

Report on

Market Conduct Examination

of the

USAA Casualty Insurance Company  
United Services Automobile Association  
USAA General Indemnity Company  
Garrison Property and Casualty Insurance Company

San Antonio, Texas

by Representatives of the  
North Carolina Department of Insurance

as of

January 25, 2022

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Raleigh, North Carolina  
January 25, 2022

Honorable Mike Causey  
Commissioner of Insurance  
Department of Insurance  
State of North Carolina  
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Raleigh, North Carolina 27603

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Commissioner of Insurance  
Department of Insurance  
State of Texas  
333 Guadalupe Street  
Austin, Texas 78701

Honorable Commissioners:

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 the following entities:

**USAA Casualty Insurance Company (NAIC# 25968)**  
**United Services Automobile Association (NAIC# 25941)**  
**USAA General Indemnity Company (NAIC# 18600)**  
**Garrison Property and Casualty Insurance Company (NAIC# 21253)**  
NAIC Exam Tracking System Exam Number: NC-NC094-31  
San Antonio, Texas  
(hereinafter generally referred to as the Companies)

The examination was conducted 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**

This examination commenced on May 3, 2021, and covered the period of July 1, 2019, through June 30, 2020. Analyses of certain operations of the Companies were concluded during the Wrap-Up Conference which was held on November 9, 2021. This action was taken due to market analysis on underwriting and claims. 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 was not comprehensive, but consisted of an examination of the Companies' practices and procedures in 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 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 Companies' practices and procedures in the following areas:

*Underwriting and Rating* – Private Passenger Automobile: Failure to collect reliable proof of North Carolina residency or eligible risk status; failure to notify insureds of consent-to rate premiums; failure to retain driving records of vehicle operators.

*Terminations* – Private Passenger Automobile Nonrenewals: Not stating a specific reason for termination on the nonrenewal notice.

*Claims Practices* – First Party Property Damage Claims: Adjuster not licensed.

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, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their 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 or in other jurisdictions does not constitute acceptance of such violations. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Companies' practices and provide consumer protection.

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. The review was based on the following lines of business:

1. Private Passenger Automobile
2. Homeowners

Filings for the private passenger automobile and homeowners lines of business were made by the North Carolina Rate Bureau (NCRB) on behalf of the Companies. The Companies filed deviations with the Department for these lines of business.

## **UNDERWRITING AND RATING**

### Overview

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

1. Private Passenger Automobile
2. Homeowners

A random selection of 150 policies was made from a population of 36,035. 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 Companies provided a listing of 34,766 active policies issued during the period under examination. One hundred policies were randomly selected for review.

The Companies' private passenger automobile policies were written on a semi-annual basis. Coverages were written utilizing manual and deviated rates. Risk placement was

determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines.

The Companies were deemed to be in violation of the provisions of the North Carolina Rate Bureau Personal Auto Manual Rule 4.F.1.a and 3.B.5.a, 11 NCAC 19.0102(a), 19.0104, and 19.0106(a)(4),(e) as 91 files reviewed (91.0% error ratio) did not contain proper file documentation to include a motor vehicle report for the listed drivers.

The Companies were deemed to be in violation of the provisions of NCGS 58-2-164(c), as proof of North Carolina residency or eligible risk status was not obtained and maintained in the policy file for 40 of the active policies reviewed (40.0% error ratio).

The Companies were deemed to be in violation of the provisions of 11 NCAC 10.0602(a) and NCGS 58-36-30(b) as 16 policies (16.0% error ratio) did not provide proper notification that certain physical damage coverages were written on a consent-to-rate basis. The examiners directed the Companies to refund the premium and statutory interest in the amount of \$399.47

The Companies were reminded of the provisions of NCGS 58-36-30(a) as five of the active policies reviewed (5.0% error ratio) had rating errors. The rating errors consisted of the following:

- Four policies were rated using an incorrect territory deviation factor
- One policy was rated using an incorrect territory

The rating errors resulted in four undercharges and one overcharge in premium. The examiners directed the Companies to refund premium and statutory interest in the amount of \$35.57.

As a result of the rating errors and coverages written on a consent-to-rate basis without proper notification, the examiners requested the Companies to conduct a self-audit. Once complete, the Companies will issue any additional refunds to the insureds and report the total dollar amount refunded to the Department.



### Homeowners

The Companies provided a listing of 1,269 active policies issued during the period under examination. Fifty policies were randomly selected for review.

The Companies' homeowners coverages were written utilizing manual and deviated rates. Policies were written on an annual basis. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk. All premiums charged were deemed correct.

## **TERMINATIONS**

### Overview

The Companies' 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 following lines of business:

1. Private Passenger Automobile
2. Homeowners

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 59,777 policies were terminated during the period under examination. The examiners randomly selected 300 terminations for review.

### Private Passenger Automobile Cancellations

One hundred cancelled private passenger automobile policies were randomly selected for review from a population of 42,251.

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

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Insured's request	49	49.0
Policy rewritten	32	32.0
Nonpayment of premium	19	19.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 81 of the cancelled policies reviewed as these policies were rewritten or cancelled at the request of the insured. Cancellation notices for the remaining 19 policies stated the specific reason for cancellation.

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

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

#### Homeowners Cancellations

One hundred cancelled homeowners policies were randomly selected for review from a population of 16,857.

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

<b>Reason for Cancellation</b>	<b>Number of Policies</b>	<b>Percentage</b>
Insured's request	91	91.0
Policy rewritten	6	6.0
Nonpayment of premium	2	2.0
Adverse underwriting decision	1	1.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

The Companies were not required to issue cancellation notices for 97 of the cancelled policies reviewed as these policies were rewritten or cancelled at the request of the insured. Cancellation notices for the remaining three policies stated the specific reason for cancellation.

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

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

#### Private Passenger Automobile Nonrenewals

Fifty nonrenewed private passenger automobile policies were selected for review from a population of 69.

The review revealed the following reasons for nonrenewal:

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Adverse underwriting decision	50	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

The Companies were deemed to be in violation of the provisions of NCGS 58-39-55(a) as the nonrenewal notice did not state a specific reason for termination for 13 files reviewed (26.0% error ratio).

The Companies were reminded of the provisions of NCGS 58-36-85(b) as the nonrenewal notice was not delivered to the insured for two files reviewed (4.0% error ratio). The Companies were reminded of the provisions of NCGS 58-36-85(c) as the nonrenewal notice did not state a reason for termination for two files reviewed (4.0% error ratio).

The remaining policy files contained sufficient documentation to support the action taken by the Companies.

#### Homeowners Nonrenewals

Fifty nonrenewed homeowners policies were randomly selected for review from a population of 600.

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

<b>Reason for Nonrenewal</b>	<b>Number of Policies</b>	<b>Percentage</b>
Adverse underwriting decision	50	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

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 Companies.

### **CLAIMS PRACTICES**

#### Overview

The Companies' 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, private passenger automobile and homeowners medical payments, and denied claims. Five hundred fifty claims were randomly selected for review from a population of 67,702.

#### Paid Claims

The examiners randomly selected 450 of the 63,406 first party automobile physical damage, glass, first and third party property damage, and loss of use claims paid during the period under examination. The claim files were reviewed for timeliness of payment, supporting documentation, and accuracy of payment.

The following types of claims were reviewed and the average payment time is noted in calendar days:

<b>Type of Claim</b>	<b>Payment Time</b>
Automobile physical damage	8.8
Glass	8.1
First party property damage (non-Auto)	11.4
Loss of use	54.6
Third party property damage	10.7

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

All claim files reviewed contained documentation to support the Companies' payments. The documentation consisted of appraisals, estimates, repair bills, lodging invoices, provision receipts, and inventory listings.

The Companies were reminded of the provisions of NCGS 58-63-15(11)(b) as the adjuster took an excessive amount of time to estimate three first party property damage claims reviewed (3.0% error ratio). The Companies were deemed to be in violation of the provisions of NCGS 58-33-26 as the adjuster was not licensed for one first party property damage claim file reviewed (1.0% error ratio).

The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as the adjuster took an excessive amount of time to pay one automobile physical damage claim reviewed (1.0% error ratio). The Companies were reminded of the provisions of NCGS 58-63-15(11)(f) as the adjuster took an excessive amount of time to pay one glass claim reviewed (1.0% error ratio).

#### Medical Payment Claims

Fifty private passenger automobile and homeowners medical payment claims were randomly selected for review from a population of 1,488. Each file was reviewed to determine compliance with the provisions of NCGS 58-63-15(11) to see if the Companies 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).

#### Denied Claims

Fifty denied claims were randomly selected for review from a population of 2,808. The claim files were reviewed to determine if the Companies' reasons for denying the claims were valid.

The claim files reviewed contained documentation that supported the Companies' reasons for denial. All reasons for denial were deemed valid. The average denial time was 16 calendar days. The review of denied claims disclosed no violations of the provisions of NCGS 58-63-15.

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

The Companies are directed to maintain on file proof of North Carolina residency or eligible risk status for each private passenger automobile policy. The Companies are directed to notify the insured appropriately when the consent-to-rate premium for private passenger automobile policies exceeds the filed NCRB premium. Driving records showing the original date licensed for each operator must be retained in file for a period of five years for every newly-written private passenger automobile policy.

The Companies are directed to clearly state a specific reason for termination on the termination notice when private passenger automobile policies are nonrenewed.

The Companies must ensure adjusters handling claims in North Carolina are properly licensed.

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

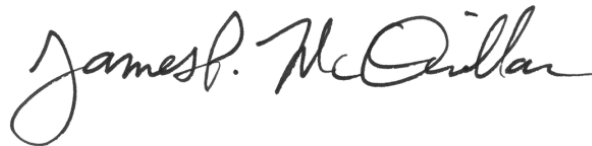
### **CONCLUSION**

An examination has been conducted on the market conduct affairs of USAA Casualty Insurance Company, United Services Automobile Association, USAA General Indemnity Company, and Garrison Property and Casualty Insurance Company for the period July 1, 2019, through June 30, 2020, with analyses of certain operations of the Companies being conducted through November 9, 2021.

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 Companies' operations in the areas of policyholder treatment, marketing, underwriting, terminations, and claims.

In addition to the undersigned, Brooke Green, MCM, and Eshita Patel, MCM, North Carolina Market Conduct Senior Examiners, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, looping initial "J".

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.

A handwritten signature in black ink that reads "Teresa Knowles". The signature is written in a cursive style with a large, looping initial "T".

Teresa Knowles, MCM, ACS  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina