

Report on

Market Conduct Examination

of the

USAA Casualty Insurance Company

San Antonio, Texas

by Representatives of the

North Carolina Department of Insurance

as of

August 4, 2015

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Raleigh, North Carolina  
August 4, 2015

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

Honorable David Mattax  
Commissioner of Insurance  
Texas Department of Insurance  
333 Guadalupe Street  
Austin, Texas 78701

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

**USAA Casualty Insurance Company (NAIC #25968)**  
NAIC Exam Tracking System Exam Number: NC 299-M71  
San Antonio, Texas

hereinafter generally referred to as the Company, at the Company's home office located at 4800 Fredericksburg Road, San Antonio, 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 North Carolina Department of Insurance conducted a limited-scope examination of the Company reviewing the consent to rate business. This examination commenced on April 20, 2015, and covered the period of January 1, 2013, through December 31, 2014, with analyses of certain operations of the Company being conducted through July 2, 2015.

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, but included a limited review of the Company's practices and procedures in marketing and underwriting 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 at or above the following levels: 0 percent 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 via an Audit Command Language (ACL) program with a random sample taken from a given population. 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:

*Marketing* – Private Passenger Automobile and Homeowners: Use of a consent to rate form not filed with and approved by the Department.

*Underwriting Practices* – Private Passenger Automobile: Signed consent to rate form not obtained and consent to rate form did not properly contain premium information.

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 DIVISIONS” then “Legislative Services”.

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 lines of business:

- Private Passenger Automobile
- Homeowners

Filings for the private passenger automobile and homeowners lines of business were made by the North Carolina Rate Bureau on behalf of the Company. Deviations for these lines of business were made to the Department by the Company.

The Company did not adhere to the provisions of 11 NCAC 10.1201(c) and NCGS 58-3-150(a) as the signed consent to rate form was not filed with and approved by the Department on ten private passenger automobile policies.

The Company did not adhere to the provisions of 11 NCAC 10.1201(c) and NCGS 58-3-150(a) as the signed consent to rate form was not filed with and approved by the Department on 110 homeowners policies.

## UNDERWRITING PRACTICES

### Overview

The Company's marketing in North Carolina is directed to personal lines of business. The Company provided the examiners with listings of the following types of active policies for the period under examination:

- Private Passenger Automobile
- Homeowners

A random selection of 238 policies was made from a total population of 2,522. 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.

### Private Passenger Automobile

The Company provided a listing of 1,385 private passenger automobile policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Company's private passenger automobile physical damage coverages were written on a consent to rate basis. Policies were written on a semi-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.

The Company did not adhere to the provisions of 11 NCAC 10.0602 and NCGS 58-36-30(b) as the signed consent to rate form was not obtained for 87 policies. At the request of the examiners, the Company is in the process of refunding \$230.00.

The Company did not adhere to the provisions of 11 NCAC 10.0602(a)(2)(3) as the consent to rate form did not contain the rate and premium that would be charged without application of consent to rate as well as the proposed rate and premium for extended

transportation coverage for nineteen policies reviewed. At the request of the examiners, the Company is in the process of refunding \$147.00.

As a result of the findings, the examiners requested that the Company conduct a self-audit. The Company is in the process of issuing refunds for policies where a signed consent to rate form was not obtained and for policies where the consent to rate form did not include Towing and Labor and/or Extended Transportation Expense coverages. For policies written and renewing effective October 2, 2015, the Company will no longer rate Towing and Labor and/or Extended Transportation Expense coverages on a consent to rate basis.

### Homeowners

The Company provided a listing of 1,137 homeowners policies issued during the period under examination. One hundred nineteen policies were randomly selected for review.

The Company's homeowners policies were written on a consent to rate basis. 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. All premiums charged were deemed correct.

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

The Company must ascertain the private passenger automobile consent to rate forms contain all manual and proposed rates and premiums being charged on a consent to rate basis. A signed consent to rate form must be obtained for all consent to rate private passenger automobile policies. For private passenger automobile and homeowners policies, the Company must utilize a consent to rate form that has been filed with and approved by the Department.



## CONCLUSION

An examination has been conducted on the market conduct affairs of USAA Casualty Insurance Company for the period January 1, 2013, through December 31, 2014, with analyses of certain operations of the Company being conducted through July 2, 2015.

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.

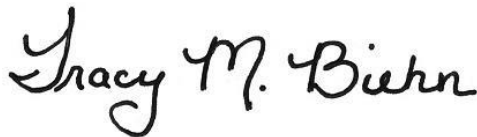
In addition to the undersigned, Brooke Hinnant, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Gina Abate  
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.



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