



Report on

Market Conduct Examination

of the

Homesite Insurance Company

Madison, Wisconsin

by Representatives of the  
North Carolina Department of Insurance

as of

June 20, 2017

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Raleigh, North Carolina  
June 20, 2017

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Department of Insurance  
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Honorable Commissioners and Acting 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 target examination has been made of the market conduct activities of

**Homesite Insurance Company (NAIC #17221)**  
NAIC Exam Tracking System Exam Number: NC-NC131-15  
Madison, Wisconsin

hereinafter generally referred to as the Company, 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 Company. This examination commenced on March 13, 2017, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through June 1, 2017.

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 was not comprehensive, but included a limited review 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 of certain tolerance levels. The Department applied a 0 percent tolerance level for 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:

*Underwriting Practices – Homeowners:* The percentage of increase between the premium without application of consent to rate and the consent to premium was displayed incorrectly on the consent to rate form, incorrect premium without application of consent to rate was listed on the consent to rate form, and premium refunds were not calculated correctly.

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” then “Legislative Services” under “Other Divisions”.

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. 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 Company were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Homeowners

Filings for the homeowners line of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for this line of business were made to the Department by the Company.

## **UNDERWRITING PRACTICES**

### Overview

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

- Homeowners

A random selection of 119 policies was made from a total population of 23,237. 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.

### Homeowners

The Company's homeowners policies were written on an annual basis. Coverages were written on a consent to rate 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 did not adhere to the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 10, Section 0602 as the percentage of increase between the premium without application of consent to rate and the consent to rate premium was displayed incorrectly on the consent to rate form for seven policies.

The Company did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as the consent to rate form for thirteen policies did not display the correct premium that would be charged without application of consent to rate. One policy contained two errors. The incorrect display of premium was the result of the following:

- Ten policies applied an incorrect territory code.
- Three policies applied an incorrect deductible factor.
- One policy applied an incorrect construction factor.

The Company did not adhere to the provisions of NCGS 58-36-30(b) and 11 NCAC 10.0602 (a)(2)(3) as refunds for nine policies were not calculated correctly when the policy was cancelled as a result of not receiving a signed consent to rate form. At the request of the examiner, the Company issued refunds in the amount of \$370.51. In addition, the examiner requested the Company to conduct a self-audit. The Company will report the total amount refunded at the conclusion of the self-audit.

**COMMENTS, RECOMMENDATIONS, AND DIRECTIVES**

The Company must ascertain that the correct premium without application of consent to rate as well as the correct percentage of increase is displayed on the consent to rate form when it is presented to the insured for their review and signature.

When coverages are cancelled due to a signed consent to rate form not being received, the Company must return the consent to rate portion of premium above the earned premium without application of consent to rate in addition to the unearned premium.

**CONCLUSION**

An examination has been conducted on the market conduct affairs of Homesite Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through June 1, 2017.

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.

Respectfully submitted,



Brooke Hinnant, MCM  
Acting 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.



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