

Report on

Market Conduct Examination

of

Genworth Mortgage Insurance Corporation  
Genworth Residential Mortgage Insurance Corporation of  
North Carolina

Raleigh, North Carolina

by Representatives of the  
North Carolina Department of Insurance

as of

February 28, 2014

---

---



TABLE OF CONTENTS

SALUTATION ..... 1

FOREWORD ..... 2

SCOPE OF EXAMINATION ..... 2

EXECUTIVE SUMMARY..... 3

CORPORATION OPERATIONS AND MANAGEMENT ..... 3

POLICYHOLDER TREATMENT ..... 4

    Consumer Complaints..... 4

MARKETING ..... 5

    Policy Forms and Filings ..... 5

    Producer Licensing ..... 5

UNDERWRITING PRACTICES ..... 6

    Overview ..... 6

    Mortgage Guaranty ..... 6

TERMINATIONS..... 6

    Overview ..... 6

    Mortgage Guaranty Cancellations ..... 7

    Declinations/Rejections ..... 7

CLAIMS PRACTICES ..... 8

    Overview ..... 8

    Paid Claims..... 8

    Closed Without Payment..... 9

SUMMARY..... 9

TABLE OF STATUTES..... 9

CONCLUSION.....10



Raleigh, North Carolina  
February 28, 2014

Honorable Wayne Goodwin  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
Dobbs Building  
430 N. Salisbury Street  
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and 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

**Genworth Mortgage Insurance Corporation (NAIC #38458)**  
**Genworth Residential Mortgage Insurance Corporation of**  
**North Carolina (NAIC #29823)**  
NAIC Exam Tracking System Exam Number: NC299-M31  
Raleigh, North Carolina

hereinafter generally referred to as the Corporations, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## **FOREWORD**

This examination reflects the North Carolina insurance activities of Genworth Mortgage Insurance Corporation and Genworth Residential Mortgage Insurance Corporation of North Carolina. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

## **SCOPE OF EXAMINATION**

This examination commenced on October 10, 2013, and covered the period of January 1, 2008, through December 31, 2012, with analyses of certain operations of the Corporations being conducted through February 26, 2014. All comments made in this report reflect conditions observed during the period of the examination.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

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 at or above the following levels: 0 percent for consumer complaints, 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; 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 no concerns with Corporation procedures and practices in the following areas: policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

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 DIVISIONS” then “Legislative Services”.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Corporations’ practices and ensure consumer protection.

## CORPORATION OPERATIONS AND MANAGEMENT

The Corporations are licensed as monoline mortgage guaranty insurers of one-to-four family residential real property. The Corporations issue policies to financial organizations that service mortgage loans for residential borrowers. The insured is the lender that requires the mortgage guaranty insurance on residential mortgage loans, thereby protecting itself in the event of default on the loan by the borrower. The Corporations are licensed in all states, the District of Columbia, and the United States Virgin Islands.

Direct written premium for the Corporations’ 2012 countrywide mortgage guaranty operations was \$574,661,455. North Carolina’s production for the same period was \$21,428,994. Premium writings in North Carolina between 2008 and 2012 decreased approximately 39.4 percent. The charts below outline the Corporations’ mortgage guaranty line of business in 2012 and loss ratios in North Carolina for the examination period.

Line of Business	Written Premium	Percentage
Mortgage Guaranty	\$21,428,994	100.0
<b>Total</b>	<b>\$21,428,994</b>	<b>100.0</b>

Year	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
2008	\$35,361,272	\$32,001,468	\$25,622,521	80.1
2009	\$28,739,775	\$29,572,590	\$39,640,844	134.0
2010	\$25,598,493	\$25,642,424	\$30,969,192	120.8
2011	\$23,865,035	\$23,815,728	\$37,063,156	155.6
2012	\$21,428,994	\$21,197,095	\$19,043,463	89.8

### POLICYHOLDER TREATMENT

#### Consumer Complaints

The Corporations' complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules. The Corporations' complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department.

The one complaint contained in the Department's listing was received for review. The complaint requiring a response to the Department is shown in the chart below.

Type of Complaint	Total
Claims	1
<b>Total</b>	<b>1</b>

The Corporations' response to the complaint was deemed to be appropriate to the circumstances.

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



<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	1	100.0
<b>Total</b>	<b>1</b>	<b>100.0</b>

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Corporations were reviewed to determine compliance with appropriate North Carolina statutes and rules. The review was based on the mortgage guaranty line of business.

The Corporations' mortgage guaranty policy is an independently filed program that utilizes its own rates. Filings were submitted to the Department by the Corporations.

### Producer Licensing

The Corporations' procedures for appointment and termination of their producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules.

The Corporations provided the examiners with listings of seven appointed producers and 11 terminated producers for the period under examination. All appointed and terminated producer files were selected for review.

The Corporations submitted the North Carolina Limited Representative License Application form (NC-2) to the Department in accordance with the provisions of NCGS 58-33-26 for all seven appointed producer files reviewed.

The Corporations submitted the Termination of North Carolina Agent Appointment forms to the Department in accordance with the provisions of NCGS 58-33-56(b) for all 11 terminated producer files reviewed.

## **UNDERWRITING PRACTICES**

### Overview

The Corporations write mortgage guaranty insurance by issuing a master policy to each insured (lender). A certificate of insurance is issued to the insured for each mortgage loan. The borrower is the party legally obligated to repay the debt obligation created by the loan. Each certificate was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the certificates were examined to determine compliance with the appropriate North Carolina statutes and rules and policy provisions.

### Mortgage Guaranty

The Corporations provided a listing of 11,898 active mortgage guaranty certificates issued during the period under examination. One hundred certificates were randomly selected for review.

All certificates within the survey represented loans with terms ranging from 240 months (20 years) to 360 months (30 years). No discrepancies were noted in the Corporations' use of their underwriting guidelines. All certificates contained sufficient documentation to support the Corporations' application of filed rates and premiums charged.

## **TERMINATIONS**

### Overview

The Corporations' termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules and policy provisions. The review was based on the mortgage guaranty line of business. Special attention was placed on the validity and reason for termination, timeliness in issuance of the termination notice, policy refund (where applicable), and documentation of the policy file.

A total of 24,754 certificates were terminated during the period under examination. The examiners randomly selected 150 terminations for review.

### Mortgage Guaranty Cancellations

One hundred cancelled mortgage guaranty certificates were randomly selected for review from a population of 23,360.

The reason for cancellation was deemed valid for all certificates reviewed. The review revealed the following reasons for cancellation:

<b>Reason for Cancellation</b>	<b>Number of Certificates</b>	<b>Percentage</b>
Insured's request	98	98.0
Nonpayment of premium	2	2.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Corporations were not required to issue cancellation notices for 98 of the cancellations reviewed as these certificates were cancelled at the request of the insured. Cancellation notices for the remaining two certificates stated the specific reason for cancellation. All insured were given proper and timely notification of cancellation.

The final area of this review encompassed documentation of the policy file. All policy files contained sufficient documentation to support the action taken by the Corporations.

### Declinations/Rejections

The Corporations provided a listing of 1,394 declined/rejected new business applications for the period under examination. Fifty applications were randomly selected for review.

The review revealed the following reason for declination/rejection:

<b>Reason for Declination/Rejection</b>	<b>Number of Declinations/Rejections</b>
Underwriting reasons	50
<b>Total</b>	<b>50</b>

All reasons for declination/rejection were deemed valid and handled in a timely manner. All files contained sufficient documentation to support the Corporations' actions.

## CLAIMS PRACTICES

### Overview

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

The Corporations' claim settlement guidelines are as follows:

1. Primary claims must be settled within 60 days of receipt of the insured's claim for loss if the insured has provided all necessary documents (perfected claim).
2. Payment within 60 days of the receipt of all additional and necessary documents that were not submitted with the original claim for loss.
3. Pool claims must be settled within 30 days from receipt of a perfected claim.

Sixty-four claims were randomly selected for review from a population of 3,020.

### Paid Claims

The examiners randomly selected 50 of the 3,006 claims paid during the period under examination.

The following type of claim was reviewed and the average payment time is noted in calendar days.

Type of Claim	Payment Time
Mortgage Guaranty	39.5

Twenty-nine of the 50 claims reviewed (58.0 percent) contained the required information/documentation attached to the notice of loss. These files were settled within 60 days. The remaining 21 files (42.0 percent) required additional information from the insured to support the loss. The Corporations requested this additional information and paid the claim within 60 days upon receipt of the requested data.

A settlement letter was mailed with each claim payment. No discrepancies were noted in the paid claims segment of this review.

### Closed Without Payment

The entire population of 14 closed without payment claims for the period under examination was reviewed. The claim files were reviewed to determine if the Corporations' reasons for closing the claims without payment were valid. None of the claim files reviewed were claim denials. All 14 of the claims were closed without payment as the net on the sale of the property exceeded the allowable claim loss amount. Therefore, no payment was due the insured.

The claim files reviewed contained documentation that supported the Corporations' final claim disposition. All reasons for closing the claims without payment were deemed valid, and the Corporations furnished detailed letters of explanation regarding each nonpaid claim decision. Ten of the 14 claims reviewed (71.4 percent) contained the required information/documentation attached to the notice of loss. These files were closed within 60 days. The remaining four files (28.6 percent) required additional information from the insured to support the loss. The Corporations requested this additional information and closed the claim within 60 days upon receipt of the requested data. The review of closed without payment claims disclosed no violations of the provisions of NCGS 58-63-15.

### **SUMMARY**

The Market Conduct examination revealed no areas of concern.

### **TABLE OF STATUTES**

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-2-132	Examination reports.
NCGS 58-2-133	Conflict of interest; cost of examinations; immunity from liability.
NCGS 58-2-134	Cost of certain examinations.

NCGS 58-7-15	Kinds of insurance authorized.
NCGS 58-33-26	General license requirements.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.

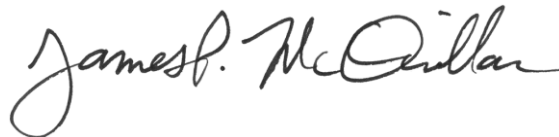
### CONCLUSION

An examination has been conducted on the market conduct affairs of Genworth Mortgage Insurance Corporation and Genworth Residential Mortgage Insurance Corporation of North Carolina for the period January 1, 2008, through December 31, 2012, with analyses of certain operations of the Corporations being conducted through February 26, 2014.

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 Corporation operations in the areas of policyholder treatment, marketing, underwriting practices, terminations, and claims practices.

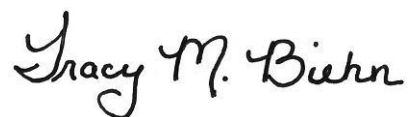
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



James P. McQuillan, CPCU, AIT  
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 that reads "Tracy M. Biehn". The signature is written in a cursive style with a large initial 'T' and 'B'.

Tracy Biehn, LPCS, MBA  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina