason for Cancellation	Number of Policies	Percentage
Insured's request	30	60.0
Coverage rewritten	19	38.0
Underwriting reasons	1	2.0
Total	50	100.0

The Company was not required to issue cancellation notices for 49 of the cancellations reviewed as these policies were cancelled at the request of the insured or the coverage was rewritten. The Company was reminded of the provisions of NCGS 58-39-55(a) as they failed to provide notice of cancellation to the insured for 1 file reviewed (2.0 percent error ratio).

All premium refunds were deemed correct. The Company issued the refunds in a timely manner.

The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 1 file reviewed (2.0 percent error ratio) did not contain documentation of the insured's request to cancel the policy. The remaining files reviewed contained sufficient documentation to support the action taken by the Company.

Private Passenger Automobile Nonrenewals

The entire population of 9 nonrenewed private passenger automobile policies was selected and received for review.

The review revealed the following reason for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	9	100.0
Total	9	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(b) as an ineligible reason for nonrenewal was used to terminate 4 policies (44.4 percent error ratio). The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-50 as they did not offer liability coverage ceded to the North Carolina Reinsurance Facility when terminating 4 policies (44.4 percent error ratio) for reasons other than those specified in the statute.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Homeowners/Renters Nonrenewals

The entire population of 10 nonrenewed homeowners/renters policies was selected and received for review.

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

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	10	100.0
Total	10	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Dwelling Fire Nonrenewals

The entire population of 10 nonrenewed dwelling fire policies was selected and received for review.

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

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	10	100.0
Total	10	100.0

The nonrenewal notices for the policies reviewed stated the specific reason for nonrenewal. All insureds and mortgagees were given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Personal Inland Marine (Valuable Personal Property) Nonrenewals

The entire population of 1 nonrenewed personal inland marine policy was selected and received for review.

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

Reason for Nonrenewal	Number of Policies	Percentage
Underwriting reasons	1	100.0
Total	1	100.0

The nonrenewal notice for the policy reviewed stated the specific reason for nonrenewal. The insured was given proper and timely notification of nonrenewal.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Company.

Declinations/Rejections

Fifty declined/rejected applications were randomly selected and received for review from a population of 104. The reason for declination/rejection was deemed valid for all applications reviewed. The survey revealed the following reason for declination/rejection.

Reason for Declination/Rejection	Number of Declinations/Rejections
Underwriting reasons	50
Total	50

The Company was reminded of the provisions of NCGS 58-37-25(a) as 3 applicants for personal automobile coverage (6.0 percent error ratio) were not offered liability coverage ceded to the North Carolina Reinsurance Facility when they did not meet the Company's voluntary guidelines.

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, automobile medical payment, first and third party bodily injury liability, closed without payment, subrogated, total loss settlement and litigated claims.

Claims service in North Carolina is under the direction of the Assistant Vice-President and is provided from the home office in San Antonio, Texas and by field claims personnel located in North Carolina. Claims supporting offices are located in Tampa, Florida, Norfolk, Virginia, Colorado Springs, Colorado and Phoenix, Arizona. The staff is comprised of 2 claims service directors, 15 claims service managers and 135 claims service representatives. Company adjusters provide the claim service with some assistance, at times, from independent adjusters. Independent adjusters have no check or draft authority. Claims are adjusted and

managed exclusively by the Company's claims department. The salvage log is maintained and managed by the executive management of each respective claim handling location.

Five hundred fifty claims were randomly selected for review from a population of 38,925.

Paid Claims

The examiners randomly selected and received 250 of the 29,165 first party automobile physical damage, first party property damage and third party property damage claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation and accuracy of payment.

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

Type of Claim	Payment Time
Automobile physical damage	11.0
First party (excluding automobile physical damage)	15.0
Third party property damage	21.0

All payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills and inventory listings.

Claims were not paid in a timely manner for 4 claims (1.6 percent error ratio). This matter could result in an apparent violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice.

Automobile Medical Payment Claims

Fifty automobile medical payment claims were randomly selected and received for review from a population of 1,146. The claim files were reviewed to determine if the Company

had engaged in any unfair claims practices. The review of automobile medical payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

First and Third Party Bodily Injury Claims

Fifty first and third party bodily injury claims were randomly selected and received for review from a population of 1,911. The claim files were reviewed to determine whether the Company had engaged in any unfair claims practices. The review of first and third party bodily injury claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected and received for review from a population of 439. The claim files were reviewed to determine if the Company's reasons for closing the claims without payment were valid.

The claim files reviewed contained documentation that supported the Company's reasons for closing the claims without payment. All reasons for denial or closing the files without payment were deemed valid. Claims were denied on an average of 14 calendar days for the 3-year period. The review of closed without payment claims disclosed no apparent violations of the provisions of NCGS 58-63-15.

Subrogated Claims

Fifty subrogated claims were randomly selected and received for review from a population of 1,958. The claim files were reviewed to determine if the insured's deductible was properly reimbursed by the Company when subrogation was successful.

Deductible reimbursements were not paid in a timely manner for 1 claim (2.0 percent error ratio). This matter could result in an apparent violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice. All reimbursements were deemed to be correct and were issued on a 3-year average of 3 calendar days from the date the Company collected the monies.

Total Loss Settlement Claims

Fifty total loss settlement claims were randomly selected and received for review from a population of 4,025. The claim files were reviewed to determine if the settlements were equitable and timely.

The Company primarily used CCC Information Services, Inc. to establish the actual cash value of totaled vehicles. All settlements were deemed equitable. Claims were not paid in a timely manner for 1 claim (2.0 percent error ratio). This matter could result in an apparent violation of the provisions of NCGS 58-63-15(11) if the occurrence is of such frequency as to be considered a general business practice. The payments were issued on a 3-year average of 21 calendar days. No apparent violations of the provisions of NCGS 58-63-15(11)(h), 11 NCAC 4.0418, or 4.0421 were noted during this review.

Litigated Claims

Fifty litigated claims were randomly selected and received for review from a population of 281. The claim files were reviewed to determine if the Company had engaged in any unfair claims practices. The review of litigated claims disclosed no apparent violation of the provisions of NCGS 58-63-15.

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 19.0103 as 16.0 percent of the consumer complaints were not listed on the Company's complaint register.
2. Marketing
 - a. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4)(h) as it was unable to provide a copy of the approved filing for the adverse underwriting decision notice for property coverage.
 - b. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3)(h) as 40.0 percent of the terminated producer files

reviewed did not contain a copy of the notification of termination that was sent to the producer.

3. Underwriting and Rating

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 3.0 percent of the active private passenger automobile policies reviewed were quoted/issued by a producer who was not appointed.
- b. The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-35(l) and 58-37-40(f) as an incorrect recoupment/allocation surcharge was applied on 12.0 percent of the active private passenger automobile policies reviewed.
- c. The Company was reminded of the provisions of NCGS 58-36-30(a) and Rule 5 of the Personal Auto Manual as 5.0 percent of the active private passenger automobile policies reviewed were rated incorrectly.
- d. The Company was reminded of the provisions of NCGS 58-37-40(e) and the North Carolina Reinsurance Facility Standard Practices Manual, Section 4, Rule 10 as it failed to utilize standard undeviated liability premiums in determining the recoupment/allocation surcharge on 2.0 percent of the active private passenger automobile policies reviewed.
- e. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-5 and 58-33-26(a) as 3.0 percent of the active homeowners/renters policies reviewed were quoted/issued by a producer who was not licensed in North Carolina.
- f. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40(h) as 6.0 percent of the active homeowners/renters policies reviewed were quoted/issued by a producer who was not appointed.
- g. The Company was reminded of the provisions of NCGS 58-36-30(a) as 4.0 percent of the active homeowner/renters policies reviewed were rated incorrectly.
- h. The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 2.0 percent of the active homeowners/renters policies reviewed inaccurately stated that the premium included an Academy Residence credit.
- i. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 18.0 percent of the active dwelling fire policies reviewed were rated incorrectly.

4. Terminations

- a. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 1.0 percent of the cancelled private passenger automobile files reviewed did not contain accounting records that documented the cancellation return premium.

- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(h) as 3.0 percent of the documents were not provided for review.
- c. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 22.0 percent of the cancelled dwelling fire files reviewed did not contain proper documentation.
- d. The Company was reminded of the provisions of NCGS 58-39-55(a) as they failed to provide notice of cancellation to the policyholder for 2.0 percent of the cancelled personal inland marine policies reviewed.
- e. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4)(h) as 2.0 percent of the cancelled personal inland marine files reviewed did not contain documentation of the insured's request to cancel the policy.
- f. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-85(b) as an ineligible reason for nonrenewal was used to terminate 44.4 percent of the nonrenewed private passenger automobile files reviewed.
- g. The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-50 as they did not offer liability coverage ceded to the North Carolina Reinsurance Facility when terminating 44.4 percent of the nonrenewed private passenger automobile policies reviewed.
- h. The Company was reminded of the provisions of NCGS 58-37-25(a) as 6.0 percent of the applicants for personal automobile coverage were not offered liability coverage ceded to the North Carolina Reinsurance Facility when they did not meet the Company's voluntary guidelines.

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 58-2-164	Rate evasion fraud; prevention programs.
NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-5	License required.
NCGS 58-33-26	General license requirements.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-1	Definitions.
NCGS 58-37-25	General obligations of insurers.
NCGS 58-37-35	The Facility; functions; administration.
NCGS 58-37-40	Plan of operation.
NCGS 58-37-50	Termination of insurance.
NCGS 58-39-25	Notice of insurance information practices.
NCGS 58-39-26	Federal privacy disclosure notice requirements.
NCGS 58-39-27	Privacy notice and disclosure requirement exceptions.
NCGS 58-39-55	Reasons for adverse underwriting decisions.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
NCGS 20-309	Motor vehicle registration.
11 NCAC 4.0418	Total Losses on Motor Vehicles.
11 NCAC 4.0421	Handling of Loss and Claim Payments.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0103	Complaint Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.

CONCLUSION

An examination has been conducted on the market conduct affairs of USAA Casualty Insurance Company for the period January 1, 2006 through December 31, 2008 with analyses of certain operations of the Company being conducted through January 12, 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, terminations and claims practices.

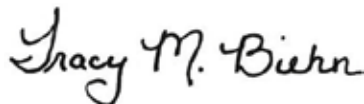
In addition to the undersigned, James P. McQuillan, CPCU, AIT and Letha Lombardi, North Carolina Market Conduct Examiners, participated in this examination.

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