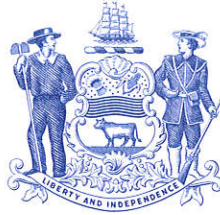


MARKET CONDUCT EXAMINATION REPORT
NATIONWIDE MUTUAL INSURANCE COMPANY

NAIC#23787

November 20, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

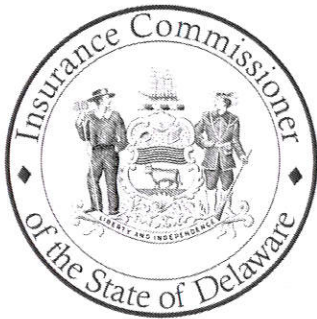
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of November 20, 2010 on

NATIONWIDE MUTUAL INSURANCE COMPANY

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

Attest By:

A handwritten signature in blue ink, reading "Larilee J. Hanjin".



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


Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner




Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
NATIONWIDE MUTUAL INSURANCE COMPANY
AS OF
November 20, 2010

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.


Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Contents

SALUTATION.....	1
EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION	2
HISTORY AND PROFILE	3
METHODOLOGY	4
EXAMINATION FINDINGS	5
VI. UNDERWRITING AND RATING	8
ADDITIONAL REVIEW: PRIVATE PASSANGER AUTOMOBILE DISCOUNTS	9
Underwriting and Rating.....	9
CONCLUSION.....	12

SALUTATION

January 30, 2011

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 09.717, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Nationwide Mutual Insurance Company

The examination was performed as of November 20, 2010. Nationwide Mutual Insurance Company, hereinafter referred to as “The Company”, NMIC or as “Nationwide Mutual”, is incorporated under the laws of Ohio. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following locations:

7125 Columbia Gateway Drive
Columbia, Maryland 21046
and
7501 Boulder View Drive, Suite 300
Richmond, Virginia 23235

The off-site examination was 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

Nationwide Mutual Insurance Company was incorporated on December 16, 1925, under the laws of the state of Ohio. The Company commenced business on April 16, 1926 under the sponsorship of The Ohio Farm Bureau Federation to provide automobile insurance for Farm Bureau members. Operations were conducted under Farm Bureau Mutual Automobile Insurance Company until September 1, 1955, the day the present name was adopted. The Company writes private passenger auto insurance. Their direct premiums written in Delaware for personal lines were \$72,699,445 in 2008.

The examination was a market conduct examination of the following business areas: Company Operations and Management; Complaint Handling; Policyholder Services; Marketing and Sales, Underwriting and Rating; and Claims Settlement Practices. This was a targeted examination of the Company's private passenger automobile operations.

One area of concern was noted during the examination. This issue is more fully discussed under Standard VI-16- Underwriting and Rating but is summarized here:

Standard VI-16- Underwriting and Rating – Cancellation/nonrenewal notices do not comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract as required by *18 Del. C. § 3905 (a)-(e)*.

The Company failed to properly provide notice of cancellation to consumers. Twelve (12) of the forty seven (47) or 26% sampled NMIC cancelled auto policy files contained no cancellation documentation.

Recommendations have been made to remedy this concern.

Subsequent Event: Subsequent to the completion of the examination the Company conducted an additional search for the missing documents and was ultimately able to determine that seven (7) of the twelve (12) missing auto cancellations involved terminations of coverage where the insured had requested cancellation, requested replacement coverage with a Nationwide affiliate or made other service requests removing any obligation on the part of the company to send notice of cancellation. The remaining five (5) continue to be outstanding. In addition the Company provided a summary of corrective actions that have reportedly been put in place to address the issues noted in this report.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For this examination they include:

- Company Operations/Management
- Complaint Handling

Nationwide Mutual Insurance Company
Delaware Market Conduct Examination Report

- Policyholder Service
- Underwriting and Rating
- Claims Practices and Procedures

The examination report is a report by exception rather than a report by test. This means that only those areas where recommendations are suggested are described and results indicated.

The experience period for this examination is July 1, 2008 through November 20, 2010.

HISTORY AND PROFILE

Nationwide Mutual Insurance Company (NMIC) was incorporated on December 16, 1925 under the laws of the State of Ohio. The Company commenced business on April 14, 1926 under the sponsorship of The Ohio Farm Bureau Federation to provide automobile insurance for Farm Bureau members. Operations were conducted under the title Farm Bureau Mutual Automobile Insurance Company until September 1, 1955 when the title was changed to the present name.

The following is an excerpt from the AM Best Report of the Nationwide Group.

Nationwide Group's rating is based on the consolidated operating performance and financial condition of its twenty-eight property-casualty affiliates. The main rating unit, Nationwide Group, consists of the four members of an intercompany reinsurance pool led by the Nationwide Mutual Insurance Company plus twenty-two affiliates that reinsure with either a pool member or another affiliate and thereby qualify for a reinsurance affiliation code.

Nationwide's primary lines of business include private passenger automobile liability and physical damage, homeowners and main-street commercial business. Nationwide Mutual Insurance Company predominately writes standard personal automobile and main-street commercial coverages. Nationwide Mutual Fire specializes in providing homeowners insurance. Nationwide Property and Casualty Insurance Company provides alternative-priced personal automobile products to Nationwide's agents. Nationwide General Insurance Company specializes in providing auto insurance for select mid-size employer groups and professional organizations. Thirteen service centers are maintained throughout the country to issue and service policies, collect premiums and pay claims in their respective territories.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in the Delaware Market Conduct Examiner's Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Regulation Handbook* (2008 Edition).

The type of review used in this examination fall into three general categories: generic, sample, and electronic.

A "*generic*" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "*sample*" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiner's Handbook and the *NAIC's Market Regulation Handbook*. Samples of complaint files, underwriting files and settlement files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "*electronic*" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination, the standards were tested through a combination of "sample", "generic" review and direct observation of the processes used. Each standard contains a brief description of the purpose of reason for the Standard. The examiners' "Observations" are noted following each Standard tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate corresponding Standard.

EXAMINATION FINDINGS

The following examination areas were reviewed and deemed as passing without notable exceptions:

I. Company Operations and Management – 2008 NAIC MRH Chapter XVI

- Standard 1 - The regulated entity has an up-to-date, valid internal or external audit program.
- Standard 2 - The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.
- Standard 3 - The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.
- Standard 4 - The regulated entity has a valid disaster recovery plan.
- Standard 5 - Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, managing general agents (MGAs), general agents (GAs), third-party administrators (TPAs) and management agreements, must comply with applicable licensing requirements, statutes, rules and regulations.
- Standard 6 - The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.
- Standard 7 - Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.
- Standard 8 - The regulated entity is licensed for the lines of business that are being written.
- Standard 9 - The regulated entity cooperates on a timely basis with examiners performing the examinations
- Standard 10 - The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.
- Standard 11 - The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.
- Standard 12 - The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.
- Standard 13 - The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.
- Standard 14 - If the regulated entity discloses information subject to an opt out right, the regulated entity has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the regulated entity provides opt out notices to its customers and other affected consumers.
- Standard 15 - The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

- Standard 16 - In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed, except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.
- Standard 17 - Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

II. Complaint Handling – 2008 NAIC MRH Chapter XVI

- Standard 1- All complaints are recorded in the required format on the regulated entity's complaint register.
- Standard 2 - The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.
- Standard 3 - The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.
- Standard 4 - The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

V. Policyholder Services – 2008 NAIC MRH Chapter XVI

- Standard 1 - Premium notices and billing notices are sent out with an adequate amount of advance notice.
- Standard 2 - Policy issuance and insured-requested cancellations are timely.
- Standard 3 - All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.
- Standard 5 - Policy transactions are processed accurately and completely.
- Standard 6 - Reasonable attempts to locate missing policyholders or beneficiaries are made.
- Standard 7 - Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

VI. Underwriting and Rating – 2008 NAIC MRH Chapter XVI

- Standard 1 - The rates charged for the policy coverage are in accordance with filed rates or the regulated entity's rating plan.
- Standard 2 - All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
- Standard 3 - The regulated entity does not permit illegal rebating, commission-cutting or inducements.

- Standard 4 - The regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.
- Standard 5 - All forms, including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.
- Standard 6 - Policies, riders and endorsements are issued or renewed accurately, timely and completely.
- Standard 7 - Rejections and declinations are not unfairly discriminatory.

VI. Underwriting and Rating – 2008 NAIC MRH Chapter XVII

- Standard 1 - Credits, Debits and deviations are consistently applied on a non-discriminatory basis.
- Standard 3 - Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.
- Standard 8 - Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.
- Standard 10 - The regulated entity's underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and the regulated entity's guidelines in the selection of risks.
- Standard 11 - All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).
- Standard 12 - Regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.
- Standard 13 - The regulated entity does not engage in collusive or anti-competitive underwriting practices.
- Standard 18 - Pertinent information of the application that form a part of the policy is complete and accurate.

VII. Claims – 2008 NAIC MRH Chapter XVI

- Standard 1 - The initial contact by the regulated entity with the claimant is within the required time frame.
- Standard 2 - Timely investigations are conducted.
- Standard 3 - Claims are resolved in a timely manner.
- Standard 4 - The regulated entity responds to claims correspondence in a timely manner.
- Standard 5 - Claim files are adequately documented.
- Standard 6 - Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.
- Standard 7 - Regulated entity claim forms are appropriate for the type of product.

- Standard 8 - Claim files are reserved in accordance with the regulated entity's established procedures.
- Standard 9 - Denied and closed without payment claims are handled in accordance with policy provisions and state law
- Standard 10 - Canceled benefit checks and drafts reflect appropriate claim handling practices.
- Standard 11 - Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

VII. Claims – 2008 NAIC MRH Chapter XVII

- Standard 1 - Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.
- Standard 2 - Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Exceptions were identified in the following examination area:

VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VI- 16

NAIC'S Market Conduct Examiner's Handbook – Chapter 17 § Standard 16

Cancellation/nonrenewal, discontinuance and declination notices comply with policy provisions, state laws and the regulated entity's guidelines.

18 Del. C. §3905(a)-(e).

Objective: This Standard is concerned with whether the Regulated Entity has adequate procedures and processes to provide notice of cancellation/non-renewal and to determine that the documents were mailed or delivered by the insurer to the first named insured's last known address.

Results: Fail

Observations: Through examining available file documentation, the examiners found that the Company failed to properly provide notice of cancellation to consumers. Twelve (12) of the forty seven (47) or 26% of the sampled NMIC cancelled auto policy files contained no cancellation documentation.

Additionally, the Company failed to properly provide non-renewal notices to consumers. One (1) of the thirty five (35) or 2% sampled NMIC non-renewed auto policy files. The missing notices could not be located by the Company following the review. Failure to provide timely notification is a violation of 18 *Del. C.* § 3905 (a) which states, “No cancellation of a policy to which s 3904(a) of this title applies shall be effective unless notice thereof is mailed or delivered by the insurer to the named insured at least 30 days prior to the effective date of cancellation and accompanied by the reason for cancellation, except that, where cancellation is for nonpayment of premium, at least 10 days notice of cancellation accompanied by the reason therefore shall be given.”

Recommendation: The Company must review its record management procedures to ensure that notices of cancellation and non-renewal are provided to the customer and that copies of the documents are maintained in the Company’s underwriting files. See Delaware statute 18 *Del. C.* §3905(a) - (e).

Subsequent Event: Subsequent to the completion of the examination the Company conducted an additional search for the missing documents and was ultimately able to determine that seven (7) of the twelve (12) missing auto cancellations involved terminations of coverage where the insured had requested cancellation, requested replacement coverage with a Nationwide affiliate or made other service requests removing any obligation on the part of the company to send notice of cancellation. The remaining five (5) continue to be outstanding. In addition the Company provided a summary of corrective actions that have reportedly been put in place to address the issues noted in this report.

ADDITIONAL REVIEW: PRIVATE PASSANGER AUTOMOBILE DISCOUNTS

In this examination, the Delaware Insurance Department reviewed the Company’s use of Private Passenger Auto discounts, surcharges, tier rating, non-renewals and whether the Company engaged in re-writing of policies in affiliated companies. Information was requested from the Company for the period from July 1, 2008 through November 20, 2010.

The examiners also reviewed responses as they applied to advertising used by the Company, its agents and the underwriting and rating of auto new business and renewals.

Underwriting and Rating

A. Discounts/Surcharges-Auto

Objective: Review the Company’s use of discounts and surcharges in the rating of new and renewal Private Passenger Automobile policies.

Observations: The examiners reviewed forty three (43) renewal auto files in conjunction with the discounts available to Nationwide Mutual customers. The examiners reviewed the rules pertaining to the qualification and disqualification for the various discount programs. The examiners also reviewed the Company rules relating to surcharges and when they are applied to Delaware customers' policies. The Company stated that they provide a rating stuffer in each renewal packet describing all discounts that are available. The Company stated that they encourage customers to avail themselves of a personalized review of coverage and discounts from a Company representative. The examiners noted no exceptions in this area.

Objective: Review claim enhancement programs affecting the waiver of or the reduction of deductibles and accident forgiveness.

Observations: The examiners reviewed the Company's rules pertaining to qualification and disqualification for the reduction of the collision/comprehensive deductible and accident forgiveness programs available with Nationwide General auto policies. There were 1331 automobile new business policies issued in Nationwide General in Delaware. There were no exceptions noted in the renewal files reviewed.

Objective: Verify that automobile discounts and surcharges were filed with the DDOI including the dates filed and approved. Review any related correspondence.

Observations: The examiners reviewed copies of the Company's filings as well as the rules included in the Company's underwriting guidelines/rating manual that defines the discounts/surcharges.

Objective: Determine what documentation the Company requires for obtaining the discounts Also determine who is responsible for the custody of the documents as well as the recertification required for any of the or remove the discount at the next renewal?

Observations: The examiners reviewed the Company's rules pertaining to required documentation and recertification related to discounts and the maintenance of such documents with the agent. The Company also described agent audits involving these documents.

The Company described proactive scanning of policyholder records to ensure that available discounts are applied to inforce policies. Policies qualifying for discounts will reflect those discounts at the six month renewal when the Company will adjust their premium. No exceptions were noted.

Advertising

Objective: Determine if the Company uses advertising pertaining to the discounts available. Review advertising used that may impact the Delaware consumers. The examiners review of advertising will include the appropriateness of the advertisement and whether the ad may contain misleading information.

Observations: The examiners reviewed 178 advertisements using various media, including print, internet, radio and television distributed during the examination period. All advertisements were Company produced and many were available for local agent use. The

Company was not able to determine how many advertisements were used in the State of Delaware nor could they determine if potential customers switched their insurance from other companies as a result of viewing the advertisements.

Complaints

Objective: Determine if the Company received complaints relating to discounts, tiering and surcharges directly from customers or the DDOI.

Observations: The examiners reviewed eight complaints relating to increases in premiums due to underwriting decisions, one complaint relating to a surcharge and one complaint relating to credit/insurance score. The Company stated that when surcharges are added to a policy the specific reason and applicable driver are identified on the renewal statement. No exceptions were noted in the handling of these complaints.

Tier Rating

Objective: Review rating tiers used by the Company. Include the review of the following:

- Underwriting criteria for each of the tiers,
- Determine if new credit scores are used when a policy is rewritten in an affiliate company,
- Filing for tier rating plan with the DDOI, including approval date and correspondence,
- Process for determining accurate tier applied to customer,
- Process for non-renewal and placement in an affiliated company.

Observations: The examiners reviewed the criteria for the 36 available matrix tiers used by the Company. The Company stated that NMIC underwriting tiers are assigned based on Nationwide's Credit Scoring Model. Credit reports are obtained at the inception of a customer's policy and at the anniversary only if requested by the customer. Renewal credit scoring can only be used to reduce a customer's premium.

Nationwide stated that none of their companies initiate the rewriting of policies to an affiliate company. Since movement is not initiated by the company, a new business application is required and all new business guidelines and procedures apply. This would include obtaining a new financial responsibility score and placing the customer in the appropriate financial responsibility rating tier.

The Company affirmed that the tier rating plan was filed with the DDOI. A copy of each filing that was made during the scope of this review was provided to the examiners. The examiners found no exceptions in the Company's tiering process.

CONCLUSION

The examination was conducted by Roger Fournier, Ron Poplos, Steven Misenheimer, Cyndy Campbell and Heather Harley and supervised by Shelly Schuman. This report is respectfully submitted

A handwritten signature in black ink, appearing to read "Roger Fournier", written in a cursive style. The signature is positioned above a horizontal line.

Roger Fournier, CIE
Market Conduct Examiner-in-Charge
Delaware Insurance Department