

STATE OF MICHIGAN

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS



Michigan
Office of Financial and
Insurance Regulation

MARKET CONDUCT EXAMINATION

NUMBER 2011C-0015

JUNE 1, 2011

REPORT OF LIMITED SCOPE MARKET CONDUCT EXAMINATION OF

NATIONAL GENERAL INSURANCE COMPANY

Maryland Heights, MO

For the period from January 1, 2001 through May 31, 2010

NAIC COMPANY CODE: 23728

**REPORT OF EXAMINATION
NATIONAL GENERAL INSURANCE COMPANY**

TABLE OF CONTENTS

TABLE OF CONTENTSII

HISTORY AND PROFILE1

METHODOLOGY2

SCOPE OF EXAMINATION.....2

EXECUTIVE SUMMARY3

EXAMINATION FINDINGS AND RECOMMENDATIONS3

ACKNOWLEDGMENT3

CONCLUSION4

June 1, 2011

Honorable R. Kevin Clinton
Commissioner of Insurance
Office of Financial and Insurance Regulation
State of Michigan
611 West Ottawa St.
Lansing, MI 48933-1070

Dear Commissioner Clinton:

Pursuant to Section 500.222, Michigan Statutes, the Michigan Office of Financial and Insurance Regulation (“OFIR”) or (“Department”) has called a target market conduct examination of

National General Insurance Company

at its home office located at:

13736 Riverport Drive, Suite 700
Maryland Heights, MO 63043

The following report thereon is respectfully submitted.

HISTORY AND PROFILE

The Company was incorporated on November 2, 1966, under the laws of Missouri. It was licensed and began business September 13, 1967. The Company became authorized to write insurance business in Michigan on June 25, 1976.

On March 1, 2010, American Capital Acquisition Corporation (ACAC) acquired the personal lines operations of GMAC Insurance from GMACI Holdings, Inc. and Motors Insurance Corporation. Nine companies were acquired and pooled under the name of Integon National Group, including **National General Insurance Company**, National General Assurance Company, GMAC Insurance Company Online, Inc., MIC General Insurance Corporation, Integon National Insurance Company, Integon Preferred insurance Company, Integon Indemnity Corporation, Integon Casualty Insurance Company and New South Insurance Company. ACAC is owned by Michael Karfunkel (21.77%), the Michael Karfunkel 2005 GRAT (56.98%) and AMTrust Financial Services, Inc (21.25%).

The Company’s purpose is to engage in the insurance business. The Company is authorized to write property, ocean and inland marine, automobile insurance – limited, casualty, and disability (supplemental to auto) insurance in accordance with Chapter 6 of the Michigan Insurance Code.

REPORT OF EXAMINATION NATIONAL GENERAL INSURANCE COMPANY

METHODOLOGY

This examination is based on the standards and tests for a Target Market Conduct Examination found in the *NAIC Market Regulation Handbook* (2008 edition) and the Michigan Insurance Statutes, Rules and Regulations as referenced herein.

The Department employed 'Interrogatories' and 'Desk Audit' methods for collection of data and materials for review. A 'Generic' type of review method was used for verification of compliance standards.

A "generic" review indicates that compliance was tested through an analysis of specific data and objective evidence gathered by the examiner, or provided by the examinee in response to queries by the examiner.

SCOPE OF EXAMINATION

The State of Michigan's Office of Financial and Insurance Regulation ("OFIR") or ("the Department") conducted a target market conduct examination of National General Insurance Company ("the Company") for the period of January 1, 2001 to May 31, 2010. The examination was called pursuant to Section 500.222 of the Michigan Statutes. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Department. We also conducted concurrent examinations of MIC General Insurance Corporation and Integon National Insurance Company.

The examination reviewed the Company's activities related to its Personal Automobile Insurance Coverage practices. The focus of the examination was two-fold. The first was to investigate the Company's use of coordinated benefits penalty deductibles under Personal Injury Protection Coverage of Personal Auto policies issued in Michigan that exceeded the statutory limit and to ensure compliance with Section 3109 and 3109a, being MCL §500.3109 and MCL §500.3109a, respectively. The second was to review the Company's standards and policies for refunding unearned premium for cancelled Personal Auto Policies and to ensure compliance with Section 3020(2), being MCL §500.3020(2).

This examination was limited in scope. This examination report is a report by exception rather than a report by test.

REPORT OF EXAMINATION NATIONAL GENERAL INSURANCE COMPANY

EXECUTIVE SUMMARY

Overall Review

In response to the examiners inquiry, the Company reported that during the examination period, 45,912 policies were issued with a Coordinated Benefits 'Penalty' deductible greater than \$300.00, the statutory maximum without prior approval. In all cases, the deductible used was \$2,500.00, or \$2,200.00 greater than the statutorily allowed \$300.00 deductible. Additionally, the Company identified 10 policies where a deductible greater than \$300.00 was assessed in response to a claim made by the insured.

The Company provided and OFIR reviewed information detailing 100% of the 10 claims, regarding notification and restitution to each claimant for the errant overcharged deductible amount, including interest calculated to the date the penalty deductible was assessed.

Policyholders that did not incur a claim were not directly impacted by the application of the penalty deductible. All policyholders were provided with new endorsements reflecting the change.

The Company provided an explanation and supporting documentation for their automated procedures for the processing of premium refunds associated with Private Passenger Auto policy cancellations.

EXAMINATION FINDINGS AND RECOMMENDATIONS

There are no findings or recommendations resulting from this examination.

ACKNOWLEDGMENT

This is to certify that the undersigned is duly qualified and has applied certain agreed-upon procedures to the Company's corporate records in order for the OFIR to conduct a target scope market conduct examination of the Company.

The undersigned's participation in this target examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination. The examination was performed in accordance with, and substantially complied with those standards established by the National Association of Insurance Commissioners (NAIC) and the *NAIC Market Regulation Handbook*. This participation consisted of involvement in the planning (development and supervision), administration and preparation of the limited scope examination report.

We appreciate the cooperation and assistance extended by the officers and employees of the Company.

**REPORT OF EXAMINATION
NATIONAL GENERAL INSURANCE COMPANY**

CONCLUSION

The market conduct examination was conducted at the direction of, and under the overall management and control of Regan Johnson of the OFIR. The examination activities were conducted by Michael Draminski, MCM. The examination Report is respectfully submitted.

Michael Draminski
Market Conduct Examiner-in-Charge
For the Office of Financial and Insurance
Regulation
State of Michigan