

Report on
Market Conduct Examination

of the

Arch Insurance Company
Jersey City, New Jersey

by Representatives of the
North Carolina Department of Insurance

as of

May 20, 2020

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Raleigh, North Carolina
May 20, 2020

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

Honorable Chlora Lindley-Myers
Director
Department of Commerce and Insurance
State of Missouri
301 W. High Street, Suite 530
Jefferson City, Missouri 65101

Honorable Commissioner and Director:

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

Arch Insurance Company (NAIC #11150)
NAIC Exam Tracking System Exam Number: NC-NC094-23
Jersey City, New Jersey
(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 13, 2020, and covered the period of July 1, 2018, through June 30, 2019. Analyses of certain Company operations were concluded during the Wrap-Up Conference which was held on April 28, 2020. This action was taken due to market analysis. All comments made in this report reflect conditions observed during the period of the examination.

The 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 consisted of an examination of the Company's practices and procedures in policyholder treatment, marketing, underwriting, terminations, and 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 consumer complaints, producers/adjusters 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.

EXECUTIVE SUMMARY

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

Policyholder Treatment – The Company's NAIC code was not included on responses to the Department.

Producer Licensing - Terminations: Notification of termination was not sent to the producer; confirmation of termination was not provided for review.

Underwriting and Rating – Travel Insurance: Sales tax was not included in the rating of new policies.

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. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and provide consumer protection.

POLICYHOLDER TREATMENT

Consumer Complaints

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

The Company's complaint register for the period under examination was in compliance with provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103.

The Company's complaint register was reconciled with a listing provided by the Consumer Services Division of the Department. All complaints from the Department's listing of 18 were selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	18
Total	18

The Company's response to each complaint was deemed to be appropriate to the circumstances. The Company is deemed to be in violation of the provisions of 11 NCAC 4.0123 as three responses to Departmental inquiries (16.7 percent error ratio) did not contain the Company's NAIC code.

The average service time to respond to a Departmental complaint was nine calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	13	72.2
8 - 14	3	16.6
15 - 21	1	5.6
22 - 30	1	5.6
Total	18	100

Personal Information

The Company provided privacy of personal 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. The Company's travel insurance policy is an independently filed program that utilizes its own rates. Filings were submitted to the Department by the Company.

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.

The Company provided the examiners with listings of 15 appointed and three terminated producers for the period under examination. All appointed and terminated producer files were selected for review. All appointment and termination forms reviewed were submitted to the Department in accordance with the timetables stipulated under the provisions of NCGS 58-33-40 and 58-33-56(b).

The Company was deemed to be in violation of NCGS 58-33-56(d) as the Company did not mail a copy of the notification of termination to one producer (33.3 percent error ratio) at the producer's last known address within 15 days after notifying the Commissioner of the termination. The Company was deemed to be in violation of 11 NCAC 19.0102(a) and

19.0106(a)(3)(h) as the confirmation of termination was not provided for review for one terminated producer (33.3 percent error ratio).

UNDERWRITING AND RATING

Overview

The Company's marketing in North Carolina is directed to the travel insurance line of business. The Company's travel insurance policies were 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.

Travel Insurance

The Company provided a listing of 3,960 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company was deemed to be in violation of the provisions of NCGS 58-41-50 as sales tax was not included in the rating of five policies (10.0 percent error ratio). The rating errors resulted in five premium undercharges. The remaining premiums charged were deemed correct.

TERMINATIONS

Overview

The Company's termination procedures for its travel insurance policies were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. Special attention was placed on the validity and reason for termination, policy refund (where applicable), and documentation of the policy file. A total of 84 policies were terminated during the period under examination. The examiners randomly selected 50 terminations for review.

Travel Insurance Cancellations

Fifty cancelled travel insurance policies were randomly selected for review from a population of 84.

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	50	100.0
Total	50	100.0

The Company was not required to issue cancellation notices for all 50 of the cancellations reviewed as these policies were cancelled at the request of the insured.

All premium refunds were deemed correct. The Company issued refunds, where applicable, 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.

CLAIMS PRACTICES

Overview

The Company's claims practices were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review encompassed paid claims and claims closed without payment.

One hundred claims were randomly selected for review from a population of 2,598.

Paid Claims

Fifty paid claims were randomly selected for review from a population of 2,382. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

The Company was reminded of the provisions of NCGS 58-63-15(11)(c) as it failed to adopt and implement reasonable standards for the prompt investigation of claims on two claims reviewed (4.0 percent error ratio).

Closed Without Payment Claims

Fifty closed without payment claims were randomly selected for review from a population of 216. 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. The Company was reminded of the provisions of NCGS 58-63-15(11)(c) as it failed to adopt and implement reasonable standards for the prompt investigation of claims on three claims reviewed (6.0 percent error ratio).

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must include its NAIC company code on all written responses to an inquiry or complaint made by a consumer to the Department.

When a producer's appointment is terminated, the Company must mail a copy of the notification of termination to the producer's last known address within 15 days after notifying the Commissioner of the termination.

The Company is directed to include sales tax in the trip cost when calculating the policy premium and paying claims.

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.

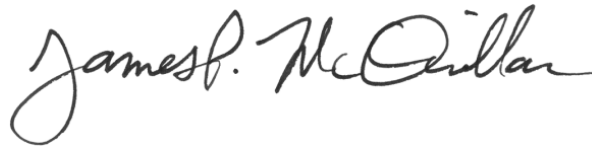
CONCLUSION

An examination has been conducted on the market conduct affairs of Arch Insurance Company for the period July 1, 2018, through June 30, 2019, with analyses of certain operations of the Company being conducted through April 28, 2020.

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 policyholder treatment, marketing, underwriting, terminations, and claims.

In addition to the undersigned, Brooke Green, MCM, North Carolina Market Conduct Senior Examiner, and Casondria Cheek, AIC, AINS, MCM, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT, 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