

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

ATLANTIC STATES INSURANCE COMPANY
Authority # 22586-18-HO-736
1195 River Road
Marietta, PA 17547

As of

August 31, 2018

TRINIDAD NAVARRO
COMMISSIONER



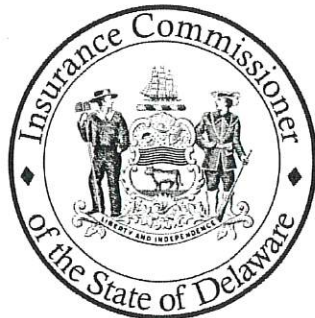
STATE OF DELAWARE
DEPARTMENT OF INSURANCE

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of August 31, 2018 on

ATLANTIC STATES INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By:



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 14 day of November, 2019.

Trinidad Navarro
Insurance Commissioner

TRINIDAD NAVARRO
COMMISSIONER



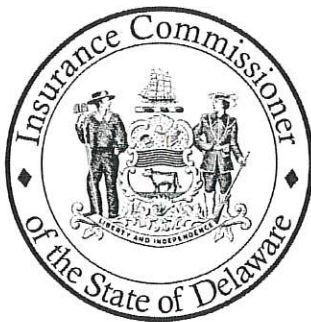
STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF THE
ATLANTIC STATES INSURANCE COMPANY
AS OF
August 31, 2018

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 14 day of November, 2019.


Trinidad Navarro
Insurance Commissioner

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Exam Authority Number 51586-18-702, and pursuant to statutory provisions including 18 *Del. C.* §§ 318 - 322, a market conduct examination has been conducted of the affairs and practices of:

Atlantic States Insurance Company - Authority # 22586-18-HO-736

The examination was performed as of August 31, 2018.

The examination was conducted off-site and was therefore performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination of Atlantic States Insurance Company, hereinafter referred to as Atlantic States or the Company, was announced as part of a series of examinations of companies in the homeowner insurance marketplace in Delaware. The examination focused on the Company's homeowner's insurance business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims.

All exceptions noted were in the area of Underwriting and Rating.

The following exceptions were noted.

- **6 Exceptions:**

- **18 Del. C. § 1715 (a) - (b) - Appointments.**

- *(a) An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.*

- *(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.*

The Company accepted business from a producer who was not properly appointed.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. C. §§ 318 - 322 and covered the experience period of January 1, 2016 through August 31, 2018. The purpose of the examination was to determine compliance by the Company with applicable Delaware laws and regulations.

The examination was a targeted market conduct examination of the Company's homeowner's insurance business in the following areas of operation: Complaint Handling, Underwriting and Rating, and Claims.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners reported the errors found in individual files, the examiners also focused on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested, as warranted, to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries of the exceptions found.

COMPANY HISTORY AND PROFILE

Atlantic States Insurance Company

In 1986, Donegal Group Inc. incorporated Atlantic States Insurance Company as a wholly owned property and casualty insurance subsidiary. Atlantic States was originally formed to offer workers' compensation insurance, but was soon bringing added value by offering an additional preferred tier of personal lines automobile insurance. Thereafter, Atlantic States began to offer additional tiers of commercial products and began promoting its capabilities as the Donegal Insurance Group.

In 2001 and again in 2006, Donegal Group Inc. streamlined its corporate structure by merging several subsidiaries. In 2001, the mergers of Delaware Atlantic Insurance Company and Pioneer Insurance Company (New York) into Atlantic States Insurance Company were completed. In 2006, the mergers of Southern Heritage Insurance

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Atlantic States Insurance Company**

Company into Southern Insurance Company of Virginia and Pioneer Insurance Company (Ohio) into Atlantic States Insurance Company were completed.

By 2005, the Donegal Insurance Group had written premiums of \$423 million and combined assets of \$872 million. The Donegal Insurance Group was doing business in 18 states, represented by close to 1,700 independent agents, and composed of six companies: Donegal Mutual, Atlantic States, Le Mars Insurance Company, Peninsula Insurance Company, Peninsula Indemnity and Southern Insurance Company of Virginia.

According to the 2016 and 2017 Annual Statements, Atlantic States Insurance Company reported total direct premiums written in the amounts of \$20,714,632, and \$21,541,269, respectively, in the state of Delaware. According to the 2016 and 2017 Annual Statements, Atlantic States Insurance Company reported total direct premiums written in the amounts of \$202,093,633 and \$218,740,049, respectively, in the United States.

COMPLAINT HANDLING

The Company provided the following information and/or documentation for review:

- A copy of the Company's complaint register
- A total of four (4) complaint files
- A statement regarding the Company's definition of "complaint"
- A copy of the Company's complaint handling guidelines and procedures
- A sample copy of the complaint report or summary prepared on a regular recurring basis that is provided for review by the Company's management

The information was reviewed to determine compliance with applicable Delaware laws and regulations.

No exceptions were noted.

UNDERWRITING AND RATING

Underwriting and Rating - Determination of Coverage A - Amount and Inflation Guard

The Company's policies and procedures pertaining to determination of Coverage A, or dwelling coverage amount, were reviewed. According to the Company, Coverage A was determined at the time of application. The producer was equipped with the Marshall, Swift & Boeckh home evaluator tool, which was used in conjunction with additional information provided to the producer, such as prior carrier documentation, an appraisal, and on-line property information, to assist the customer in determining the amount of

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Atlantic States Insurance Company**

coverage. Once the policy was issued, an inspection was conducted by Mutual Inspection Bureau (MIB). The results of the inspection were the main tool used to reconcile the coverage amount shown on the application.

An Inflation Guard Endorsement automatically attached to each homeowner, tenant, condo, and dwelling fire policy issued. During the examination period, Atlantic States had a contractual relationship with CoreLogic, a provider of residential building cost data. CoreLogic Residential Building Cost Percent Change Factors were used to determine the percentage of increase. CoreLogic provided the Residential Building Cost Percent Change Factors representing a percentage change using three decimal points. Because the Atlantic States' rating system could only accommodate factors to two decimal points, the CoreLogic 12-Month-To-Date percentages were rounded from three decimal points to two before being applied to policies.

The change factors were provided by quarterly emails from CoreLogic containing the U.S. National Building Cost Trends and change factors by zip code. Samples of these documents were provided by the Company for inspection.

In general, the Change Factor served to increase the Coverage A amount. While there were no occasions where the Coverage A did not increase from one renewal to the next, there was always the possibility that a decrease in the Coverage A amount could have resulted, depending on the Change Factors the company had been given for a particular time period.

Atlantic States did not have any formal, written policies in place to assure that the replacement value was kept in check. However, in practice, the Company's Independent Agents worked directly with insureds to review renewal coverage amounts on an individual policy basis. The Company provided its agents with access to a replacement cost estimator for use in determining an actual replacement cost of the dwelling. In addition, Atlantic States would re-inspect a risk if requested by an insured in order to help determine a current replacement value.

Underwriting and Rating – File Review

For the experience period of January 1, 2016 through August 31, 2018, the table below shows the Company-identified universes of policies, along with the random sample sizes, for the following categories: New Business, Renewal Business, and Terminations. The files identified in the random samples were requested and received. The files were reviewed to determine compliance with applicable Delaware laws and regulations. In addition to review of the files, ten (10) New Business and ten (10) Renewal Business policies were selected for manual calculation of both homeowner's and renter's premiums to determine whether the premiums charged were in accordance with filed rates.

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Atlantic States Insurance Company**

	New Business	Renewal Business	Terminations
	Universe/Sample	Universe/Sample	Universe/Sample
Atlantic States	1,300/113	20,623/116	None

The following exceptions were noted:

6 Exceptions:

18 Del. C. § 1715 - Appointments.

The Company accepted business from a producer who was not properly appointed by the Company.

Recommendation: It is recommended the Company revise its procedures to ensure producers are properly appointed in accordance with 18 Del. C. § 1715.

CLAIMS

For the experience period of January 1, 2016 through August 31, 2018, the table below shows the Company-identified universes of policies, along with the random sample sizes, for the following categories: Paid, Denied/Not Paid, and Closed Without Payment. The files identified in the random samples were requested and received. The files were reviewed to determine compliance with applicable Delaware laws and regulations.

	Paid	Denied/Not Paid	Closed Without Payment
	Universe/Sample	Universe/Sample	Universe/Sample
Atlantic States	902/83	Included with Closed Without Payment	252/76

No exceptions were noted.

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Atlantic States Insurance Company**

CONCLUSION

The recommendation made below identifies corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended the Company revise its procedures to ensure producers are properly appointed in accordance with 18 *Del. C.* § 1715. (Underwriting and Rating).

The examination was conducted by Joseph Krug, Steve Misenheimer, Ray Hartsfield, and Linda Armstrong.

This report is respectfully submitted.



Linda Armstrong, JD, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance