



Report on

Market Conduct Examination

of the

Zurich American Insurance Company
New York, New York
Universal Underwriters Insurance Company
Schaumburg, Illinois

by Representatives of the
North Carolina Department of Insurance

as of

December 19, 2018

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION 2

EXECUTIVE SUMMARY 2

MARKETING PRACTICES 3

 Policy Forms and Filings 3

UNDERWRITING PRACTICES 3

 Overview 3

 Rate Evasion Procedures..... 4

 Commercial Automobile 4

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES..... 5

CONCLUSION 5

Raleigh, North Carolina
December 19, 2018

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

Honorable Maria T. Vullo
Superintendent Financial Services
New York State Department of Financial Services
One State Street
New York, New York 10004-1511

Honorable Karin Tilly Zosel
Acting Director
Illinois Department of Insurance
320 West Washington Street
Springfield, Illinois 62767-0001

Honorable Commissioner, Superintendent, and Director:

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:

Zurich American Insurance Company (NAIC #16535)
New York, New York
Universal Underwriters Insurance Company (NAIC #41181)
Schaumburg, Illinois
(hereinafter generally referred to as the Companies)

NAIC Exam Tracking System Exam Number: NC-NC094-9

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 June 25, 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 December 11, 2018. 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 marketing and underwriting. 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 properly appointed and/or licensed, and 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.

EXECUTIVE SUMMARY

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

Marketing Practices – Accepting business from a producer whose appointment with the Company was not reported to the Department within 15 days of receiving the first application.

Underwriting Practices – Incorrect premiums charged due to rating errors.

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 their ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

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 PRACTICES

Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Commercial Automobile

Filings for the commercial automobile line of business were made to the Department by the Companies.

The Companies did not adhere to the provisions of NCGS 58-33-40(b) as one new business policy was produced by an agent whose appointment with the Companies had not been reported to the Department within 15 days of receiving the first application.

UNDERWRITING PRACTICES

Overview

The Companies' marketing in North Carolina is directed to the commercial lines of business. The Companies provided the examiners with listings of the following types of active policies for the period under examination:

- Commercial Automobile

All 58 policies out of a total population of 58 policies were selected for review. 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.

Rate Evasion Procedures

The Companies' rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Companies were deemed to be in compliance with the provisions of NCGS 58-2-164 as they have procedures in place to address other than nonfleet private passenger automobile rate evasion fraud.

Commercial Automobile

The Companies' commercial automobile policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. Risk placement was determined by the Companies' 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 Companies' classification of the risk.

The Company did not adhere to the provisions of NCGS 58-41-50(f) as 14 rating errors were identified on 12 policies. The errors consisted of:

- Misclassified vehicles – two policies
- Wrong Med Pay limit – one policy
- UM/UIM premium did not include the charge for individual named insured – two policies
- Wrong deductible factor – one policy
- Wrong territory – eight policies

The errors resulted in eight undercharges and four overcharges to the insureds. At the request of the examiners, the Companies refunded premium and paid statutory interest to the insureds totaling \$1,053.00.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Companies must not accept business from producers that are not properly appointed with the Companies. The Companies must display the correct premiums on the declarations by correctly rating each coverage.

CONCLUSION

An examination has been conducted on the market conduct affairs of Zurich American Insurance Company and Universal Underwriters Insurance Company for the period July 1, 2015, through June 30, 2017, with analyses of certain operations of the Companies being conducted through December 11, 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 areas of marketing and underwriting practices.

In addition to the undersigned, Eshita Patel, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



Larry R. Cook, CPCU, AU, ARe, ARM, AIM, AMIM,
AIAF, AAI, 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 on a light-colored background. The signature is written in a cursive style and reads "Teresa Knowles".

Teresa Knowles
Deputy Commissioner
Market Regulation Division
State of North Carolina