

2. The Company will educate its producers and take any needed steps to assure that the question regarding prior cancellations, non-renewals, and declinations is never asked or answered on its Missouri insurance applications, such that they do not violate §376.936(11)(f), RSMo, and DIFP Bulletin 94-04.

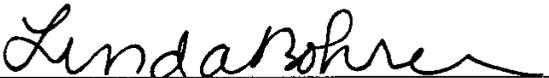
3. The Company will take any needed steps to assure that it provides its insureds a sufficiently specific and clear reason for cancellation, as required by §379.883.3, RSMo.

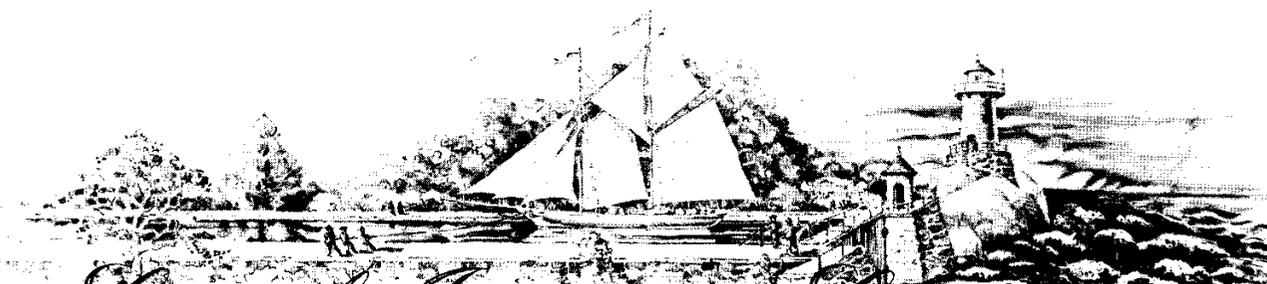
4. The Company shall ensure that its books, records, documents, and other business records are in an order such that its underwriting practices can be readily ascertained by the Department, as required by §§379.883 and 379.885, RSMo, and 20 CSR 300-2.200(2).

It is further ORDERED that a Missouri market conduct examination of Canal Insurance Company is not necessary until three years from the date of this Order, unless the Director has cause to believe the Company has failed to comply with the terms of this Order or has otherwise violated Missouri laws or regulations.

So Adopted, Found, Concluded and Ordered.

1-8-09
Date


Linda Bohrer
Linda Bohrer,
Acting Director



Canal Insurance Company

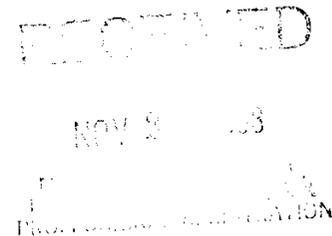
P.O. Box 7 - Greenville, South Carolina - 29602-0007
400 East Stone Ave. (29601) - Phone: 864/242-5365

CHARLES M. TIMMONS, JR.
PRESIDENT

E-Mail: Chuck.Timmons@canal-ins.com
Fax: (864) 679-2507

November 18, 2008

Ms. Carolyn H. Kerr
Senior Counsel
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, MO 65102-0690



Re: Missouri Market Conduct Examination #0701-01-PAC
Canal Insurance Company (NAIC #10464)

Dear Ms. Kerr:

We are in receipt of the captioned examination report sent to Canal Insurance Company under your October 17, 2008 letter. In reference to the items noted in the report:

- The Company's filed application does not contain the prohibited question noted in the review; however, the agent mixed and matched pages from other state applications and inadvertently included a generic page 2 from another state. The question has since been omitted from our application in all states.
- The ambiguous cancellations criticism referred to the use of generic cancellation reasons such as "cancelling due to underwriting reasons". Our policy issuance system's administrative controls were supposed to be set to require the entry of a specific cancellation reason in Missouri, but they weren't. Our compliance area has fixed this issue and confirmed the system is now working properly.
- The failure to furnish proof of mailing identified in the report is correct. Our agent is responsible for keeping proof of mailing and they could not find proof of mailing in their files on these policies.

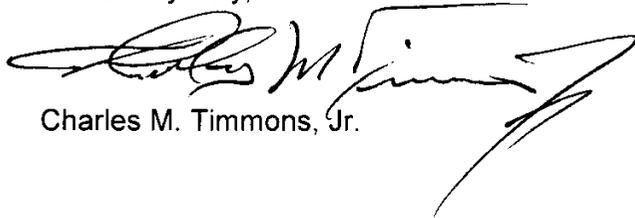
These aren't rebuttals to the findings, more of an explanation of the circumstances behind the criticisms noted in the report.

Ms. Carolyn H. Kerr
Missouri Department of Insurance
November 18, 2008
Page Two

Concerning the report itself, we would like to clarify one item under Marketing Practices noted on page 2. The Company does market its products through the independent agency system including General, Retail and Wholesale Agents, but the Company does not have any Managing General Agents in Missouri, or any other state. The Agents handle policy administration, but they do not settle claims or secure reinsurance on behalf of the Company.

With the exception of the item noted for Marketing Practices, the Company accepts the report as submitted.

Yours very truly,

A handwritten signature in black ink, appearing to read "Charles M. Timmons, Jr.", with a large, sweeping flourish extending to the right.

Charles M. Timmons, Jr.

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS & PROFESSIONAL
REGISTRATION

MARKET CONDUCT EXAMINATION REPORT
OF
CANAL INSURANCE COMPANY
NAIC # 10464

400 East Stone Avenue
Greenville, SC 29601

SEPTEMBER 28, 2008

EXAMINATION NUMBER: 0701-01-PAC

TABLE OF CONTENTS

| | |
|---|----|
| FOREWORD | i |
| SCOPE OF EXAMINATION | ii |
| EXECUTIVE SUMMARY | iv |
| EXAMINATION FINDINGS | 1 |
| I. SALES AND MARKETING | 1 |
| A. Licensing of Agents, Agencies, and Brokers..... | 1 |
| B. Marketing Practices | 2 |
| C. Company Overview and Background..... | 2 |
| II. UNDERWRITING AND RATING PRACTICES | 3 |
| A. Forms and Filings..... | 3 |
| B. Underwriting and Rating | 4 |
| C. Cancellations, Nonrenewals, and Rejection..... | 6 |
| D. Legal Practices Not in the Best Interest of Consumer | 8 |
| III. CLAIMS PRACTICES | 9 |
| A. Unfair Settlement Practices, General Handling & Timeliness | 10 |
| B. Legal Practices Not in the Best Interest of Consumers..... | 11 |
| IV. CONSUMER COMPLAINTS | 12 |
| SUBMISSION | 13 |

FOREWORD

This market conduct examination report of the Canal Insurance Company is, overall, a report by exception. Examiners cite errors the Company made; however, failure to comment on specific files, products, or procedures does not constitute approval by the Missouri Department of Insurance, Financial Institutions and Professional Registration.

Examiners use the following in this report:

“The Company” and “Canal” refer to Canal Insurance Company;

“DIFP” and “Department” refer to the Missouri Department of Insurance, Financial Institutions and Professional Registration;

“NAIC” refers to the National Association of Insurance Commissioners;

“RSMo” refers to the Revised Statutes of Missouri; and

“CSR” refers to the Code of State Regulation.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§ 374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo. In addition, §447.572, RSMo, grants authority to the DIFP to determine compliance with the Uniform Disposition of Unclaimed Property Act.

The purpose of this examination is to determine if Canal complied with Missouri statutes and DIFP regulations and to consider whether Company operations are consistent with the public interest. The primary period covered by this review is January 1, 2007, through December 31, 2007; however, examiners include all discovered errors in this report.

Although examiners report the errors discovered in individual files, this report focuses on general business practices of Canal. The DIFP has adopted the NAIC published error tolerance rate guidelines. Unless otherwise noted, examiners apply a 10 percent (10%) error tolerance criterion to underwriting and rating practices and a seven percent (7%) tolerance criterion to claims handling practices. Error rates greater than the tolerance suggest a general business practice.

This examination is primarily directed to the following company operations as related to commercial automobile operations including:

Sales and Marketing;

Underwriting and Rating;

Claims Practices; and

Consumer Complaints.

Examiners conducted this examination at DIFP's office located in St. Louis, Missouri.

EXECUTIVE SUMMARY

Examiners discovered the following areas of concern:

In some instances, the Company applied an unfiled trailer rate in determining commercial automobile premiums. This practice resulted in undercharges.

In some instances, the Company accepted commercial automobile applications that included an answer to the prohibited question regarding the applicant's prior coverage being declined, cancelled or non-renewed.

In some instances, the Company furnished insureds cancellation notices that were not sufficiently clear and specific so that the insured could identify the basis of Canal's decision without further inquiry.

In some instances, the Company failed to furnish the examiners with proof of mailing certificates for cancellations.

EXAMINATION FINDINGS

I. SALES AND MARKETING

In this section of the report, the examiners report their findings regarding how the company complied with the laws that monitor sales and marketing practices. Due to time and cost restraints, examiners reviewed a sample of the Company's licensing records and marketing materials.

A. Licensing of Producers

Missouri law requires companies to sell insurance products through individuals and entities that hold a current license from the DIFP. The purpose of a license is to protect the public by providing competent and trustworthy producers.

During underwriting and rating reviews, examiners documented producers involved in producing the business. The examiners randomly verified the entities were properly licensed.

The examiners discovered no errors during this review.

B. Marketing Practices

Canal markets its products through the independent agency system including General, Retail, and Wholesale Agents.

Missouri law requires producers to be truthful and provide adequate disclosure while selling the insurance products.

The Company also provides information about its products through the Internet where the Company maintains a web site.

The examiners discovered no discrepancies when the examiners reviewed the site.

C. Company Overview and Background

According to information provided by the Company, Canal Insurance Company (CIC) began writing business in 1939 as a subsidiary of First National Bank of South Carolina. The Company was purchased in 1942 by William R. Timmons and moved to Greenville, South Carolina. Today Canal is licensed to write business in 47 states specializing in long haul trucking and other commercial automobile insurance. The Canal Indemnity Company is a wholly owned subsidiary of Canal Insurance Company and writes commercial automobile insurance on a surplus lines basis.

II. UNDERWRITING AND RATING PRACTICES

In this section of the report, the examiners report their findings of the Company's underwriting and rating practices. These practices include, but are not limited to, the use of policy forms, adherence to underwriting guidelines, premiums charged, and procedures to cancel, nonrenew, or reject coverages. Because of the time and cost involved in reviewing each policy file, the examiners use scientific sampling. For this review, a sampling unit represents a policy file with one complete premium amount involving the charges provided or restricted by endorsements, issued, or re-rated during the examination. The most appropriate statistic to measure the Company's compliance is the percent of files in error. Errors can include, but are not limited to, any miscalculation of the premium based on file information, improper acceptance or denial of an application, and failure to observe Missouri statutes or DIFP regulations.

A. Forms and Filings

The examiners review the Company's policy forms to determine compliance with filing, approval, and content requirements. This helps to assure that contract language is not ambiguous and is adequate to protect those insured.

In one instance, the Company failed to file the scheduled trailer rate used in the rating of commercial automobile policies.

References: §379.321, RSMo., 20 CSR 500-4.100, and 20 CSR 500-4.200.

B. Underwriting and Rating

Commercial Automobile

| | |
|-------------------------------|--------|
| Field Size: | 360 |
| Sample Size: | 100 |
| Type of Sample: | Random |
| Errors: | 28 |
| Error Ratio: | 28% |
| Within department guidelines: | No |

In 26 instances, the Company applied an unfiled schedule trailer rate in the rating of a commercial automobile policy resulting in a premium undercharge.

References: §379.321 RSMo, 20 CSR 500-4.100, and 20 CSR 500-4.200

Policy Number

xxxxx4601

xxxxx1900

xxxxx1501

xxxxx0001

xxxxx1042

xxxxx3801

Policy Number

xxxxx0301

xxxxx4401

xxxxx9201

xxxxx5201

xxxxx0501

xxxxx4001

xxxxx7700

xxxxx4700

xxxxx5701

xxxxx4801

xxxxx1990

xxxxx2501

xxxxx7901

xxxxx2801

xxxxx8041

xxxxx5601

xxxxx1041

xxxxx1050

xxxxx2201

xxxxx9901

In two instances, the Company accepted an application that included an answer to the prohibited question regarding an applicant's prior coverage being declined, cancelled or non-renewed.

Reference: 375.936(11)(f) RSMo and DIFP Bulletin 94-04.

Policy Number

xxxxx3601

xxxxx7001

C. Cancellations, Nonrenewals, and Rejections

The examiners reviewed policies that the Company terminated before the scheduled expiration date and applications that the Company rejected because of failing to meet underwriting guidelines.

Policies were selected from all policies canceled, nonrenewed, or rejected during the time frame of the examination for commercial automobile.

Commercial Automobile

| | |
|-------------------------------|--------|
| Field: | 8 |
| Sample Size: | 8 |
| Type of Sample: | Census |
| Errors: | 5 |
| Error Ratio: | 62.5% |
| Within Department Guidelines: | No |

In three instances, the Company furnished the insured a cancellation notice that was not sufficiently clear and specific so that the insured could identify the basis of Canal's decision without further inquiry.

Reference: §379.883.3 RSMo.

Policy Number

xxxxx2304

xxxxx0248

xxxxx8901

In two instances, the Company failed to furnish the examiners proof of mailing certificates for the cancellations.

References: §§ 379.883, 379.885 RSMo, and 20 CSR 300-2.200(2).

Policy Number

xxxxx1000

xxxxx3897

D. Legal Practices Not in the Best Interest of Consumers

The examiners also looked for products and practices that, although do not violate Missouri laws, are not in the best interest of consumers.

The examiners discovered no issues in the underwriting practice reviews.

II. CLAIMS PRACTICES

In this section, examiners review claim practices of the Company to determine efficiency of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and DIFP regulations. Due to the large number of claim files, examiners are unable to review each claim. As such, examiners conduct scientific sampling of claim files. A claim file, as a sampling unit, is an individual demand for payment or action under an insurance contract for benefits that may or may not be payable. The most appropriate statistic to measure compliance with the law is the percent of files in error. An error can include, but is not limited to, any unreasonable delay in the acknowledgment, investigation, payment, or denial of a claim. Errors also include the failure to calculate benefits correctly or to comply with Missouri laws regarding claim settlement practices.

Claim files were also reviewed to determine compliance with the unfair settlement practices statute, other statutes and regulations, as well as general policy provisions. Missouri law requires that insurers and agents disclose to first-party claimants all pertinent benefits, coverages and other provisions of an insurance policy under which a claim is presented. The company must give claim denials to the claimant in writing and retain a copy in the file.

The examiners reviewed (1) commercial automobile physical damage claims; (2) commercial automobile uninsured/under insured motorist claims; and (3) commercial automobile medical payments.

A. Unfair Settlement Practices, General Handling & Timeliness

1. Commercial Automobile Physical Damage Claims

| | |
|-------------------------------|--------|
| Field Size: | 67 |
| Sample Size: | 67 |
| Type of Sample: | Census |
| Number of Errors: | 0 |
| Error Rate: | 0% |
| Within department guidelines: | Yes |

The examiners discovered no discrepancies in this review.

2. Commercial Automobile Uninsured/Underinsured Motorist Claims

There were no uninsured/underinsured motorist claims in this review.

3. Commercial Automobile Medical Payments

There were no medical payments claims in this review.

B. Legal Practices Not in the Best Interest of Consumers

The examiners also looked for claims practices that, although do not violate Missouri laws, are not in the best interest of consumers.

The examiners discovered no issues in the claims practices reviews.

IV. CONSUMER COMPLAINTS

Section 375.936(3), RSMo, requires companies to maintain a register of all complaints it receives for at least three years. The statute requires the record to show the total number of complaints, classified by line of insurance, nature of complaint, disposition and time to process the complaint.

The Company's records show it received 13 complaints between January 1, 2005, and December 31, 2007. The Department received all 13 of these complaints. The Company received no complaints directly from the complainants.

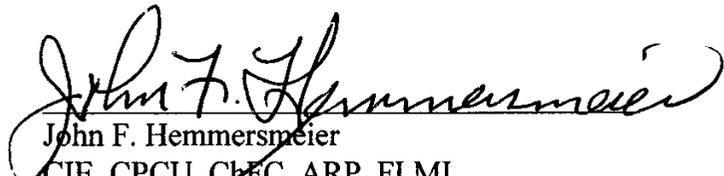
The group maintains a log of all written complaints.

There were no discrepancies.

SUBMISSION

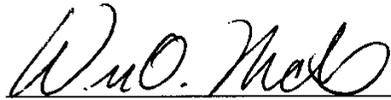
Examiners respectfully submit this Market Conduct examination report of the Canal Insurance Company to the Director of Insurance, Financial Institutions and Professional Registration State of Missouri.

Gary Bird and John Pfaender participated in the examination and helped in the preparation of this report.


John F. Hemmersmeier
CIE, CPCU, ChFC, ARP, FLMI
Examiner-In-Charge

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Market Regulation Handbook has been confirmed.



Win Nickens, CIE, JD, CPCU
Audit Manager
Department of Insurance, Financial
Institutions, and Professional Registration

Date: 9-29-8

