



Report on

Market Conduct Examination

of the

American Alternative Insurance Corporation
Wilmington, Delaware

by Representatives of the
North Carolina Department of Insurance

as of

May 17, 2019

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Raleigh, North Carolina
May 17, 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 Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
841 Silver Lake Blvd.
Dover, Delaware 19904

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 entity

American Alternative Insurance Corporation (NAIC #19720)
NAIC Exam Tracking System Exam Number: NC-NC094-13
Wilmington, Delaware
(hereinafter generally referred to as the Company)

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 January 14, 2019, and covered the period of July 1, 2016, through June 30, 2018. Analyses of certain operations of the Company were concluded during the Wrap-Up Conference which was held on May 16, 2019. 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, but consisted of an examination of the Company's 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. 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 areas:

Marketing Practices – Issuing policies from an application that had not been filed with nor approved by the North Carolina Department of Insurance.

Underwriting Practices – Incorrect premiums charged due to rating errors; and producing accounts without the required documents to prove residency or eligible risk status.

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 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.

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 Company 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 by the Company.

The Company did not adhere to the provisions of NCGS 58-3-150(a) and 11 NCAC 10 .1201 as 20 files included an application that had not been submitted to or approved by the North Carolina Department of Insurance.

UNDERWRITING PRACTICES

Overview

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

- Commercial Automobile

All 56 policies out of a total population of 56 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 Company's rate evasion procedures were reviewed to determine compliance with the provisions of NCGS 58-2-164. The Company did not adhere to the provisions of 58-2-164(c) as 11 files did not include two acceptable documents to provide proof of eligible risk status.

Commercial Automobile

The Company's commercial automobile policies were written on an annual basis. Coverages were written utilizing manual rates and deviated rates. 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 did not adhere to the provisions of NCGS 58-36-30(a) and NCGS 58-41-50(f) as 25 rating errors were identified on 22 policies. The errors consisted of:

- Incorrect Age Group factor used – 9 policies
- Incorrect uninsured/underinsured (UM/UIM) premiums charged – 2 policies
- Incorrect Territory used – 7 policies
- Non-fleet private passenger type vehicles rated incorrectly – 4 policies
- Vehicles improperly classified – 3 policies

The above errors necessitated refunds in two policies. At the request of the examiners, the Company refunded premium and paid statutory interest to the insureds totaling \$815.81.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to refrain from accepting any business on applications that have neither been filed with nor approved by the North Carolina Department of Insurance. The Company must calculate and charge the correct premiums by using the correct age group factors, correct territories, correct classifications, correct UM/UIM rates, and proper rating methods based on the personal auto manual. The Company must and has agreed to obtain two acceptable forms of proof of eligible risk status.

Upon acceptance of the Report the Company shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Company successfully implemented its statement of corrective action.

CONCLUSION

An examination has been conducted on the market conduct affairs of American Alternative Insurance Corporation for the period July 1, 2016, through June 30, 2018, with analyses of certain operations of the Company being conducted through May 16, 2019.

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 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, AIC, 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.



Teresa Knowles, ACS
Deputy Commissioner
Market Regulation Division
State of North Carolina