

Report on

Market Conduct Examination

of the

The Cincinnati Insurance Company  
The Cincinnati Indemnity Company  
The Cincinnati Casualty Company  
Cincinnati, Ohio

by Representatives of the  
North Carolina Department of Insurance

as of

September 5, 2018

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Raleigh, North Carolina  
September 5, 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 Jillian Froment  
Director of Insurance  
Department of Insurance  
State of Ohio  
50 W. Town Street, Third Floor, Suite 300  
Columbus, Ohio 43215

Honorable Commissioner and Director:

Pursuant to your instructions and 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 Cincinnati Insurance Company (NAIC# 10677)**  
**The Cincinnati Indemnity Company (NAIC# 23280)**  
**The Cincinnati Casualty Company (NAIC# 28665)**  
NAIC Exam Tracking System Exam Number: NC-NC094-6  
Cincinnati, Ohio

hereinafter generally referred to as the Companies, 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

The Department conducted a target examination of the Companies. This examination commenced on April 23, 2018, and covered the period of July 1, 2015, through June 30, 2017, with analyses of certain operations of the Companies being conducted through August 28, 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 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 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; 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 Companies' procedures and practices in the following area:

*Underwriting Practices* – Commercial Automobile: Policies rated using incorrect territories, incorrect vehicle classifications, and incorrect rates and factors; producers not properly appointed.

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](http://www.ncdoi.com) by clicking “Insurance Industry”, and then “Legislative Services” under “Other Divisions”.

This examination identified statutory violations 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.

## **MARKETING**

### 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.

## **UNDERWRITING PRACTICES**

### Overview

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

- Commercial Automobile

A random selection of 190 policies was made from a total population of 543. 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 insurance rate evasion fraud.

#### **Commercial Automobile – Light and Medium Trucks**

The Companies provided a listing of 472 light and medium commercial automobile policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Companies' light and medium commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines.

The Companies did not adhere to the provisions of NCGS 58-33-40(b) as the producer was not properly appointed by the Companies for 18 policies reviewed.

The Companies did not adhere to the provisions of NCGS 58-41-50(f) as 13 policies had rating errors. The errors consisted of:

- An incorrect territory was used to rate seven policies.
- An incorrect fleet factor was used to rate five policies.
- An incorrect vehicle class was used to rate one policy.

The errors resulted in 11 undercharges and two overcharges to the insureds. At the request of the examiners, refunds in the amount of \$8,659.00, including interest, were issued by the Companies for the overcharges.

### Commercial Automobile – Heavy and Extra Heavy Trucks/Tractors

The Companies provided a listing of 71 heavy and extra heavy commercial automobile policies issued during the period under examination. All 71 policies were selected for review.

The Companies' heavy and extra heavy commercial automobile policies were written on an annual basis. Coverages were written utilizing independently filed rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of its underwriting guidelines.

The Companies did not adhere to the provisions of NCGS 58-33-40(b) as the producer was not properly appointed by the Companies for 12 policies reviewed.

The Companies did not adhere to the provisions of NCGS 58-41-50(f) and 58-37-35(l) as 23 policies had multiple rating errors. The errors consisted of:

- An incorrect size class was used to rate 15 policies.
- An incorrect fleet factor was used to rate seven policies.
- An incorrect radius class was used to rate two policies.
- An incorrect territory was used to rate two policies.
- An incorrect used-in-dumping factor was used to rate two policies.
- An incorrect original cost new factor was used to rate one policy.
- Incorrect rates and rating factors were used to rate one policy ceded to the North Carolina Reinsurance Facility.

The errors resulted in nine overcharges and 14 undercharges. At the request of the examiners, the Companies refunded \$19,123.00, including interest, to the policyholders for the overcharges.

### **COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Companies are directed to reinforce with its producers and underwriters the procedures and methods for determining the proper territory, classification codes, rating factors and rates when submitting and reviewing applications for commercial automobile insurance. Procedures must be put into place to verify producers are properly appointed by the Companies.

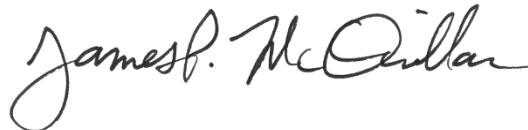


## CONCLUSION

An examination has been conducted on the market conduct affairs of The Cincinnati Insurance Company, The Cincinnati Indemnity Company, and The Cincinnati Casualty Company for the period July 1, 2015, through June 30, 2017, with analyses of certain operations of the Companies being conducted through August 28, 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, Corey Gordon, 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  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina