

Report on

Market Conduct Examination

of the

State National Insurance Company

Bedford, Texas

by Representatives of the  
North Carolina Department of Insurance

as of

December 16, 2016

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Raleigh, North Carolina  
December 16, 2016

Honorable Wayne Goodwin  
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Department of Insurance  
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Honorable David Mattax  
Commissioner of Insurance  
Department of Insurance  
State of Texas  
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Honorable Commissioners:

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

**State National Insurance Company (NAIC #12831)**  
NAIC Exam Tracking System Exam Number: NC-NC131-6  
Bedford, Texas

hereinafter generally referred to as the Company, at the Company's home office located at 1900 L. Don Dodson Drive, Bedford, Texas and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Department conducted a target examination of the Company. The examination commenced on September 19, 2016, and covered the period of January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through December 13, 2016.

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 Company's practices and procedures in claims. The findings and conclusions contained within the report are based on the work performed and are referenced within the appropriate section 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 3 percent tolerance level for claims practices. 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 Company procedures and practices in the following area:

*Claims Practices* – Physical Damage Claims: Failure to acknowledge and act promptly to claims and failure to timely deliver claim payments. Third Party Property Damage Claims: Failure to acknowledge and act promptly to claims and failure to effectuate prompt, fair, and equitable settlements.

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.

## **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 physical damage and third party property damage paid claims. Two hundred sixty-two claims were randomly selected for review from a population of 2,385.

### Physical Damage Claims

One hundred thirty-one physical damage claims were randomly selected for review from a population of 1,101. The claim files were reviewed to determine compliance with the provisions of NCGS 58-63-15 for timeliness of payment, supporting documentation, and accuracy of payment.

The Company did not adhere to the provisions of NCGS 58-63-15(11)(b) as the Company failed to acknowledge and act promptly on 12 files reviewed.

The Company did not adhere to the provisions of Title 11 of the North Carolina Administrative Code (NCAC) Chapter 4, Section 0421(1) as claim payments were not delivered within 10 business days after the claim was settled on six files reviewed.

### Third Party Property Damage Claims

One hundred thirty-one third party property damage claims were randomly selected for review from a population of 1,284. The claim files were reviewed to determine compliance with

the provisions of NCGS 58-63-15 for timeliness of payment, supporting documentation, and accuracy of payment.

The Company did not adhere to the provisions of NCGS 58-63-15(11)(b) as the Company failed to acknowledge and act promptly on five files reviewed.

The Company did not adhere to the provisions of NCGS 58-63-15(11)(f) as the Company failed to effectuate prompt, fair, and equitable settlements on 11 files reviewed.

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

The Company must reinforce procedures to ascertain that claims are acknowledged and acted on in a timely manner. The Company must also reinforce procedures to assure that claim payments are mailed or otherwise delivered within 10 days after the claim is settled. The Company must act in good faith to effectuate prompt, fair, and equitable settlement of claims in which liability has become reasonably clear.

### **CONCLUSION**

An examination has been conducted on the market conduct affairs of State National Insurance Company for the period January 1, 2014, through December 31, 2015, with analyses of certain operations of the Company being conducted through December 13, 2016.

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 area of claims practices.

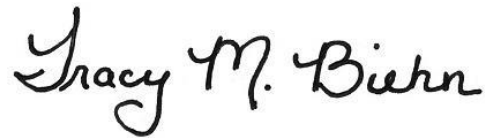
In addition to the undersigned, Patricia Murphy, AIC, ARM, MCM, North Carolina Market Conduct Senior Examiner, participated in this examination.

Respectfully submitted,

Handwritten signature of Brooke Hinnant in black ink.

Brooke W. 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.

Handwritten signature of Tracy M. Biehn in black ink.

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