

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

December 12, 2013

TABLE OF CONTENTS

SALUTATION 1

FOREWORD 2

SCOPE OF EXAMINATION 2

 Previous Examination Findings..... 2

EXECUTIVE SUMMARY..... 3

POLICYHOLDER TREATMENT 4

 Consumer Complaints 4

MARKETING 5

 Policy Forms and Filings..... 5

 Producer Terminations 5

UNDERWRITING PRACTICES 6

 Private Passenger Automobile 6

 Homeowners/Renters 6

 Dwelling Fire..... 7

TERMINATIONS..... 8

 Dwelling Fire Cancellations 8

 Private Passenger Automobile Nonrenewals..... 8

SUMMARY..... 9

TABLE OF STATUTES AND RULES..... 10

CONCLUSION 11

Raleigh, North Carolina
December 12, 2013

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Julia Rathgeber
Commissioner of Insurance
Texas Department of Insurance
333 Guadalupe Street
Austin, Texas 78701

Honorable Commissioners:

Pursuant to your instructions and 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

USAA Casualty Insurance Company (NAIC #25968)
NAIC Exam Tracking System Exam Number: NC299-M35
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 concerns were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on September 2, 2013, and covered the period of January 1, 2012, through December 31, 2012, with analyses of certain operations of the Company being conducted through December 11, 2013. This action was taken due to previous examination findings referenced in the Market Conduct Report of January 14, 2011.

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 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 a violation, the Department issues a reminder to the company.

Previous Examination Findings

A general examination covering the period January 1, 2006, through December 31, 2008, was performed on the Company and a report dated January 14, 2011, was issued. The general examination report identified concerns in the areas of policyholder treatment,

marketing, underwriting practices, and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

Consumer Complaints – untimely response to a Departmental inquiry.

Terminations – failure to provide copies of nonrenewal notices for private passenger automobile nonrenewals.

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 "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 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.

POLICYHOLDER TREATMENT

Consumer Complaints

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

The previous examination revealed the following:

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

The Consumer Services Division of the Department provided a listing of 52 complaints received during the period under examination. All complaints were selected for review. **The**

current examination revealed the following:

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0103 as all consumer complaints were listed on the Company's complaint register.
- The Company was deemed to be in violation of the provisions of 11 NCAC 1.0602 as one of the complaints reviewed (1.9 percent error ratio) was responded to in excess of the seven calendar day requirement of this rule.

The Company's response to each complaint was deemed to be appropriate to the circumstances. The average response time for the complaints was five calendar days.

Service Days	Number of Files	Percentage of Total
1 - 7	51	98.0
8 - 14	1	2.0
Total	52	100.0

MARKETING

Policy Forms and Filings

Policy forms and filings for the Company were reviewed to determine compliance with appropriate North Carolina statutes and rules.

The previous examination revealed the following:

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

The current examination revealed the following:

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(4) and (g) as it provided the approved filing for the adverse underwriting decision notice for property coverage.

Producer Terminations

The Company's procedures for termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) and (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.

The Company provided a listing of 517 producers terminated during the period under examination. The examiners randomly selected 50 files for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a) and 19.0106(a)(3) and (g) as all of the terminated producer files reviewed contained a copy of the notification of termination that was sent to the producer.

UNDERWRITING PRACTICES

Private Passenger Automobile

The Company's underwriting practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-33-40 as 3.0 percent of the active private passenger automobile policies reviewed were quoted/issued by a producer who was not appointed.
- The Company was deemed to be in 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.

The Company provided a listing of 11,311 private passenger automobile policies issued during the period under examination. One hundred policies were randomly selected for review.

The current examination revealed the following:

- The Company was deemed to be in compliance with the provisions of NCGS 58-33-40 as all of the active private passenger automobile policies reviewed were quoted/issued by a producer who was properly appointed by the Company.
- The Company was deemed to be in compliance with the provisions of NCGS 58-37-35(l) and 58-37-40(f) as the correct recoupment/allocation surcharge was applied on all of the active private passenger automobile policies reviewed.

Homeowners/Renters

The Company's underwriting practices and procedures for active homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Homeowners Manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-33-5 and 58-33-26 as 3.0 percent of the active homeowners/renters policies reviewed were quoted/issued by a producer who was not licensed in North Carolina.
- The Company was deemed to be in violation of the provisions of NCGS 58-33-40 as 6.0 percent of the active homeowners/renters policies reviewed were quoted/issued by a producer who was not appointed.

The Company provided a listing of 9,329 homeowners/renters policies issued during the period under examination. One hundred policies were randomly selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-33-5 and 58-33-26 as all of the homeowners/renters applications reviewed were quoted/issued by a producer who was licensed in North Carolina.
- The Company was deemed to be in compliance with the provisions of NCGS 58-33-40 as all of the homeowners/renters applications reviewed were quoted/issued by a producer who was properly appointed by the Company.
- The Company was reminded of the provisions of NCGS 58-36-30(a) as an incorrect rate was used to calculate the increased Coverage A premium on one policy reviewed (1.0 percent error ratio).

The rating error resulted in a premium undercharge to the insured. The remaining premiums charged were deemed correct.

Dwelling Fire

The Company's underwriting practices and procedures for active dwelling fire policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Dwelling Manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a) as 18.0 percent of the active dwelling fire policies reviewed were rated incorrectly.

The Company provided a listing of 630 dwelling fire policies issued during the period under examination. Fifty policies were randomly selected for review. **The current examination revealed the following:**

- The Company was reminded of the provisions of NCGS 58-36-30(a) as the Automatic Increase debit was not applied to the Special Form premium on three policies reviewed (6.0 percent error ratio).

The rating error resulted in three premium undercharges to the insureds. The remaining premiums charged were deemed correct.

TERMINATIONS

Dwelling Fire Cancellations

The Company's cancellation procedures for dwelling fire policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Dwelling Manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) and (h) as 22.0 percent of the cancelled dwelling fire files reviewed did not contain proper documentation.

The Company provided a listing of 460 dwelling fire policies cancelled during the period under examination. Fifty policies were randomly selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) and (g) as all of the cancelled dwelling fire files reviewed contained proper file documentation.

Private Passenger Automobile Nonrenewals

The Company's nonrenewal procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions, and the applicable rules of the North Carolina Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in 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 policies reviewed.
- The Company was deemed to be in violation of the provisions of NCGS 58-37-50 as it 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.

The entire population of five private passenger automobile policies nonrenewed during the period under examination was selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-36-85(b) as an eligible reason for nonrenewal was used to terminate all of the nonrenewed private passenger automobile policies reviewed.
- The Company was deemed to be in compliance with the provisions of NCGS 58-37-50 as it offered liability coverage ceded to the North Carolina Reinsurance Facility for all of the nonrenewed private passenger automobile policies reviewed.
- The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) and (g) as the nonrenewal notice was not provided for two of the nonrenewed private passenger automobile files reviewed (40.0 percent error ratio).

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of January 14, 2011. The current examination revealed the following:

1. Policyholder Treatment

- a. The Company was deemed to be in violation of the provisions of 11 NCAC 1.0602 as the responses to 1.9 percent of the Departmental inquiries reviewed were in excess of the seven calendar day requirement of this rule.

2. Underwriting Practices

- a. The Company was reminded of the provisions of NCGS 58-36-30(a) as an incorrect rate was used to calculate the increased Coverage A premium on 1.0 percent of the active homeowners/renters policies reviewed.
- b. The Company was reminded of the provisions of NCGS 58-36-30(a) as the Automatic Increase debit was not applied to the Special Form premium on 6.0 percent of the active dwelling fire policies reviewed.

3. Terminations

- a. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4) and (g) as the nonrenewal notice was not provided for 40.0 percent of the nonrenewed private passenger automobile files 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 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain exam.
NCGS 58-33-5	License required.
NCGS 58-33-26	General license requirements.
NCGS 58-33-40	Appointment of agents.
NCGS 58-36-30	Deviations.
NCGS 58-36-85	Termination of a nonfleet private passenger motor vehicle insurance policy.
NCGS 58-37-35	The Facility; functions; administration.
NCGS 58-37-40	Plan of operation.
NCGS 58-37-50	Termination of insurance.
11 NCAC 1.0602	Insurance Companies' Response to Departmental Inquiries.
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, 2012, through December 31, 2012, with analyses of certain operations of the Company being conducted through December 11, 2013.

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.

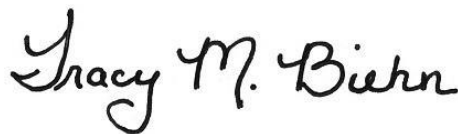
In addition to the undersigned, Kelvin A. Owens and Sharon O'Quinn, North Carolina Market Conduct Examiners, participated in this examination.

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