Report on

Market Conduct Examination

of the

Heritage Property & Casualty Insurance Company

Tampa, Florida

by Representatives of the

North Carolina Department of Insurance

as of

May 14, 2025

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Raleigh, North Carolina
May 14, 2025

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Honorable Michael Yaworsky
Commissioner of Insurance
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Honorable Commissioners:

In accordance with the provisions of North Carolina General Statutes 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of the following entity:

Heritage Property & Casualty Insurance Company (NAIC #14407)
Tampa, Florida
(hereinafter generally referred to as ”the Company”)
NAIC Exam Tracking System Exam Number: NC-HOWENC-8

The examination was conducted at the North Carolina Department of Insurance (Department) office located at 3200 Beechleaf Court, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on June 3, 2024, and covered the period of July 1, 2021, through June 30, 2023. Analyses of certain operations of the Company were concluded during the wrap-up conference which was held on January 28, 2025. 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 and rating, terminations, and claims practices. 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% 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% for claims; and 10% 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:

Underwriting and Rating – Homeowners: Producers not appointed and/or licensed; rating errors; incorrect increased special limits of liability for silverware displayed on declarations page; applications not in file.

Terminations – Homeowners Cancellations: Proof of mailing not in file; insured's request to cancel not in file. Homeowners Nonrenewals: Proof of mailing not in file.

Claims – Adjusters not licensed; claims not handled in a reasonably prompt manner; recoverable depreciation not offered.

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 https://www.ncdoi.gov/insurance-industry/market-regulation.

This examination identified various statutory violations 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 does not constitute acceptance of such violations.

POLICYHOLDER TREATMENT

Privacy of Financial and Health Information

The Company provided privacy of financial and health 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 review was based on the homeowners line of business.

Filings for the homeowners line of business were made by the North Carolina Rate Bureau on behalf of the Company. The Company filed deviations with the Department for this line of business. All forms reviewed were approved forms.

UNDERWRITING AND RATING

Overview

The Company's marketing in North Carolina is directed exclusively to the homeowners line of coverage. The Company's homeowners 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.

Homeowners

The Company provided a listing of 1,524 active homeowners policies issued during the period under examination. Fifty policies were randomly selected for review.

The Company's homeowners coverages were written utilizing manual and deviated rates. Policies were written on an annual basis. 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 was deemed to be in violation of the provisions of NCGS 58-63-15(1) as the declarations page for 43 policies reviewed (86.0% error ratio) displayed an incorrect coverage limit for Coverage C Increased Special Limits of Liability - Silverware, Goldware and Pewterware.

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, 19.0106(a)(4) and 19.0106(e) as seven files reviewed did not contain a copy of the application (14.0% error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-33-26(i) and 58-33-40 as the producer was not appointed with the Company at the time of application for seven files reviewed (14.0% error ratio). The Company was deemed to be in violation of the

provisions of NCGS 58-33-5, and NCGS 58-33-26 as the producer was not licensed in North Carolina at the time of application for one file reviewed (2.0% error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-36-30(a), and Rules 301, 406, and 515 of the Homeowners Rating Manual as 25 policies reviewed were rated incorrectly (50.0% error ratio), resulting in 32 errors. The errors consisted of the following:

- 19 policies were rated using an incorrect territory.
- One policy was rated using an incorrect rate filing.
- Two policies were rated using an incorrect credit for Coverage D – Loss of Use.
- Two policies were rated using an incorrect adjusted base premium for Coverage C.
- One policy was rated with an incorrect deductible factor.
- Seven policies were incorrectly charged an additional premium for Coverage C Increased Special Limits of Liability – Silverware, Goldware and Pewterware.

The rating errors resulted in 20 premium undercharges and 12 premium overcharges. At the request of the examiners, the Company issued refunds in the amount of $1,041.15, including interest, for the overcharges. The remaining premiums charged were deemed correct.

As a result of the incorrect charges for Coverage C Increased Special Limits of Liability – Silverware, Goldware and Pewterware, the examiners directed the Company to conduct a self-audit. The Company identified 258 policies that were incorrectly charged premiums, and issued additional refunds totaling $11,377.38, including interest.

TERMINATIONS

Overview

The Company's termination procedures were reviewed to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules. The review was based on the homeowners 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 17,810 policies were terminated during the period under examination. The examiners randomly selected 150 terminations (100 cancellations and 50 nonrenewals) for review.

Homeowners Cancellations

One hundred cancelled homeowners policies were randomly selected for review from a population of 16,419.

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	85	85.0
Nonpayment of premium	10	10.0
Policy Rewritten	3	3.0
Adverse Underwriting Decision	2	2.0
Total	**100**	**100.0**

The Company was not required to issue cancellation notices for 88 of the cancelled policies reviewed as these policies were cancelled at the request of the insured or rewritten. Cancellation notices for the remaining 12 policies stated the specific reason for cancellation.

The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102(a), 19.0104, 19.0106(a)(4) and 19.0106(e) as sixteen files did not contain required documentation (16.0% error ratio). The errors consisted of the following:

- 10 files did not contain proof of mailing of the cancellation notice
- 6 files did not contain the insured's request to cancel

All premium refunds were deemed correct. The Company issued refunds in a timely manner.

Homeowners Nonrenewals

Fifty nonrenewed homeowners policies were randomly selected for review from a population of 1,391.

The reason for nonrenewal was deemed valid for all policies reviewed. The review revealed the following reasons for nonrenewal:

Reason for Nonrenewal	Number of Policies	Percentage
Agent No Longer Appointed	29	58.0
Adverse Underwriting Decision	21	42.0
Total	**50**	**100.0**

The Company was deemed to be in violation of 11 NCAC 19.0102(a), 19.0104, 19.0106(a)(4), and 19.0106(e) as 50 files reviewed did not contain required documentation (100% error ratio). The errors consisted of the following:

- 45 files did not contain proof of mailing of the nonrenewal notice to the mortgagee
- 38 files did not contain proof of mailing of the nonrenewal notice to the insured

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 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 license status for each claim adjuster was reviewed to determine if the adjuster was properly licensed at the time of the claim handling. The review encompassed paid, medical payments, first party bodily injury, and closed without payment claims. One hundred seventy-one claims were randomly selected for review from a total population of 2,294.

Paid Claims

Fifty first-party property damage claims (dwelling) were randomly selected from a population of 1,449. Fifty first-party property damage claims (contents) were randomly selected

from a population of 135. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

The average payment time for the claims reviewed is noted in calendar days:

Type of Claim	Payment Time
First-party property damage (dwelling)	37.0
First-party property damage (contents)	61.0

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 as the claim adjuster was not licensed at the time of claim handling for five first-party property damage (dwelling) claims reviewed (10.0% error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-63-15(11) as 20 first-party property damage (dwelling) claims were not handled in a reasonably prompt manner (40.0 % error ratio), resulting in 27 errors. The errors consisted of the following:

- 2 claims did not have damage appraised in a reasonably prompt manner
- 15 claims were not investigated in a reasonably prompt manner
- 10 claims were not paid in a reasonably prompt manner upon completion of the investigation

The Company was reminded of the provisions of NCGS 58-63-15(11)(a) as the adjuster applied an incorrect deductible when settling one first-party property damage (dwelling) claim reviewed (2.0% error ratio), resulting in an overpayment.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 as the claim adjuster was not licensed at the time of claim handling for three first-party property damage (contents) claims reviewed (6.0% error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-63-15(11) as 12 first-party property damage (contents) claims were not handled in a reasonably prompt manner (24.0% error ratio), resulting in 14 errors. The errors consisted of the following:

- 10 claims were not investigated in a reasonably prompt manner
- 4 claims were not paid in a reasonably prompt manner upon completion of the investigation

The Company was reminded of the provisions of NCGS 58-63-15(11)(h) as recoverable depreciation was not offered to the claimant when the replacement cost of damaged contents was reduced by depreciation for one first-party property damage (contents) claim reviewed (2.0% error ratio), resulting in an underpayment. At the request of the examiners, the Company issued an additional payment in the amount of $1,291.65, including interest, to the claimant.

The Company was reminded of the provisions of NCGS 58-63-15(11)(h) as payment amounts were calculated incorrectly for three first-party property damage (contents) claims reviewed (6.0% error ratio) resulting in three underpayments. At the request of the examiners, the Company issued additional payments in the amount of $10,399.28, including interest, to the claimants.

All other payments issued by the Company were deemed to be accurate. Deductibles were correctly applied and depreciation taken was reasonable.

All claim files reviewed contained documentation to support the Company's payments. The documentation consisted of appraisals, estimates, repair bills, or inventory listings.

Medical Payment Claims

All medical payment claims were selected for review from a population of five. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Company had engaged in any unfair claims practices. The review of medical payment claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Bodily Injury Claims

All homeowners bodily injury claims were selected for review from a population of 16. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to

see if the Company had engaged in any unfair claims practices. The review of bodily injury claims disclosed no violations of the provisions of NCGS 58-63-15(11).

Claims Closed Without Payment

Fifty closed without payment claims were randomly selected for review from a population of 689. 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. All reasons for denial or closing the claims without payment were deemed valid. Claims were denied on an average of 19 days for the 3-year period.

The Company was deemed to be in violation of the provisions of NCGS 58-33-26 as the adjuster was not licensed at the time of claim handling for two claims reviewed (4.0% error ratio).

The Company was deemed to be in violation of the provisions of NCGS 58-63-15(11)(n) as the denial determination was not made in a reasonably prompt manner for eight claims reviewed (16.0% error ratio).

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company is directed to implement procedures to verify the accuracy of rating components, including territory codes, deductibles, and increased special limits of liability. Additionally, the Company must ensure that the correct policy coverages are displayed on the policy declarations.

The Company is directed to establish procedures to retain copies of the new business application, documentation of the insured's request to cancel, and proof of mailing for cancellations and nonrenewals. Any documentation held in producers' files on behalf of the company must be available for review.

The Company is directed to implement procedures to ensure that all producers are properly licensed and appointed to represent the Company in North Carolina, and both staff and independent claim adjusters are properly licensed in North Carolina at the time of claim handling.

The Company is directed to establish and abide by reasonable time standards for the acknowledgement, appraisal, investigation, payment, and denial of claims.

During the examination, the Personal Property Inventory Worksheet - a form provided by the Company for claimants to document damaged or lost personal property and routinely used to settle claims - was found by the examiners to be faulty. The format of the worksheet prompted the claimant to complete calculations that are normally the responsibility of the adjuster, including depreciation and actual cash value, and did not print correctly, causing columns to be missing. The Company has redesigned the inventory worksheet to clearly display which areas are the responsibility of the adjuster, and corrected formatting issues that affected the viewing and printing of the document.

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

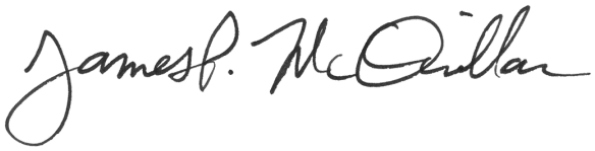
CONCLUSION

An examination has been conducted on the market conduct affairs of Heritage Property & Casualty Insurance Company for the period July 1, 2021, through June 30, 2023, with analyses of certain operations of the Company being conducted through January 28, 2025.

This examination was conducted in accordance with the North Carolina Department of Insurance and the NAIC Market Regulation Handbook procedures, including analyses of the Company’s operations in the areas of policyholder treatment, marketing, underwriting and rating, terminations, and claims practices.

In addition to the undersigned, Paula Posey, AINS, MCM, and Alex Auman, MCM, CLCS, North Carolina Market Conduct Senior Examiners, 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, MCM
Deputy Commissioner
Market Regulation Division
State of North Carolina