

# STATE OF ILLINOIS



## Department of Insurance

IN THE MATTER OF  
THE EXAMINATION OF:

GOVERNMENT EMPLOYEES INSURANCE COMPANY  
5260 WESTERN AVENUE  
CHEVY CHASE, MARYLAND 20815-3799

### MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 5/131.21, 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Bernie Sullivan, Examiner-In-Charge, and associates as the proper persons to examine the insurance business and affairs of Government Employees Insurance Company (GEICO) of Chevy Chase, Maryland, and to make a full and true report to me of the examination made by them of GEICO with a full statement of the condition and operation of the business and affairs of GEICO with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of GEICO.



### IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.  
Done at the City of Springfield, this 1<sup>st</sup> day of October, 2009.

*Michael T. McRath*

Michael T. McRath

Director



IN THE MATTER OF THE EXAMINATION OF

GOVERNMENT EMPLOYEES INSURANCE COMPANY  
ONE GEICO PLAZA  
WASHINGTON, DC 20076-0001

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 132, 401, 401.5, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/401.5, 5/402, 5/403, and 5/425) do hereby appoint Scott A. Hanfling, Mark Wilson, Tim Kelly, and Meghan Welch at Kerns Frost & Pearlman, LLC as Examiners to assist the Illinois Department of Insurance ("Department") in the completion of the market conduct examination of Government Employees Insurance Company, NAIC # 22063, (the "Company") by reviewing and completing the examination report prepared by Examiner in Charge, Bernie Sullivan, including the review of any objections or rebuttals submitted by the Company regarding the findings of such reports, and drafting of any related Stipulation and Consent Order for the review and approval of the Director. The costs of this examination shall be borne by the Company.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of the Company.



*IN TESTIMONY WHEREOF*, I hereto set my hand and cause to be affixed this Seal.

Done at the City of Chicago, this 1<sup>st</sup> day of October, 2012.

*Andrew Boron*  
\_\_\_\_\_  
Andrew Boron

Director

**This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.**

**This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.**

**No company, corporation, or individual shall use this report or any statement, excerpt, portion, or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).**

**The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.**

Anne Marie Skallerup  
Staff Attorney

**Government Employees Insurance Company**  
**GEICO General Insurance Company**  
**GEICO Indemnity Company**  
**GEICO Casualty Company**

## MARKET CONDUCT RE-EXAMINATION REPORT

**DATE OF RE-EXAMINATION:** November 30, 2009, through January 22, 2010

**EXAMINATION OF:** Government Employees Insurance Company  
(P & C Foreign Stock) NAIC # 22063  
GEICO General Insurance Company  
(P & C Foreign Stock) NAIC # 35882  
GEICO Indemnity Company  
(P & C Foreign Stock) NAIC # 22055  
GEICO Casualty Company  
(P & C Foreign Stock), NAIC # 41491

**LOCATION:** 4295 Ocmulgee East Blvd  
Macon, GA 31295

**PERIOD COVERED BY  
RE-EXAMINATION:** September 1, 2008, through August 31, 2009

**EXAMINERS:** Bernie Sullivan Jr. LUTCF  
Examiner-in-Charge

## INDEX

	Page #
I. COMPLIANCE	1
II. SUMMARY	2
III. BACKGROUND	3
IV. METHODOLOGY	4-5
V. FINDINGS	6
A. Risk Selection	
1. Motorcycle Cancellations	
2. Motorcycle Nonrenewals	
B. Claims	
1. First Party Paid & Median Claims	
2. First Party Closed without Payment	
3. Third Party Closed without Payment	
4. Total Loss Claims	
VI. TECHNICAL APPENDICES	7

**I. COMPLIANCE:**

The Company was previously the subject of a Market Conduct Examination completed April 4, 2008, covering the period October 1, 2006, through September 30, 2007.

**Based upon the findings of that examination four (4) Orders were issued.**

**ORDER #1:** Institute and maintain procedures whereby motorcycle policyholders whose policy is being cancelled are provided a specific explanation of the reasons for cancellation as required by Section 5/143.15 of the Illinois Insurance Code. (See 215 ILCS 5/143.15)

The Company is substantially complying with this Order

**ORDER #2:** Institute and maintain procedures whereby private passenger automobile policyholders who have experienced a total loss to their vehicle are provided delay letters when the claim remains unresolved for more than 40 days as required by Section 919.80(b)(2) of the Illinois Administrative Code. (See 50 Ill Adm. Code 919.80(b)(2)).

The Company is substantially complying with this Order

**ORDER #3:** Institute and maintain procedures whereby policyholders who have experienced a total loss to their vehicle are provided the information contained in Exhibit A and provided that information within seven (7) days of the vehicle being determined a total loss as outlined in Section 919.80(c) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(c))

The Company is substantially complying with this Order

**ORDER #4:** The Company shall reopen the remaining automobile total losses from the 1882 total losses in the experience period and determine which total losses were fire losses. The Company shall return the deductible if the deductible had not been waived and report those findings to the Director.

The examiner asked for and was shown proof that the company reopened the remaining automobile total losses and refunded the deductibles which should have been waived pursuant to this Order. The Company complied with this Order

## **II. SUMMARY**

- 1. The Company complied or substantially complied with each of the Orders issued as a result of the market conduct examination completed on April 4, 2008. No new general trend criticisms were issued.**



### III. BACKGROUND:

#### GOVERNMENT EMPLOYEES INSURANCE COMPANY

The Company was reincorporated and redomesticated on January 3, 1986, under the laws of the State of Maryland to effect a change in corporate domicile from the District of Columbia to Maryland. The original Company was formed in August 1936 in the State of Texas and was reincorporated in the District of Columbia in 1937 and 1979. At the start of business on December 1, 1937, the District of Columbia domiciled and GEICO absorbed all of the assets and liabilities of the Texas domiciled Government Employees Insurance Company, Fort Worth, Texas. The Texas stock company had been organized as successor to the Government Employees Insurance Association, a reciprocal exchange which was formed on March 20, 1934, under the title, Government Employees Underwriters.

#### GEICO GENERAL INSURANCE COMPANY

The Company was incorporated on March 27, 1978, under the temporary title Equi-Gen Insurance Company under the laws of the State of Iowa to act as the vehicle for the transfer of corporate domicile of the Equitable General Insurance Company from Fort Worth, Texas to Des Moines, Iowa, effective December 31, 1978. The predecessor company was incorporated under the laws of the State of Texas on May 15, 1934, under the title Associated Casualty Company and began operations the following day. Numerous name changes were made from 1934 through September 29, 1982, when the present name was adopted.

#### GEICO INDEMNITY COMPANY

The Company was incorporated on March 22, 1961, and began operations on September 1, 1961. The Company reincorporated in 1980 in the District of Columbia under the name Criterion Insurance Company. On January 3, 1986, GEICO Indemnity was reincorporated and redomiciled from the District of Columbia to Maryland, and the name was changed to its present form on June 25, 1986.

#### GEICO CASUALTY COMPANY

The Company was incorporated on August 31, 1982, under the laws of the State of Maryland as the Guardian Casualty Company. The name was changed to Criterion Casualty Company in early 1983 and the actual operations began in May 1983. The current name was adopted on January 6, 1994.

#### IV. METHODOLOGY:

The Market Conduct Examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants.

The following categories are the general areas examined:

1. Risk Selection
2. Claims

The review of these categories is accomplished through examination of individual claim files, written interrogatories and interviews with Company personnel. Each of these categories is examined for compliance with Department of Insurance rules and regulations and applicable state laws.

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated with the insurer, but not cited in the report if not indicative of a general trend, except to the extent that there were underpayments and/or overpayments.

The following method was used to obtain the required samples and to assure a methodical selection. Surveys were developed from Company generated Excel spreadsheets. Random statistical printout reports were generated by the examiners and presented to the Company for retrieval.

Claims were requested based on the settlement occurring within the period under examination.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq.) and Part 919 (50 Ill. Adm. Code 919).

##### Selection of Samples

<u>Survey</u>	<u>Population</u>	<u>#</u> <u>Reviewed</u>	<u>%</u> <u>Reviewed</u>
<b>Risk Selection:</b>			
<b>Motorcycle Cancellations</b>	7	7	100.00%
<b>Motorcycle Nonrenewals</b>	6	6	100.00%

**Claims:**

<b>First Party Paid &amp; Median</b>	<b>12679</b>	<b>116</b>	<b>.91%</b>
<b>First Party Closed without Payment</b>	<b>4299</b>	<b>116</b>	<b>2.69%</b>
<b>Third Party Closed without Payment</b>	<b>5299</b>	<b>80</b>	<b>1.50%</b>
<b>Total Losses</b>	<b>3998</b>	<b>116</b>	<b>2.90%</b>

**V. FINDINGS:**

**A. Risk Selections:**

**1. Motorcycle Cancellations**

There were no trends or areas of concern in this survey

**2. Motorcycle Nonrenewals**

There were no criticisms in this survey

**B. Claims**

**1. First Party Paid & Median**

The median payment period was 17 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	83	71.55%
31-60	17	14.66%
61-90	8	6.90%
91-180	4	3.45%
181-365	4	3.45%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
<b>Total</b>	<b>116</b>	<b>100.00%</b>

There were no criticisms in this survey

**2. First Party Closed without Payment**

There were no trends or areas of concern in this survey

**3. Third Party Closed without Payment**

Two (2) third party closed without payment claims (2.50% of the 80 files reviewed) were criticized for failing to provide the claimant with a reasonable written explanation for denial as required by 50 Ill. Adm. Code 919.50(a)(2).

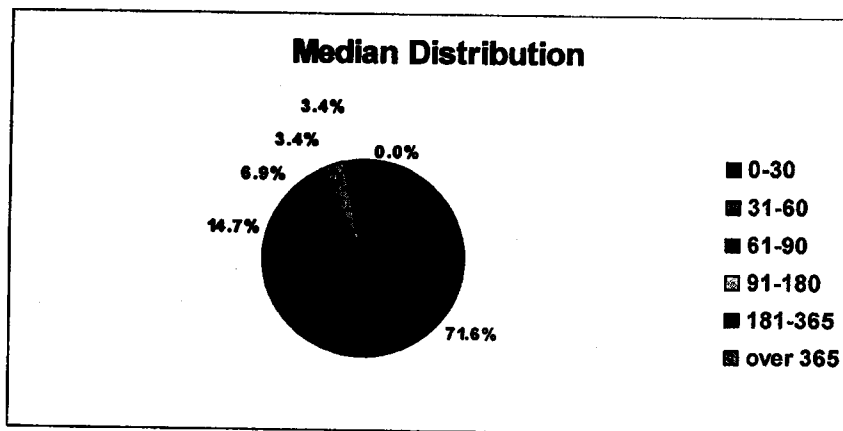
**4. Total Losses**

There were no trends or areas of concern in this survey.

VI. TECHNICAL APPENDICES:

FIRST PARTY PAID & MEDIAN

MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	83	71.55%
31-60	17	14.66%
61-90	8	6.90%
91-180	4	3.45%
181-365	4	3.45%
over 365	0	0.00%
<b>Total</b>	<b>116</b>	<b>100.00%</b>



STATE OF ILLINOIS            )  
  ) ss  
COUNTY OF COOK            )

**Bernie Sullivan, being first duly sworn upon his oath, deposes and says:**

**That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of:**

**Government Employees Insurance Company, NAIC # 22063  
GEICO General Insurance Company, NAIC # 35882  
GEICO Indemnity Company, NAIC # 22055  
GEICO Casualty Company, NAIC # 41491**

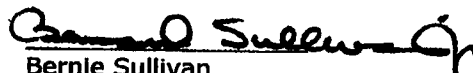
**That, as Examiner-In-Charge, he was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Companies with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Companies' business and affairs and the manner in which the Companies conduct their business;**

**That neither he nor any other persons designated as examiners nor any members of their immediate families is an officer of, connected with, or financially interested in the Companies nor any of the Companies' affiliates other than as policyholders, and that neither he nor any other persons designated as examiners nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;**

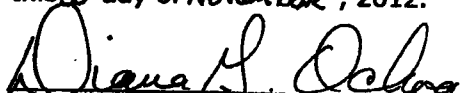
**That an examination was made of the affairs of the Companies pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;**

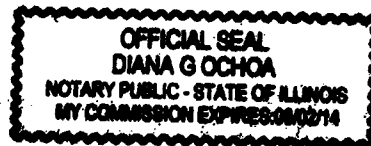
**That he was the Examiner-In-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Companies for the period covered by the Report as determined by the examiners;**

**That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Companies.**

  
Bernie Sullivan  
Examiner-In-Charge

**Subscribed and sworn to before me  
this 30 day of November, 2012.**

  
Notary Public





# Illinois Department of Insurance

---

**PAT QUINN**  
Governor

**ANDREW BORON**  
Director

December 6, 2012

Joe Termini  
General Counsel  
One Geico Center  
4295 Ocmulgee East Blvd  
Macon, GA 31295

*sent via USPS certified mail  
return receipt requested*

Dear Mr. Termini,

A Market Conduct Examination of your company and three affiliates was conducted by an authorized examiner designated by the Director of Insurance pursuant to Illinois Insurance Code Sections 132, 401, 402, 403 and 425 of the Illinois Insurance Code. The examination covered the period September 1, 2008 through August 31, 2009.

As required by Illinois Insurance Code Section 132, please find attached a copy of the verified examination report. This Department is providing the examined companies an opportunity to make a written submission or rebuttal with respect to any matters in the attached report. Please provide any such written submission or rebuttals to the undersigned by close of business, Friday, January 4, 2013.

Illinois Insurance Code Section 132 provides that the Director of Insurance must afford your company an opportunity to demand a hearing with reference to the facts and other evidence contained in this report. Section 132 further provides that your company may request a Hearing within ten (10) days after receipt of the above Report by giving the Director of Insurance written notice of such request together with a statement of your objections. The deadline to request a hearing is hereby extended until January 4, 2013.

Please contact me if you have any questions.

Sincerely,

  
Anne Marie Skallerup  
Staff Attorney

cc: Mary L. Smith



# Illinois Department of Insurance

PAT QUINN  
Governor

ANDREW BORON  
Director

January 17, 2013

Joseph Termini, Jr.  
Senior Counsel  
Government Employees Insurance Co.  
One Geico Center  
4295 Ocmulgee East Blvd  
Macon, GA 31295

Re: ***GEICO Market Conduct Examination Report***

Dear Mr. Termini,

This is in response to your email dated January 16, 2013 confirming GEICO's acceptance of the findings of the Market Conduct examination report. In the same email, it was confirmed that GEICO does not have comments or rebuttals in response to submit to the Department.

Accordingly, this Department is closing its file on this exam. I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132. Please be aware the report is a public document under the Freedom of Information Act (5 ILCS 140/1 *et. al.*) and may be posted on the Department's website.

Please contact me if you have any questions. I may be reached at 312.814.5410.

Sincerely,

Anne Marie Skallerup  
Illinois Department of Insurance  
Staff Attorney