



Report on

Market Conduct Examination

of the

USAA Casualty Insurance Company
USAA General Indemnity Company
United Services Automobile Association
Garrison Property & Casualty Insurance Company
San Antonio, Texas

by Representatives of the
North Carolina Department of Insurance

as of

January 18, 2019

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Raleigh, North Carolina
January 18, 2019

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

Honorable Kent Sullivan
Commissioner of Insurance
Department of Insurance
State of Texas
333 Guadalupe
Austin, Texas 78701

Honorable Commissioners:

In accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of the following entities:

USAA Casualty Insurance Company (NAIC #25968)
USAA General Indemnity Company (NAIC #18600)
United States Automobile Association (NAIC #25941)
Garrison Property & Casualty Insurance Company (NAIC #21253)
San Antonio, Texas 78288
(hereinafter generally referred to as the Companies)

NAIC Exam Tracking System Exam Number: NC-NC094-3

The examination was conducted at the North Carolina Department of Insurance (Department) office located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on March 12, 2018, and covered the period of July 1, 2015, through June 30, 2017. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on September 9, 2018. This action was taken due to the market analysis of the Companies' claims practices. All comments made in this report reflect conditions observed during the period of examination.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, and consisted of an examination of the Companies' practices and procedures in claims. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for producers/adjusters who were not appointed and/or licensed and 3 percent for claims. 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 Companies' procedures and practices in the following area:

Claims Practices – Violations associated with unfair claim settlement practices.

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.

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are 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.

CLAIMS PRACTICES

Overview

The Companies' claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed private passenger automobile medical payments paid claims and medicals payments claims closed without payment. Two hundred sixty-two claims were randomly selected for review from a population of 10,675.

Closed Paid Medical Payments Claims

One hundred thirty-one private passenger automobile medical payments paid claims were randomly selected for review from a population of 5,972. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) for timeliness of payment, supporting documentation, accuracy of payment and licensure of the adjuster.

The Companies did not adhere to the provisions of NCGS 58-63-15(11) a, b, c, d, e, f and h as nine claim files revealed that the Companies performed procedures with such frequency as to indicate a general business practice. The nine claim files contained multiple errors which consisted of the following:

- The Companies misrepresented pertinent facts or insurance policy provisions on one file.
- The Companies failed to acknowledge and act reasonably and promptly on two files.

- The Companies failed to adopt and implement reasonable standards for the prompt investigation of claims on six files.
- The Companies refused to pay claims without conducting a reasonable investigation on one file.
- The Companies failed to affirm or deny coverage of claims within a reasonable time on one file.
- The Companies did not attempt in good faith to effectuate prompt, fair and equitable settlements of six claims.
- The Companies attempted to settle five claims for less than a reasonable person would have believed they were entitled.

As a result of the identified errors, the Companies were required to make 4 additional claim payments totaling \$3,977.49.

Closed Without Payment Medical Payments Claims

One hundred thirty-one private passenger automobile closed without payment medical payments claims were randomly selected for review from a population of 4,703. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15(11) with regard to the reasons for denial or nonpayment, supporting documentation, and licensure of the adjuster.

The Companies did not adhere to the provisions of NCGS 58-63-15(11) a, b, c, d, e and f, as 19 claim files revealed that the Companies performed procedures with such frequency as to indicate a general business practice. The 19 claim files contained multiple errors which consisted of the following:

- The Companies misrepresented pertinent facts or insurance policy provisions on two files.
- The Companies failed to acknowledge and act reasonably and promptly on eleven files.
- The Companies failed to adopt and implement reasonable standards for the prompt investigation of claims on ten files.
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- The Companies refused to pay claims without conducting a reasonable investigation on three files.

- The Companies failed to affirm or deny coverage of claims within a reasonable time on two files.
- The Companies did not attempt in good faith to effectuate prompt, fair and equitable settlements of seven claims.

As a result of the identified errors, the Companies were required to make 11 claim payments totaling \$16,146.86.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies are directed to review its general business practices regarding claim handling to ensure that they accurately represent pertinent facts and/or policy provisions, they acknowledge and act reasonably promptly, they adopt and implement reasonable standards for the prompt investigation of claims, they conduct a reasonable investigation before refusing to pay claims, they affirm or deny coverage within a reasonable time, they attempt in good faith to effectuate prompt, fair and equitable settlements, and settle claims for an amount that a reasonable person would believe they are entitled.

CONCLUSION

An examination has been conducted on the market conduct affairs of USAA Casualty Insurance Company, USAA General Indemnity Company, United States Automobile Association, and Garrison Property & Casualty Insurance Company for the period July 1, 2015, through June 30, 2017, with analyses of certain operations of the Companies being conducted through September 9, 2018.

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 Companies' operations in the area of claims practices.

In addition to the undersigned, Brooke Hinnant, MCM, North Carolina Market Conduct Senior Examiner participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Patricia D. Murphy".

Patricia D. Murphy, AIC, ARM, MCM
Acting 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 cursive script that reads "Teresa Knowles".

Teresa Knowles
Deputy Commissioner
Market Regulation Division
State of North Carolina