

MARKET CONDUCT EXAMINATION REPORT

OF

INTEGON CASUALTY INSURANCE COMPANY

INTEGON NATIONAL INSURANCE COMPANY

NATIONAL GENERAL INSURANCE COMPANY

AS OF

March 31, 2017

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Andrea D Baytop, Principal Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of National General Insurance Company, Integon Casualty Insurance Company and Integon National Insurance Company as of March 31, 2017, conducted at the companies' office in Winston-Salem, North Carolina, is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case No. INS-2018-00161 finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of the Bureau
at the City of Richmond, Virginia,
this 18th of July, 2018.

A handwritten signature in cursive script, reading 'Andrea D. Baytop', written over a horizontal line.

Andrea D. Baytop
Examiner in Charge

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile line of business written by Integon Casualty Insurance Company, Integon National Insurance Company, and National General Insurance Company, at their office in Winston-Salem, North Carolina.

The examination commenced July 17, 2017 and concluded January 29, 2018. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Eric Ellerbe, Karen S. Gerber, Ju'Coby D. Hendrick, Melody S. Morrissette, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on March 22, 2017 and was assigned the Action Number of VA-VA097-9. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Integon Casualty Insurance Company was incorporated on January 23, 1992 under the laws of North Carolina as Bankers and Shippers Indemnity Company and began business on February 1, 1993. The current name was adopted on April 25, 1996. The company was purchased by National General Holdings Corp. (formerly known as American Capital Acquisition Corporation) on March 1, 2010.

Integon National Insurance Company was originally incorporated as Bankers and Shippers Insurance Company of New York on December 23, 1918 under the laws of New York and began business on January 9, 1919. On December 15, 1995, the company was redomesticated to North Carolina. The current title was adopted on April 25, 1996. The

* Source: Best's Insurance Reports, Property & Casualty, 2017 Edition.

company was purchased by National General Holdings Corp. (formerly known as American Capital Acquisition Corporation) on March 1, 2010.

The National General Insurance Company was incorporated on November 2, 1966, under the laws of Missouri. It was licensed and began business on September 13, 1967. The company was purchased by National General Holdings Corp. (formerly known as American Capital Acquisition Corporation) on March 1, 2010.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date that the company was licensed in Virginia except as noted in the table.

GROUP CODE: 2538	ICIC	INIC	NGIC
NAIC Company Number	27930	29742	23728
LICENSED IN VIRGINIA	9/21/2000	9/21/1929	7/02/1970
LINES OF INSURANCE			
Accident and Sickness		X	
Aircraft Liability		X	X
Aircraft Physical Damage		X	X
Animal			
Automobile Liability	X	X	X
Automobile Physical Damage	X	X	X
Boiler and Machinery			5/29/79
Burglary and Theft		X	5/29/79
Commercial Multi-Peril		X	5/29/79
Credit			
Farmowners Multi-Peril		X	5/29/79
Fidelity		X	
Fire		X	5/29/79
General Liability		X	X
Glass		X	5/29/79
Homeowners Multi-Peril		X	5/29/79
Inland Marine		X	8/13/79
Miscellaneous Property		X	5/29/79
Ocean Marine		X	
Surety		X	
Water Damage		X	
Workers' Compensation		X	

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2016 for the line of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Integon Casualty Insurance Company		
Private Automobile Liability	\$48,101,664	1.68%
Private Automobile Physical Damage	\$16,757,403	.75%
Integon National Insurance Company		
Private Automobile Liability	\$1,423,582	.05%
Private Automobile Physical Damage	\$912,334	.04%
National General Insurance Company		
Private Automobile Liability	\$2,099,599	.07%
Private Automobile Physical Damage	\$2,743,915	.12%

* Source: The 2016 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger line of business written in Virginia for the period beginning April 1, 2016 and ending March 31, 2017. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all the violations of Virginia insurance laws that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued in Virginia. The "Other Law Violations" portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

* Policies reviewed under this category reflected the companies' current practices and, therefore, fell outside of the exam period.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population
Sample Requested**

AREA	ICIC	INIC	NGIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
Private Passenger Auto								
New Business ^{1,2}	<u>31,855</u> 20	<u>955</u> 10	<u>145</u> 10	<u>32,955</u> 40	38	0	37	97%
Renewal Business ^{2,3}	<u>51,211</u> 30	<u>782</u> 15	<u>2,154</u> 15	<u>54,147</u> 60	59	0	44	75%
Co-Initiated Cancellations ^{4,5}	<u>1,507</u> 25	<u>0</u> 0	<u>7</u> 7	<u>1,514</u> 32	15	0	9	60%
All Other Cancellations ⁵	<u>44,669</u> 15	<u>618</u> 15	<u>310</u> 11	<u>45,597</u> 41	42	0	34	81%
Nonrenewals	<u>854</u> 10	<u>0</u> 0	<u>14</u> 10	<u>868</u> 20	20	0	17	85%
Claims								
Auto ⁶	<u>10,885</u> 56	<u>253</u> 25	<u>274</u> 31	<u>11,412</u> 112	110	0	53	48%
Footnote ¹ - Two policies were canceled flat and were not reviewed.								
Footnote ² - The Metromile rates and rules were withdrawn from use in Virginia as of September 1, 2016. The company(INIC) issued new and renewal business policies after this date without rates on file. The examiners did not review these policies.								
Footnote ³ -One policy had a California address and was not reviewed.								
Footnote ⁴ - Seven policies were not company-initiated and were not reviewed. Five policies were rewritten to a different policy number and were not reviewed. Two policies were duplicates and were not reviewed.								
Footnote ⁵ - One file was moved from co-initiated to nonpay cancellations and two files were moved from co-initiated to insured requested. One nonpay cancellation was not reviewed and one insured requested cancellation was not reviewed.								
Footnote ⁶ - Two claims were duplicates and were not reviewed.								

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau reviewed 38 new business policy files. During this review, the examiners found overcharges totaling \$570.96 and undercharges totaling \$4,137.34. The net amount that should be refunded to insureds is \$570.96 plus six percent (6%) simple interest.

- (1) The examiners found 16 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
 - a. In seven instances, the company failed to show the Roadside Assistance limit on the declarations page.
 - b. In nine instances, the company incorrectly listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured that the policy was surcharged for an at-fault accident.
- (3) The examiners found 223 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use. The company issued 223 new business policies in the Metromile program after withdrawing all the rules and rates associated with the

- program.
- (4) The examiners found 69 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In 12 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In 16 instances, the company failed to use the correct symbols.
 - c. In three instances, the company failed to use the correct tier eligibility criteria.
 - d. In 11 instances, the company failed to use the correct base and/or final rates.
 - e. In nine instances, the company failed to use the correct increased limits factor.
 - f. In 18 instances, the company applied the internal transfer factor without evidence of a transfer.

Automobile Renewal Business Policies

The Bureau reviewed 59 renewal business policy files. During this review, the examiners found overcharges totaling \$260.86 and undercharges totaling \$4,048.45. The net amount that should be refunded to insureds is \$260.86 plus six percent (6%) simple interest.

- (1) The examiners found 25 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
- a. In 12 instances, the company failed to show the Roadside Assistance limit on the declarations page.
 - b. In 13 instances, the company incorrectly listed endorsements on the

declarations page that were not applicable to the policy.

- (2) The examiners found 419 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use. The company issued 419 renewal policies in the Metromile program after withdrawing all the rules and rates associated with the program.
- (3) The examiners found 90 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In 15 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In 22 instances, the company failed to use the correct symbols.
 - c. In three instances, the company failed to use the correct tier eligibility criteria.
 - d. In five instances, the company failed to use the correct driver classification factor.
 - e. In 18 instances, the company failed to use the correct base and/or final rates.
 - f. In 11 instances, the company failed to use the correct increased limits factor.
 - g. In 16 instances, the company applied the internal transfer factor for more than 36 months.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile PoliciesNOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau reviewed five automobile cancellations that were initiated by the companies where the cancellation notice was mailed prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found four violations of § 38.2-2208 A of the Code of Virginia.
 - a. In two instances, the company failed to obtain valid proof of mailing the cancellation notice to the insured.
 - b. In two instances, the company failed to retain proof of sending the cancellation notice to the insured.
- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau reviewed ten automobile cancellations that were initiated by the companies where the notice was mailed on or after the 60th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$70.00 and no undercharges. The net amount that should be refunded to insureds is \$70.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to retain proof of sending the cancellation notice to the insured.
- (3) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to provide proper notice of cancellation to the lienholder.
- (4) The examiners found two violations of § 38.2-2212 D of the Code of Virginia. The company cancelled the policy for a reason not permitted by the statute.
- (5) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to send the cancellation notice to the insured.
 - b. In one instance, the company failed to send the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.

All Other Cancellations – Automobile PoliciesNONPAYMENT OF THE PREMIUM

The Bureau reviewed 26 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$6.00 and no undercharges. The net amount that should be

refunded to insureds is \$6.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (2) The examiners found 19 violations of § 38.2-2208 A of the Code of Virginia.
 - a. In five instances, the company failed to obtain valid proof of mailing the cancellation notice to the insured.
 - b. In 14 instances, the company failed to retain proof of sending the cancellation notice to the insured.
- (3) The examiners found six violations of § 38.2-2208 B of the Code of Virginia.
 - a. In two instances, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In two instances, the company failed to obtain valid proof of mailing the notice of cancellation to the lienholder.
 - c. In two instances, the company failed to retain proof of mailing the notice of cancellation to the insured.
- (4) The examiners found 20 violations of § 38.2-2212 E of the Code of Virginia.
 - a. In ten instances, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
 - b. In ten instances, the company failed to advise the insured of the availability of other insurance through his agent, through another insurer, or the Virginia Automobile Insurance Plan (VAIP).
- (5) The examiners found five occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide adequate days' notice of cancellation to the lienholder.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file the SR-26 within 15 days of canceling the policy as required by the Virginia Motor Vehicle Code.

REQUESTED BY THE INSURED

The Bureau reviewed 16 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found ten violations of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.
- (2) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance notice of cancellation from the insured.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file the SR-26 within 15 days of canceling the policy as required by the Virginia Motor Vehicle Code.

Company-Initiated Non-renewals – Automobile Policies

The Bureau reviewed 20 automobile non-renewals that were initiated by the companies.

- (1) The examiners found 14 violations of § 38.2-2208 A of the Code of Virginia.

- a. In seven instances, the company failed to obtain valid proof of mailing the non-renewal notice to the insured.
 - b. In seven instances, the company failed to retain proof of mailing the non-renewal notice to the insured.
- (2) The examiners found two violations of § 38.2-2208 B of the Code of Virginia.
- a. In one instance, the company failed to provide notice of non-renewal to the lienholder.
 - b. In one instance, the company failed to obtain valid proof of mailing the non-renewal notice to the lienholder.
- (3) The examiners found four violations of § 38.2-2212 E of the Code of Virginia. The company failed to provide the specific reason for non-renewal in the notice.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 110 automobile claims for the period of April 1, 2016 through March 31, 2017. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$347.90 and underpayments totaling \$27,209.74. The net amount that should be paid to claimants is \$27,209.74 plus six percent (6%) simple interest.

- (1) The examiners found eight violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found 11 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance policy that were pertinent to the claim.
- a. In one instance, the company failed to accurately inform an insured of the Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - b. In three instances, the company failed to accurately inform an insured of the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - c. In seven instances, the company failed to accurately inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage applied to the loss.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-40 D. The company requested an insured to sign a release that extended beyond the subject matter that gave rise to the claim payment.
- (4) The examiners found one violation of 14 VAC 5-400-40 E. The company issued a check or draft in partial settlement of a loss or claim under a specific coverage which contained language that purported to release the insurer or its insured from its liability.

- (5) The examiners found one violation of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (6) The examiners found five violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (7) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (8) The examiners found 21 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
 - a. In three instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.
 - b. In four instances, the company failed to pay the insured's UMPD claim properly.
 - c. In two instances, the company failed to pay the proper sales and use tax, title fee, and/or license transfer fee on first party total loss settlements.
 - d. In six instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
 - e. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
 - f. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other than Collision

coverage.

- g. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Towing and Labor coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found one violation of 14 VAC 5-400-80-C. The company failed to share subrogation recoveries on a proportionate basis with the first party claimant.

- (10) The examiners found six violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

- a. In five instances, the company failed to provide a copy of the repair estimate to the insured.

- b. In one instance, the company failed to provide a copy of the repair estimate to the claimant.

- (11) The examiners found two violations of 14 VAC 5-400-80 E. The company failed to document all information relating to the application of betterment or depreciation in the claim file.

- (12) The examiners found ten violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to the coverage at issue.

These findings occurred with such frequency as to indicate a general business practice.

- (13) The examiners found one violation of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

- (14) The examiners found one violation of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonable clear by failing to pay the claimant the required sales and use tax, title fee, and/or license transfer fee.
- (15) The examiners found two violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage under which payment was made.
- (16) The examiners found one violation of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.
- (17) The examiners found one violation of § 38.2-517 A 6 of the Code of Virginia. The company set arbitrary or unreasonable limits on the reimbursement for paint and/or materials.
- (18) The examiners found two violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (19) The examiners found ten occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In one instance, the company failed to include the lienholder on the insured's check.
 - b. In three instances, the company paid an insured more than he/she was entitled to receive under the terms of the policy.
 - c. In three instances, the company failed to pay an Uninsured Motorist (UM) claim properly.
 - d. In three instances, the company failed to pay the claim under the correct

coverage.

Other Law Violations

The examiners found one violation of § 46.2-624 of the Code of Virginia. The company failed to notify the Virginia Department of Motor Vehicles when payment was made in excess of \$3,500.00 on a water-damaged vehicle.

FORMS REVIEW

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for the line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process Review section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 31 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

- (1) The examiners found one violation of § 38.2-2214 of the Code of Virginia. The company used a rate classification statement other than the one filed and approved by the Bureau.
- (2) The examiners found four violations of § 38.2-2220 of the Code of Virginia. The

company used policy forms that were not in the precise language of the standard forms filed and adopted by the Bureau.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

POLICY ISSUANCE PROCESS REVIEW

To obtain sample policies to review the companies' policy issuance process for the line examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The companies provided five new business policies mailed on April 25, 2017. In addition, the companies provided ten renewal business policies mailed on April 25 and 26, 2017.

NEW BUSINESS POLICIES

The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company failed to show the UMPD coverage limit on the declarations page.

RENEWAL BUSINESS POLICIES

The examiners found three violations of § 38.2-2230 of the Code of Virginia. The company failed to provide the rental reimbursement coverage notice as required by the statute.

STATUTORY NOTICES REVIEW

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for the line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

- (1) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to include all the information required by the statute in its Important Information Regarding Your Insurance notice.
- (2) The examiners found six violations of § 38.2-604 B of the Code of Virginia. The

company's long form Notice of Information Collection and Disclosure Practices did not include all the information required by the statute.

- (3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to have available for use an Adverse Underwriting Decision notice.

Statutory Vehicle Notices

- (1) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to have available for use an Accident Point Surcharge notice.
- (2) The examiners found one violation of § 38.2-2202 A of the Code of Virginia. The company's Medical Expense Benefits notice was not in the precise wording required by the statute.
- (3) The examiners found three violations of § 38.2-2234 A of the Code of Virginia. The company failed to include all of the information required by the statute in its Insurance Credit Score Disclosure notice.

Other Notices

The company provided copies of 14 other notices that were used during the examination period.

The examiners found no violations in this area.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the companies.

Agency

- (1) The examiners found two violations of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agent without first obtaining a license from the Commonwealth of Virginia.
- (2) The examiners found four violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of the application.

Agent

- (1) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found two violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of the application.

COMPLAINT-HANDLING PROCESS REVIEW

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information. The companies submitted their security information as required by § 38.2-613.2 of the Code of Virginia.

The companies provided their written information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

Rating and Underwriting Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges, and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Specify accurate information in the policy by showing the Roadside Assistance limit and only forms applicable to the policy on the declarations page.
- (5) Notify the insured when the policy is surcharged for an at-fault accident.
- (6) File all rates and supplementary rating information with the Bureau.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, symbols, tier eligibility criteria, driver classification, base and/or final rates, increased limits and internal transfer factor rules.

Termination Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Calculate earned premium according to the filed rules and policy provisions.
- (5) Obtain and retain valid proof of mailing cancellation notices to the insured and lienholder.
- (6) Obtain and retain valid proof of mailing non-renewal notices to the insured.
- (7) Provide proper notice of cancellation and nonrenewal to the lienholder.

- (8) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (9) Obtain a written request from the insured when he/she requests cancellation of the policy.
- (10) Inform the insured of the right to review by the Commissioner of Insurance.
- (11) Inform the insured of the availability of other insurance through an agent, another insurer, or the VAIP.
- (12) Provide the specific reason for nonrenewal to the insured.

Claims Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments, and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau the enclosed file titled "Claims Underpayments Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to Medical Expense Benefits coverage, Transportation Expenses coverage, and Uninsured Motorist coverage including rental benefits.

- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim, and pay the claim in accordance with the insured's policy provisions.
- (7) Properly represent pertinent facts or insurance provisions relating to coverages at issue.
- (8) Based on the Bureau's examination of the Companies' Medical Expense Benefits claims, the Companies should conduct an internal audit of the Medical Expense Benefits claims where the provider was paid directly without a valid assignment of benefits and make restitution to the insured where applicable. The Companies should then prepare a spreadsheet indicating the payments made as a result of the internal audit. This spreadsheet should be in the same format as the Restitution Spreadsheet sent by the Bureau for the Claims Underpayments.

NOTE: The Companies agree that the restitution identified during the review of the Medical Expense Benefits claims and the subsequent audit will be handled as a separate Regulatory action; however, the violations associated with this action will remain in the Report. The Companies will Cease and Desist from all practices which constitute violations of § 38.2-2201 of the Code of Virginia.

- (9) Based on the Bureau's examination of the Companies' Uninsured Motorist claims, the Companies should conduct an internal audit of the Uninsured Motorist claims where the deductible was applied incorrectly when the at-fault party was identified. The Companies should then prepare a spreadsheet indicating the payments made as a result of the internal audit. The spreadsheet should be in the same format as the Restitution Spreadsheet sent by the Bureau for the Claims Underpayments.

NOTE: The Companies agree that the restitution identified during the review of the Uninsured Motorist claims and the subsequent audit will be handled as a

separate Regulatory action; however, the violations associated with this action will remain in the Report. The Companies will Cease and Desist from all practices which constitute violations of § 38.2-2206 of the Code of Virginia.

Forms Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Use the rate classification statement approved by the Bureau.
- (2) Use the precise language of the standard automobile forms as filed and adopted by the Bureau.

Policy Issuance Process Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Specify accurate information in the policy as required by the statute by showing the UMPD coverage limit on the declarations page.
- (2) Provide the rental reimbursement coverage notice as required by the statute.

Statutory Notices Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Amend the Important Information Regarding Your Insurance notice to comply with § 38.2-305 B of the Code of Virginia.
- (2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (3) Develop an Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia.

- (4) Develop an Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (5) Amend the Medical Expense Benefits notice to comply with § 38.2-2202 A of the Code of Virginia.
- (6) Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2234 A of the Code of Virginia.

Licensing and Appointment Review

Integon Casualty Insurance Company,
Integon National Insurance Company and
National General Insurance Company shall:

- (1) Accept business only from agents and agencies that have a current license from the Commonwealth of Virginia.
- (2) Appoint agents and agencies within 30 days of the date of application.

PART THREE – EXAMINERS’ RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

RECOMMENDATIONS

We recommend that the companies take the following actions:

Termination

- File an SR-26 with the Department of Motor Vehicles within 15 days of cancelling the policy.
- Provide adequate days’ notice of cancellation to the lienholder.
- Remove page 2 from the demand for payment letter as there is no payment schedule for cancelled policies. If the companies choose to keep page 2, then the cancelled/expired language on page 1 should be removed.
- Amend the filed rules to state the acquisition fee shown on the declarations page is the policy fee.
- Ensure the appropriate reason for cancellation is shown on the cancellation notice.

Claims

- Make all claim denials in writing and keep a copy in the claim file.
- Provide a copy of the repair estimate to the insured and claimant.
- Document all information relating to the application of betterment or depreciation in the claim file.
- Include the correct statement of coverage under which payments are made with all claim payments made to insureds.
- Obtain a written authorization from an insured prior to making payments directly to the medical provider.
- Make payments to the insured for the amount he/she is entitled to receive under the terms of the policy.

- Make payments under UM and Collision coverages correctly.
- Make payments under the correct coverage in accordance with the policy provisions.
- Change Rental Reimbursement to Transportation Expenses to specify the correct coverage on check payments.

Policy Issuance Process

- Remove the “Your Policy Contract” bullet from the “Included in this package...” section of the cover letter.
- Only provide the Important Notice to Applicant, which provides the Cancellation Warning Notice required by 38.2-2210 of the Code of Virginia, when the company is not providing the insured with a copy of the written application.
- Indicate the action being taken on AUD notices sent to insureds.

Statutory Notices

- Include the policy fee as a part of the premium and not a fully earned fee.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first examination of Integon Casualty Insurance Company and National General Insurance Company.

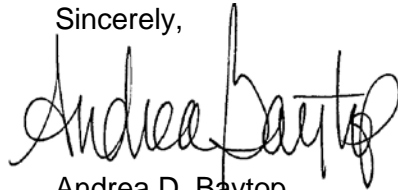
The Bureau conducted one prior market conduct examination of the private passenger automobile line of business of Integon National Insurance Company.

During the private passenger auto examination of Integon National Insurance Company as of June 30, 1998, the company violated §§ 38.2-305 A, 38.2-305 B, 38.2-509 A, 38.2-510 A, 38.2-510 C, 38.2-512 A, 38.2-610 A, 38.2-1318, 38.2-1833, 38.2-1906 D, 38.2-2208, 38.2-2212, and 38.2-2220 of the Code of Virginia, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea Baytop". The signature is written in a cursive, flowing style.

Andrea D. Baytop
Principal Insurance Market Examiner

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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February 28, 2018

VIA UPS 2nd DAY DELIVERY

Robin Lopez
Market Conduct Specialist
Integon National Insurance Company
5630 University Parkway
Winston-Salem, NC 27105

RE: Market Conduct Examination
National General Insurance Company # 23728
Integon Casualty Insurance Company # 27930
Integon National Insurance Company # 29742
Examination Period: April 1, 2016 - March 31, 2017

Dear Ms. Lopez:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of April 1, 2016 through March 31, 2017. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn or revised since January 29, 2018. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the Report. Please provide a written response. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wish to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position. When the companies respond, please do not include any personal identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The companies should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the companies must provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with their response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by April 6, 2018.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by April 6, 2018.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, looping initial "J".

Joy Morton, AMCM
Manager
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov



March 23, 2018

VIA EMAIL (joy.morton@scc.virginia.gov)

Ms. Joy Morton, Manager
Market Conduct Section, P&C Division
Virginia Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219

**Re: Market Conduct Examination
Integon Casualty Insurance Company (NAIC# 27930)
Integon National Insurance Company (NAIC# 29742)
National General Insurance Company (NAIC# 23728)
Examination Period: April 1, 2016 – March 31, 2017**

Dear Ms. Morton:

PART ONE – THE EXAMINERS’ OBSERVATIONS

POLICY ISSUANCE PROCESS REVIEW

Automobile Policies

NEW BUSINESS POLICIES

- (3). We respectfully request that this be removed as a violation. As mentioned in our response to Regulatory Action #807 the Metromile program was a unique pay per mile program with the Integon National policies managed by a General Agent and written on the General Agent’s policy system. In the summer of 2016, a decision was made to withdraw the Metromile Integon National program and we understand that simultaneously Metromile filed their own program through Mosaic with the intent to write future business. The coordination of terminating the book of business on a third party system and issuing policies under a new insurer was complex due to the advance notice required for terminations. In our filing to withdraw this program we advised of the pending Mosaic filing and advised that these filings needed to coincide. Ultimately there were some miscommunications and timing issues that resulted in the Metromile Integon National program being utilized by the General Agent for a short period of time longer than what was initially communicated to the state. However, the rates used for the policies issued were the rates previously filed and approved with the state. This was simply a mix-up regarding when the program would terminate and there was no adverse impact to any policyholder. As mentioned in our response to your Regulatory Action Letter #807 renewals are issued in advance of an effective date to provide the insured with appropriate time to review and make their policy decision. Each situation with a third party may vary. However, in the future our intent is to have more oversight by assigning a project coordinator as well as requesting more frequent reports from a General

Agent. By utilizing a coordinator and receiving reports we would be able to tell quickly if instructions were not being followed. Should the particular system allow we will terminate the new business authority which would prevent any policy from being able to issue.

- (4)a. We continue to respectfully disagree that we failed to use the correct discounts and/or surcharges. Association groups are filed along with a corresponding rule advising that members of an association or affinity group that has established a marketing plan or affiliation with our company are eligible for an association factor. Loudon Home is an affinity group that falls under the Agency Affinity Preferred (partnership with a monoline homeowner carrier) group that is listed in our filing. If it is the state's position that all possible groups be individually listed in our filing in lieu of main groupings we will amend our filings to show this, but respectfully request that you remove these as violations and move to a recommendation.
- (4)f. We continue to respectfully disagree that the internal transfer factor was applied incorrectly. The filed and approved rule states:
*"An Internal Transfer Factor (ITF) will be applied to new business policies that are acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of the other insurer's book of business.....
E. If there is no previous carrier or previous carrier premium is not verified use the applicable "All Other" factor.....*
- The intent behind this factor was not solely for books of business that were transferred to our company. Item E allows for us to apply a factor when a policy was not transferred to us as it states there was no previous carrier. We do acknowledge that the name of this factor creates unnecessary confusion and we will clarify this factor rule in a filing but respectfully request that these be removed as violations and moved to recommendations.

Automobile Renewal Business Policies

- (2) We respectfully request that this be removed as a violation. As mentioned in our response to Regulatory Action #807 the Metromile program was a unique pay per mile program with the Integon National policies managed by a General Agent and written on the General Agent's policy system. In the summer of 2016, a decision was made to withdraw the Metromile Integon National program and we understand that simultaneously Metromile filed their own program through Mosaic with the intent to write future business. The coordination of terminating the book of business on a third party system and issuing policies under a new insurer was complex due to the advance notice required for terminations. In our filing to withdraw this program we advised of the pending Mosaic filing and advised that these filings needed to coincide. Ultimately there were some miscommunications and timing issues that resulted in the Metromile Integon National program being utilized by the General Agent for a short period of time longer than what was initially communicated to the state. However, the rates used for the policies issued were the rates previously filed and approved with the state. This was simply a mix-up regarding when the program would terminate and there was no adverse impact to any policyholder. As mentioned in our response to your Regulatory Action Letter #807 renewals are issued in advance of an effective date to provide the insured with appropriate time to review and make their policy decision. Each situation with a third party may vary. However, in the future our intent is to have more oversight by assigning a project coordinator as well as requesting more frequent reports from a General Agent. By utilizing a coordinator and receiving reports we would be able to tell quickly if

instructions were not being followed. Should the particular system allow we will terminate the new business authority which would prevent any policy from being able to issue.

- (3)a. We continue to respectfully disagree that we failed to use the correct discounts and/or surcharges. Association groups are filed along with a corresponding rule advising that members of an association or affinity group that has established a marketing plan or affiliation with our company are eligible for an association factor. Loudon Home is an affinity group that falls under the Agency Affinity Preferred (partnership with a monoline homeowner carrier) group that is listed in our filing. If it is the state's position that all possible groups be individual listed in our filing in lieu of main groupings we will amend our filings to show this but respectfully request that you remove these as violations and move to a recommendation.
- (3)g. We continue to respectfully disagree that the internal transfer factor was applied incorrectly. The filed and approved rule states:
*"An Internal Transfer Factor (ITF) will be applied to new business policies that are acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of the other insurer's book of business.....
E. If there is no previous carrier or previous carrier premium is not verified use the applicable "All Other" factor.....*
- The intent behind this factor was not solely for books of business that were transferred to our company. Item E allows for us to apply a factor when a policy was not transferred to us as it states there was no previous carrier. We do acknowledge that the name of this factor creates unnecessary confusion and we will clarify this factor rule in a filing but respectfully request that these be removed as violations and moved to recommendations.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (1). Refunds have been sent to the insureds for the amount of the overcharge.
- (2). Simple interest of six (6) percent was included with refunds.
- (3). The "Rating Overcharges Cited during the Examination" worksheet is completed and included with this response.
- (4). Specify accurate information in the policy by showing the Roadside Assistance limit and only forms applicable to the policy on the declarations page - these errors occurred only in Integon National Insurance Company which was the "MetroMile" product. This product was withdrawn as of September 1, 2016.
- (5). Notify the insured when the policy is surcharged for an at-fault accident page - these errors occurred only in Integon National Insurance Company which was the "MetroMile" product. This product was withdrawn as of September 1, 2016.
- (6). We will file all rates and supplementary rating information with the Bureau.
- (7). We will use the rules and rates on file with the Bureau. Attention will be focused on the use of discounts, surcharges, symbols, tier eligibility criteria, driver classification, base and/or final rates, increased limits and internal transfer factor rules.

Termination Review

- (1). Refunds have been sent to the insureds for the amount of the overcharge.
- (2). Simple interest of six (6) percent was included with refunds.
- (3). The Termination Overcharges Cited during the Examination” worksheet is completed and included with this response.
- (4). Earned premium will be calculated according to the filed rules and policy provision.
- (5). Valid proof of mailing cancellation notices to the insured lienholder will be obtained and retained.
- (6). Valid proof of mailing non-renewal notices to the insured lienholder will be obtained and retained.
- (7). Proper notice of cancellation and nonrenewal will be provided to the lienholder.
- (8). After the 59th day of coverage private passenger automobile policies will only be cancelled for those reasons permitted by 38.2-2212 of the Code of Virginia.
- (9). Private passenger automobile policies that are cancelled after the 59th day of coverage will only be cancelled for reasons permitted by 38.2-2212 of the Code of Virginia.
- (10). Inform the insured of the right to review by the Commissioner of Insurance Cancellations have been modified to properly advise the insured of the right to have the cancellation reviewed by the Commissioner of Insurance - these errors occurred only in Integon National Insurance Company which was the “MetroMile” product. This product was withdrawn as of September 1, 2016.
- (11). Inform the insured of the availability of other insurance through an agent, another insurer, or the VAIP Insurance - these errors occurred only in Integon National Insurance Company which was the “MetroMile” product. This product was withdrawn as of September 1, 2016.
- (12). The specific reason for nonrenewal will be provided to the insured.

Claims Review

- (1). Due to errors in claim processing payments have been made to insureds and claimants.
- (2). Simple interest of six (6) percent was included with the payments.
- (3). The “Claims Underpayments Cited During the Examination” spreadsheet is completed and included with this response.
- (4). Claim files will be documented so that all events and dates pertinent to the claim can be reconstructed.
- (5). Claim files will be documented that all applicable coverages have been discussed with the insured. Particular attention will be given to Medical Expense Benefits coverage, Transportation Expenses coverage and Uninsured Motorist coverage including rental benefits.
- (6). We will offer the insured an amount that is fair and reasonable as shown by the claim investigation in accordance with the insured’s policy provisions.
- (7). Pertinent facts or insurance provisions relating to coverages at issue will be properly represented.

Forms Review

- (1). The rate classification statement approved by the Bureau will be used.
- (2). The precise language of the standard automobile forms as filed and adopted by the Bureau will be used.

Policy Issuance Process Review



- (1). The UMPD coverage limit will be shown on the declarations page.
- (2). The rental reimbursement coverage notice will be provided on policies as required by the statute.

Statutory Notices Review

- (1). The Important Information Regarding Your Insurance notice will be modified to comply with 38.2-305 B of the Code of Virginia.
- (2). The long form Notice of Information Collection and Disclosure Practices will be modified to comply with 38.2-604 B of the Code of Virginia.
- (3). Develop an Adverse Underwriting Decision notice to comply with 38.2-610 A of the Code of Virginia Insurance - these errors occurred only in Integon National Insurance Company which was the "MetroMile" product. This product was withdrawn as of September 1, 2016.
- (4). Develop an Accident Point Surcharge notice to comply with 38.2-1905 A of the Code of Virginia - these errors occurred only in Integon National Insurance Company which was the "MetroMile" product. This product was withdrawn as of September 1, 2016.
- (5). Amend the Medical Expense Benefits notice to comply with 38.2-2202 A of the Code of Virginia - these errors occurred only in Integon National Insurance Company which was the "MetroMile" product. This product was withdrawn as of September 1, 2016.
- (6). The Insurance Credit Score Disclosure notice will be modified to comply with 38.2-2234 A of the Code of Virginia.

Licensing and Appointment Review

- (1). Business will only be accepted from agents and agencies that have a current license from the Commonwealth of Virginia.
- (2). We will appoint agencies within 30 days of the applications.

PART THREE – EXAMINERS' RECOMMENDATIONS

Terminations

- (1). We will file an SR-26 with the Department of Motor Vehicles within 15 days of cancelling the policy.
- (2). Adequate days' notice of cancellation will be provided to the lienholder.
- (3). Page 2 will be removed from the demand for payment letter on cancelled policies.
- (4). Filed rules will be amended to state the acquisition fee shown on the declarations page is the policy fee.
- (5). The specific and appropriate reason for cancellation will be shown on the cancellation notices.

Claims

- (1). All claim denials will be made in writing and a copy will be placed in the claim file.
- (2). Copies of the vehicle repair estimates will be provided to insureds and claimants.
- (3). The application of betterment of depreciation will be documented in the claim file.
- (4). A statement of coverage under which payments are made will be included with all claim payments made to insured.
- (5). Written authorization from an insured will be obtained prior to making payments directly to the medical provider.



- (6). Payments will be made to the insured for the amount he/she is entitled to receive under the terms of the policy.
- (7). Payments under UM and collision will be made correctly.
- (8). Payments will be made under the correct coverage in accordance with the policy provisions.
- (9). Rental Reimbursement will be changed to Transportation Expenses on check payments.

Policy Issuance Process

- (1). When Eposting Forms we will remove the “Your Policy Contract” bullet from the “Included in this package...” section of the cover letter.
- (2). The Important Notice to Applicant which provides the Cancellation Warning Notice will only be provided when we are not providing the insured with a copy of the written application.
- (3). We will ensure the AUD notice is only sent when an action is being taken and will clearly state that action.

Statutory Notices

- (1). The policy fee will be included as a part of the premium and not a fully earned fee.

Should you need additional information please contact me at Robin.Lopez@ngic.com or 336-435-2612.

Sincerely,

A handwritten signature in black ink that reads "Robin Lopez". The signature is written in a cursive, slightly slanted style.

Robin Lopez
Market Conduct Specialist
National General Holdings Corp.

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

May 01, 2018

VIA UPS 2nd DAY DELIVERY

Robin Lopez
Market Conduct Specialist
National General Insurance
5630 University Parkway
Winston-Salem, NC 27102

Re: Market Conduct Examination
Integon Casualty Insurance Company (NAIC# 27930)
Integon National Insurance Company (NAIC# 29742)
National General Insurance Company (NAIC# 23728)
Examination Period: April 1, 2016 – March 31, 2017

Dear Ms. Lopez:

The Bureau of Insurance (Bureau) has reviewed the companies' March 23, 2018 response to the Preliminary Market Conduct Report (Report). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

New Business Rating and Underwriting Review

- (3) These violations remain in the Report. Although the Metromile program rates were previously filed with the Bureau, the Company filed to withdraw those rates from use effective September 1, 2016. The Company then issued 223 policies effective September 1, 2016 and later. Therefore, the Company violated § 38.2-1906 A of the Code of Virginia by using rates not filed with the Bureau. Upon acknowledging the Company's withdrawal of the Metromile program, the Bureau's Rates, Rules and Forms section advised the Company that it would have to submit new rules, rates and forms to the Bureau for review, acknowledgement and approval if Integon National Insurance Company wrote private passenger auto business after August 31, 2016. The Bureau's Regulatory Action #807 will be closed without further action. The

Bureau will also contact the Metromile Insurance Agency to explain their actions in this issue.

- (4a) These violations remain in the Report. The Company did not file "Loudon Home" as a member of an association or affinity group with the Bureau. Since the Company did not file the individual members, the examiner was unable to determine if the member shown on the application was part of a particular group. The Company should contact the Rates and Forms Section of the Bureau and file all members of an association or affinity group with the Bureau.
- (4f) These violations remain in the Report. Page 13 in the Company's filed manual is broken into two parts; when the Internal Transfer factor will be applied and the ITF rating sequence. The rule states the following: "An Internal Transfer Factor (ITF) will be applied to new business policies that are acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of other insurer's book of business." The rule is clear as to when an ITF will apply. The Company stated in its response that ITF rating sequence part E states: "If there is no previous carrier or previous carrier premium is not verified use the applicable "All Other" factor. The examiners do not consider Part E to be applicable when determining the application of the ITF as it is under the rating sequence section of the page and would only be used when determining how to rate an applicable ITF. With how the information is presented on the Company's filed manual page; the Bureau's stance is that the ITF only applies when the new business policy is acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of other insurer's book of business. If the company's intent is to apply the ITF to all new business policies then the Bureau recommends integrating the part E language into the ITF rule description at the top of page 13.

Renewal Business Rating and Underwriting Review

- (2) These violations remain in the Report. Although the Metromile program rates were previously filed with the Bureau, the Company filed to withdraw those rates from use effective September 1, 2016. The Company then issued 419 policies effective September 1, 2016 and later. Therefore, the Company violated § 38.2-1906 A of the Code of Virginia by using rates not filed with the Bureau. Upon acknowledging the Company's withdrawal of the Metromile program, the Bureau's Rates, Rules and Forms section advised the Company that it would have to submit new rules, rates and forms to the Bureau for review, acknowledgement and approval if Integon National Insurance Company wrote private passenger auto business after August 31, 2016.
- (3a) These violations remain in the Report. The Company did not file "Loudon Home" as a member of an association or affinity group with the Bureau. Since the Company did not file the individual members, the examiner was unable to determine if the member shown on the application was part of a particular group. The Company should contact the Rates and Forms Section of the Bureau and file all members of an association or affinity group with the Bureau.

- (3g) These violations remain in the Report. Page 13 in the Company's filed manual is broken into two parts; when the Internal Transfer factor will be applied and the ITF rating sequence. The rule states the following: "An Internal Transfer Factor (ITF) will be applied to new business policies that are acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of other insurer's book of business." The rule is clear as to when an ITF will apply. In their response to the Report, the Company stated that ITF rating sequence part E states: "If there is no previous carrier or previous carrier premium is not verified use the applicable "All Other" factor. The examiners do not consider Part E to be applicable when determining the application of the ITF as it is under the rating sequence section of the page and would only be used when determining how to rate an applicable ITF. With how the information is presented on the Company's filed manual page; the Bureau's stance is that the ITF only applies when the new business policy is acquired by an insurer from another insurer pursuant to a written agreement of acquisition, merger, or sale that transfers all or part of other insurer's book of business. If the company's intent is to apply the ITF to all new business policies then the Bureau recommends integrating the part E language into the ITF rule description at the top of page 13

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (7) Please provide the estimated completion date for correcting the filing or rate implementations identified during the examination, including the Internal Transfer factor rule revision.

Termination Review

- (9) Please provide the estimated completion date for implementing the process of obtaining a written request from the insured when he/she requests cancellation of the policy.

Claims Review

- (8) This new item has been added to reflect the Bureau's request for the Companies to perform an internal audit of their Medical Expense Benefits claims for the past three years.
- (9) This new item has been added to reflect the Bureau's request for the Companies to perform an internal audit of their Uninsured Motorists claims for the past three years.

Forms Review

- (1) Please provide the estimated implementation date for the approved rate classification statement.

- (2) Please provide the estimated implementation date for the standard auto forms identified during the examination.

Policy Issuance Review

- (1) Please provide the estimated completion date for showing the UMPD coverage limit on the declarations page.
- (2) Please provide the estimated implementation date for providing the rental reimbursement notice as required by the statute.

Statutory Notices Review

- (1) Please provide a copy of the notices revised to comply with the Code of Virginia.
- (2) Please provide a copy of the notices revised to comply with the Code of Virginia.
- (6) Please provide a copy of the notices revised to comply with the Code of Virginia.

PART THREE – RECOMMENDATIONS

Terminations

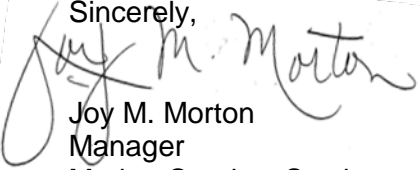
- Please provide the estimated completion date for removing Page 2 from the demand for payment.
- Please provide the estimated filing effective date to state the acquisition fee is the policy fee on the declarations page.

Policy Issuance Review

- Please provide the estimated completion date to have the new business cover letter accurately state how the insured may obtain a copy of the policy forms and endorsements.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report.

Once we have received and reviewed the Companies' response to these items, we will be in a position to make a settlement offer. We look forward to your response by May 21, 2018.

Sincerely,

Joy M. Morton
Manager
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures



May 18, 2018

VIA EMAIL (joy.morton@scc.virginia.gov)

Ms. Joy Morton, Manager
Market Conduct Section, P&C Division
Virginia Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219

**Re: Market Conduct Examination
Integon Casualty Insurance Company (NAIC# 27930)
Integon National Insurance Company (NAIC# 29742)
National General Insurance Company (NAIC# 23728)
Examination Period: April 1, 2016 – March 31, 2017**

Dear Ms. Morton:

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

(7). Filings have been submitted to clarify the associations used in rating and the application of the internal transfer factor. These filings were submitted earlier this month.

Termination Review

(9). We modified our practices during the exam regarding obtaining the insured's written request for cancellation effective 5/29/2017.

Claims Review

(8). We understand the internal audit for Medical Expense Benefits claims. This is being addressed appropriately under Regulatory Action # 822.

(9). We understand the internal audit for Uninsured Motorists claims. This is being addressed appropriately under Regulatory Action # 823.

Forms Review

(1). Modifications to the rate classification statement were made during the exam to be effective 5/26/2017 for New Business and 7/30/2017 for Renewals.

(2). Modifications to the standard auto form for Transportation Expenses Coverage were made during the exam to be effective 9/14/2017 for New Business and 10/20/2017 for Renewals.



Policy Issuance Review

- (1). Modifications are currently being made to ensure the UMPD coverage limit always displays on the dec page when applicable. These modifications will be implemented by the end of 2nd quarter 2018.
- (2). During the exam on 4/27/2017 modifications were made during the exam to ensure the rental reimbursement notice would be provided as required by statute.

Statutory Notices Review

Attached are revised copies of statutory notices for (1), (2) & (6).

PART THREE – EXAMINERS’ RECOMMENDATIONS

Terminations

- Modifications to remove page 2 from the demand for payment notice are set to be implemented the end of 2nd quarter 2018.
- A filing has been submitted to use “acquisition fee” vs “policy fee”.

Policy Issuance Review

- The new business cover letter was modified during the exam to accurately state how the insured could obtain a copy of the policy forms and endorsements. This was implemented on 10/12/2017.
- Claim files will be documented that all applicable coverages have been discussed with the insured.

Should you need additional information please contact me at Robin.Lopez@ngic.com or 336-435-2612.

Sincerely,

A handwritten signature in black ink that reads "Robin Lopez". The signature is written in a cursive, slightly slanted style.

Robin Lopez
Market Conduct Specialist
National General Holdings Corp.

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

May 23, 2018

VIA UPS 2nd DAY DELIVERY

Robin Lopez
Market Conduct Specialist
Integon National Insurance Company
5630 University Parkway
Winston-Salem, NC 27105

RE: Market Conduct Examination
Integon Casualty Insurance Company (NAIC# 27930)
Integon National Insurance Company (NAIC# 29742)
National General Insurance Company (NAIC# 23728)
Examination Period: April 1, 2016 – March 31, 2017

Dear Ms. Lopez:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of May 18, 2018. Based upon the Bureau's review of the companies' correspondence, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Integon Casualty Insurance Company, Integon National Insurance Company and National General Insurance Company (Report).

Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-305 B, 38.2-510 A1, 38.2-604 B, 38.2-610 A, 38.2-1318, 38.2-1822 A, 38.2-1833, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2202 A, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2214, 38.2-2220, 38.2-2230, and 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A and 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large initial "J" and "M".

Joy M. Morton
Manager
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov



STATE CORP COMMISSION
BUREAU OF INSURANCE
18 JUN 21 AM 9:58

June 15, 2018

Rebecca Nichols
Deputy Commissioner
Property and Casualty
Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23218

**Re: Market Conduct Examination Settlement Offer
Integon Casualty Insurance Company
Integon National Insurance Company
National General Insurance Company
Ecase/Docket number: INS-2018-00161**

Dear Ms. Nichols:

This will acknowledge receipt of the Bureau of Insurance's letter dated May 30, 2018, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A, 38.2-305 B, 38.2-510 A1, 38.2-604 B, 38.2-610 A, 38.2-1318, 38.2-1822 A, 38.2-1833, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2202 A, 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F, 38.2-2214, 38.2-2220, 38.2-2230, and 38.2-2234 A of the Code of Virginia; and 14 VAC 5-400-30, 14 VAC 5-400-40 A and 14 VAC 5-400-70 D of the Virginia Administrative Code to indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$50,100.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of March 23, 2018 and May 18, 2018.
3. We confirm that restitution was made to 33 consumers for \$29,804.63 in accordance with the companies' letters of March 23, 2018 and May 18, 2018.



4. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Integon Casualty Insurance Company
Integon National Insurance Company
National General Insurance Company



(Signed)

Jeffrey Weissmann
(Type or Print Name)

General Counsel; Secretary
(Title)

6/12/2018
(Date)

Enclosure

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

National General Insurance Company, Integon Casualty Insurance Company and Integon National Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$50,100.00 by their check numbered 4000210726 and dated June 19, 2018, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 10, 2018

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2018 JUL 10 P 4: 08

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2018-00161

NATIONAL GENERAL INSURANCE COMPANY,
INTEGON CASUALTY INSURANCE COMPANY,
and
INTEGON NATIONAL INSURANCE COMPANY,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination conducted by the Bureau of Insurance ("Bureau"), it is alleged that National General Insurance Company, Integon Casualty Insurance Company and Integon National Insurance Company (collectively, the "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), in certain instances violated § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required by statute in the insurance policy; §§ 38.2-305 B, 38.2-604 B, 38.2-610 A, 38.2-1905 A, 38.2-2202 A, 38.2-2230, and 38.2-2234 A of the Code by failing to accurately provide the required notices to insureds; § 38.2-1318 of the Code by failing to provide convenient access to files, books and records; § 38.2-1822 A of the Code by permitting an unlicensed agent to act on the Defendants' behalf; § 38.2-1833 of the Code by paying commissions to agencies or agents that are not appointed by the Defendants; §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; §§ 38.2-2208 A,

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38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; § 38.2-2214 of the Code by using a rate classification statement other than the one filed and approved by the Commission; § 38.2-2220 of the Code by failing to use forms in the precise language of standard forms previously filed and adopted by the Commission; and § 38.2-510 A (1) of the Code and 14 VAC 5-400-30, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.* ("Rules"), by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of the right to a hearing in this matter whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have agreed to comply with the corrective action plan outlined in company correspondence dated March 23, 2018, and May 18, 2018, confirmed that restitution was made to 33 consumers in the amount of Twenty-nine Thousand Eight Hundred Four Dollars and Sixty-three cents (\$29,804.63), have tendered to Virginia the sum of Fifty Thousand One Hundred Dollars (\$50,100), and waived the right to a hearing.

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Jeffery Weissmann, General Counsel, Secretary, National General Insurance, 5630 University Parkway, P.O. Box 3199, Winston-Salem, North Carolina 27102-3199; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.