



# Illinois Department of Insurance

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PAT QUINN  
Governor

ANDREW BORON  
Director

September 27, 2013

Via Email & Certified Mail  
\*Return receipt requested

Don Roinestad  
Director of Compliance  
Kemper Direct  
502 West Germantown Pike, Ste 900  
Plymouth Meeting, PA 19462

**RE: Market Conduct Examination of Unitrin Direct Insurance Company and  
Unitrin Direct Property & Casualty Company (Collectively, "Unitrin")**

Dear Mr. Roinestad,

Please find enclosed a revised report of the Market Conduct Examination of Unitrin, March 1, 2009 through February 28, 2010 being the period examined, and a revised Stipulation and Consent Order. The Department has considered Unitrin's response as it regards a file criticized under 50 Ill. Adm. Code 919.80(c)(2)(E) in the Auto Total Losses – First Party Survey and has determined that the file shall remain criticized because the file did not contain sufficient documentation to indicate why the amount paid to insured differed from the market value indicated in the CCC Information Services Inc. Market Valuation Report. This portion of the report remains unaltered.

The Department has also considered Unitrin's response as it regards a criticism issued in the Private Passenger Automobile Cancellations Survey and has determined the General Trend Criticism issued under 215 ILCS 5/143.14 shall remain. This Section requires a company to maintain proof of mailing of such notice recognized by the U.S. Post Office form or a form acceptable to the U.S. Post Office or other commercial mail delivery service. The Mailing Standards of the United States Postal Service, Domestic Mail Manual permits a mailer to use any of three possible forms when requesting a certificate of mailing for three or more pieces presented at one time: the postal provided Form 3877, a privately printed facsimile, or a privately

122 S. Michigan Ave., 19<sup>th</sup> Floor  
Chicago, Illinois 60603  
(312) 814-2420  
<http://insurance.illinois.gov>

printed Form 3877 that contains the same information as the postal printed form. A form that contains the same information as Form 3877 will satisfy the Section 143.14(a) proof of mailing requirement [215 ILCS 5/143.14(a)]. *Hunt v. State Farm Mut. Auto. Ins. Co.*, No. 1-12-0561, 2013 WL 3296621 (Ill.App. 1 Dist., June 28, 2013). The file provided by Unitrin did not contain the same information as Form 3877. The file did not include postmark stamp and did not include the signature of the United States Postal employee who processed the mailing. Therefore, this criticism shall remain and this portion of the report remains unaltered.

Please provide any rebuttals, or the signed Stipulation and Consent Order, to the undersigned by close of business, Friday, October 11, 2013. In the event that Unitrin elects to sign the Stipulation and Consent Order, please sign and return both copies. The Director will sign both copies and a fully executed copy will be returned to you for your records. Note that the Stipulation and Consent requires proof of compliance with Orders 1 through 39 and payment of a civil forfeiture in the amount of \$50,000 within 30 days of the receipt of the fully executed Stipulation and Consent Order.

Once the report of examination has been filed, the exam report, the company's rebuttal, if any, and corresponding Orders (if applicable) are public documents under the Freedom of Information Act (5 ILCS 140/1 *et al.*) and may be posted on the Department's website. In the event of a formal hearing, the record of the hearing, the Hearing Officer Recommendations and the Director's final Order are also public documents 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

Assistant General Counsel

[AnneMarie.Skallerup@illinois.gov](mailto:AnneMarie.Skallerup@illinois.gov)



IN THE MATTER OF THE EXAMINATION OF

UNITRIN DIRECT INSURANCE COMPANY  
ONE EAST WACKER DRIVE  
CHICAGO, IL 60601

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. Handling, 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 Unitrin Direct Insurance Company, NAIC # 10226, (the "Company") by reviewing and completing the examination report prepared by Examiner in Charge, Roger Henschen, 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



IN THE MATTER OF THE EXAMINATION OF

UNITRIN DIRECT PROPERTY & CASUALTY COMPANY  
ONE EAST WACKER DRIVE  
10<sup>TH</sup> FLOOR  
CHICAGO, IL 60601

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 Unitrin Direct Property & Casualty Company, NAIC # 10915, (the "Company") by reviewing and completing the examination report prepared by Examiner in Charge, Roger Henschen, 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

# STATE OF ILLINOIS



## Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF  
THE EXAMINATION OF:

UNITRIN DIRECT INSURANCE COMPANY  
ONE EAST WACKER DRIVE  
CHICAGO, ILLINOIS 60601

### 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 Roger Henschen, Examiner-In-Charge, Larry Nelson, Iris Canto and associates as the proper persons to examine the insurance business and affairs of Unitrin Direct Insurance Company of Chicago, Illinois, and to make a full and true report to me of the examination made by them of Unitrin Direct Insurance Company with a full statement of the condition and operation of the business and affairs of Unitrin Direct Insurance Company 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 Unitrin Direct Insurance Company.

### 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 22nd day of May 2009.

*Michael T. McRoith*

Michael T. McRoith

Director





# STATE OF ILLINOIS



## Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF  
THE EXAMINATION OF:

UNITRIN DIRECT PROPERTY & CASUALTY COMPANY  
ONE EAST WACKER DRIVE  
CHICAGO, ILLINOIS 60601

### 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 Roger Henschen, Examiner-In-Charge, Larry Nelson, Iris Canto and associates as the proper persons to examine the insurance business and affairs of Unitrin Direct Property & Casualty Company of Chicago, Illinois, and to make a full and true report to me of the examination made by them of Unitrin Direct Property & Casualty Company with a full statement of the condition and operation of the business and affairs of Unitrin Direct Property & Casualty Company 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 Unitrin Direct Property & Casualty Company.

### 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 20<sup>th</sup> day of May, 2009.



*Michael T. McRaith*  
Michael T. McRaith

Director



This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/401, 5/401.5, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/401.5, 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.

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Anne Marie Skallerup  
Assistant General Counsel  
Illinois Department of Insurance

Unitrin Direct Insurance Company  
Unitrin Direct Property & Casualty Company

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MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: April 12, 2010 through  
June 25, 2010

EXAMINATION OF: Unitrin Direct Insurance Company,  
NAIC #10226, Domestic Stock

Unitrin Direct Property & Casualty  
Company, NAIC #10915, Domestic  
Stock

LOCATION OF EXAMINATION: 502 West Germantown Pike,  
Suite 900  
Plymouth Meeting, Pennsylvania  
19462

PERIOD COVERED BY  
EXAMINATION: March 1, 2009 through  
February 28, 2010

EXAMINERS: Larry J. Nelson  
Roger O. Henschen,  
Examiner-in-Charge

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## I. SUMMARY

Unitrin Direct Insurance Company and Unitrin Direct Property & Casualty Company are collectively referred to as 'Company' throughout this report.

1. The Company was criticized under 215 ILCS 5/143.15 for failing to provide a specific explanation of the reason or reasons for cancellation and/or failing to provide at least 30 days notice of cancellation where required.

A General Trend Criticism was issued in the Private Passenger Automobile Cancellation Survey.

2. The Company was criticized under 215 ILCS 5/143.14 for failing to send the insured a notice of cancellation and/or failing to maintain proof of mailing of the notice.

A General Trend Criticism was issued in the Private Passenger Automobile Cancellation Survey.

3. The Company was criticized under 215 ILCS 5/143.19.1 for failing to mail the notice of nonrenewal to the insured at least 60 days in advance, or the nonrenewal was for a reason(s) other than stipulated by the statute, when the auto policy had been effective, or renewed five (5) or more years.

A Class Criticism was issued in the Private Passenger Automobile Nonrenewal Survey.

4. The Company was criticized under 215 ILCS 157/35(2) for failing to provide notification to the consumer explaining the reason for the adverse action when that adverse action was based upon credit information. Some of the reasons provided by the insurer were not sufficiently clear and the language used was not specific so that a person could identify the insurer's reason for the decision to take the adverse action.

A General Trend Criticism was issued in the Private Passenger Automobile New Business Survey.

5. The Company was criticized in the Automobile New Business Survey for using rules and/or rating plans not filed with the Illinois Department of Insurance pursuant to 50 Ill. Adm. Code 754.10(b)(1) and/or 50 Ill. Adm. Code 754.10(b)(2) creating four (4) premium overcharges of \$256.00 annually and five (5) premium undercharges of \$646.00 annually. Reimbursements and corrections have been made.

6. The Company was criticized under 50 Ill. Adm. Code 919.60(a) for indicating to the insured on a payment draft, check or in an accompanying letter that said payment was “final” and/or that the claim had been released when there was no evidence that the policy limit had been paid or that there was a bonafide dispute over coverage or the amount payable under the policy.

A General Trend Criticism was issued in the Private Passenger Automobile First Party Median & Paid Survey.

7. The Company was criticized under 50 Ill. Adm. Code 919.80(b)(2) for failing to provide the insured with a reasonable written explanation for the delay when the claim remained unresolved for more than 40 calendar days.

A Class Criticism was issued in the Private Passenger Automobile First Party Closed Without Payment Survey.

8. The Company was criticized under 50 Ill. Adm. Code 919.50(a)(2) for failing to provide the third party with a reasonable written explanation of the basis of the denial when the claim had been denied.

A General Trend Criticism was issued in the Private Passenger Automobile Third Party Closed Without Payment Survey.

9. The Company was criticized for failing to provide the insured with informational letters commonly known as the right of recourse letter and/or EXHIBIT A letter as is required by 50 Ill. Adm. Code 919.80(c) and 919.EXHIBIT A Total Loss Automobile Claims.

A Class Criticism was issued in the Private Passenger Automobile Total Loss Survey.

10. The Company was criticized under 50 Ill. Adm. Code 919.80(b)(2) for failing to provide the insured with a reasonable written explanation for the delay when the claim remained unresolved for more than 40 calendar days.

A Class Criticism was issued in the Private Passenger Automobile Total Loss Survey.

11. The Company was criticized under 215 ILCS 5/154.6(r) as related to “equitable settlement” described in 215 ILCS 5/154.6(d) and also as related to “sales tax and transfer and title fees” discussed in 50 Ill. Adm. Code 919.80(c)(3)(A)(i) for failing to treat total loss insureds equally when paying tax, title and transfer fees and paying the correct amount. Company practice is to pay sales tax and fees at the time of settlement. Sales taxes were paid on every total loss (except owner retained), but the Company was inconsistent in paying title and transfer fees.

Title and transfer fees are \$80.00. The Company paid those fees in various amounts and in some instances failed to pay them at all. The Company must treat all insureds equally when paying sales tax and title and transfer fees. Twenty-five underpayments totaling \$914.00 were created. Reimbursements have been made to the insureds.

A Class Criticism was issued in the Private Passenger Automobile Total Loss Survey.

12. The Company was criticized under 50 Ill. Adm. Code 919.60(a) for indicating to the insured on a payment draft, check or in an accompanying letter that said payment was "final" or that the claim had been released when there was no evidence that the policy limit had been paid or that there was a bonafide dispute over coverage or the amount payable under the policy.

A General Trend Criticism was issued in the Private Passenger Automobile Total Loss Survey.

13. The Company was criticized in the Private Passenger Automobile Total Loss Survey for making two (2) Claim underpayments as the result of mathematical errors. The underpayments totaled \$19.00 and the company has made reimbursement to the insureds.
14. The Company was criticized under 50 Ill. Adm. Code 919.80(c)(2)(E) for two (2) total loss claim files for failing to contain documentation of how the market value of the insured automobile was determined. The lack of documentation created overpayments totaling \$329.00.
15. The Company was criticized under 215 ILCS 5/143.27 for failing to provide the named insured notice of the need to repair defects in the insured property and for failing to allow a reasonable period of time in which to make those repairs prior to canceling the Homeowner policy.

A Class Criticism was issued in the Homeowner Cancellation Survey.

16. The Company was criticized under 215 ILCS 5/143.15 for failing to include a specific explanation of the reason or reasons for cancellation on the notice of cancellation mailed to the insured.

A General Trend Criticism was issued in the Homeowner Cancellation Survey.

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17. The Company was criticized under 215 ILCS 5/805.1(a) for failing to provide mine subsidence coverage as required.

A Class Criticism was issued in the Homeowner New Business Survey.

18. The Company was criticized in the Homeowner New Business Survey for using rules and/or rating plans not filed with the Illinois Department of Insurance pursuant to 50 Ill. Adm. Code 754.10(b)(1) and/or 50 Ill. Adm. Code 754.10(b)(2) creating an annual overcharge of \$14.00. The reimbursement to the insured has been made and correction on the policy has also been made.
19. The Company was criticized under 50 Ill. Adm. Code 919.80(d)(7)(B) for failing to provide the insured a written explanation for the delay when the claim remained unresolved for more than 75 calendar days.

A Class Criticism was issued in the Homeowner Closed Without Payment Survey.

In addition to the individual survey findings noted above, the following was discovered:

20. From the Company response to Interrogatory #4 - To the Regional Claim Manager's knowledge, claim adjustors have no knowledge of 50 Ill. Adm. Code 919. The Regional Claim Manager indicated copies of "919" are not distributed and further indicated it was the first time he had seen the document. To the Regional Claim Manager's knowledge, he is unaware of any "919" training to any claims personnel.
21. When delay letters were due auto insureds, third party claimants, or homeowner insureds, the Company failed to provide a reasonable written explanation for the delay in 18 of 18 instances or 100.00% of the time. Failure to provide these written explanations are violations of 50 Ill. Adm. Code 919.80(b)(2), 50 Ill. Adm. Code 919.80(b)(3), or 50 Ill. Adm. Code 919.80(d)(7)(B). While examining auto claim files, Class Criticisms were issued in the First Party Closed Without Payment Survey, Third Party Median and Paid Survey, Third Party Closed Without Payment Survey and the Total Loss Survey. A Class Criticism was issued in the Homeowner Closed Without Payment survey.

<u>Survey</u>	<u># of times delay letter was due</u>	<u># of times not sent correctly</u>
First Party Auto Median & Paid	0	N/A
First Party Auto C.W.P.	1	1
Third Party Auto Median & Paid	0	N/A
Third Party Auto C.W.P	0	N/A
Total Losses	14	14
Homeowner Paid	0	N/A
Homeowner C.W.P.	<u>2</u>	<u>2</u>
	17	17

## II. BACKGROUND

The following companies were the subject of the Market Conduct Examination.

### **Unitrin Direct Property & Casualty Company**

Unitrin Direct Property & Casualty Company was incorporated in Illinois on June 3, 1998 as Kemper Protection Insurance Company and commenced business on June 15, 1998. The name was changed to Kemper Auto and Home Insurance Company on July 22, 1998. The current title was adopted on December 5, 2003. The company is a wholly owned subsidiary of Trinity Universal Insurance Company. Trinity Universal has, since 1990, been a wholly owned subsidiary of Unitrin, Inc.

### **Unitrin Direct Insurance Company**

Unitrin Direct Insurance Company was incorporated under the laws of Illinois on March 21, 1995 and commenced business on April 20, 1995. The company was acquired by Unitrin, Inc. on January 1, 1997. The company's name was changed from Union Automobile Indemnity Company to Unitrin Direct Insurance Company effective May 15, 2000, to better reflect the company's focused distribution strategy. On December 29, 2003, the company became the wholly owned subsidiary of Trinity Universal Insurance Company, a direct subsidiary of Unitrin, Inc.

The above companies will be referred to collectively as 'Company' throughout the report.

### III. METHODOLOGY

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

The following categories are the general areas examined:

1. Risk Selection
2. Underwriting
3. Claims
4. Complaints

The review of these categories is accomplished through examination of individual underwriting and claim files, written interrogatories, interviews with company personnel, analysis of policy forms and endorsements, and verification of computer rating accuracy. Each of these categories is examined for compliance with Departmental Rules and Regulations and applicable state law.

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

The following methods were used to obtain the required samples to assure methodical selection.

#### Risk Selection

Cancellations and nonrenewals were requested on the basis of the effective date of the transaction falling within the period under examination. They were reviewed for their compliance with statutory requirements, the accuracy and validity of reasons given and for any possible discrimination.

#### Underwriting

New files were selected based on the inception date falling within the period under examination. New policies were reviewed for rating accuracy, use of filed rates, use of filed forms, compliance with company underwriting guidelines and to insure that the protection provided was as requested.

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#### Claims

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

Complaints

Complaints were requested based on those received by the Company in calendar year 2009 through the beginning of the examination.

### Selection of Samples

A.	Risk Selection	Total <u>Files</u>	# <u>Reviewed</u>	% <u>Reviewed</u>
	1. Private Passenger Automobile Cancellations	19	19	100.00
	2. Private Passenger Automobile Nonrenewals	25	25	100.00
	3. Homeowner Cancellations	5	5	100.00
	4. Homeowner Nonrenewals	0	0	N/A
B.	Underwriting			
	1. Private Passenger Auto New Business	413	93	22.52
	2. Homeowner New Business	233	80	34.33
C.	Claims			
	1. First Party Auto Median & Paid	80	80	100.00
	2. First Party Auto C.W.P	52	52	100.00
	3. Third Party Auto Median & Paid	67	67	100.00
	4. Third Party Auto C.W.P.	11	11	100.00
	5. Auto Subrogation	17	17	100.00
	6. Auto Total Losses – First Party	31	31	100.00
	7. Homeowner Median & Paid	3	3	100.00
	8. Homeowner C.W.P.	2	2	100.00
D.	Complaints			
	1. Department Complaints	2	2	100.00
	2. Consumer Complaints	0	0	N/A

## IV. FINDINGS

### A. Risk Selection

#### 1. Private Passenger Automobile Cancellations

Nineteen files were examined. In 18 files, evidence was provided that a notice of cancellation was sent to the insured. In five (5) of the 18 files, or 27.78% , the Company was in violation of 215 ILCS 5/143.15 for failing to provide a specific explanation of the reason or reasons for cancellation in four (4) files, and failing to provide at least 30 days advance notice in another file. A General Trend Criticism was issued.

Nineteen files were examined. In two (2) files or 10.53% of the 19, the Company was in violation of 215 ILCS 5/143.14. In one (1) file, there was no evidence a notice was ever sent to the insured and there was no proof of mailing. In another file the Company failed to maintain the proof of mailing. A General Trend Criticism was issued.

#### 2. Private Passenger Automobile Nonrenewals

Twenty-five nonrenewals were examined. Nine policies had been effective or renewed for five (5) or more years. When an auto policy has been effective or renewed for five (5) or more years, a company shall not exercise its right of nonrenewal unless the reason for the nonrenewal is one of the reasons listed in 215 ILCS 5/143.19.1 and 30 days advance written notice is provided or the insured is provided at least 60 days advance written notice for reasons other than those listed in 215 ILCS 5/143.19.1. In eight (8) files or 88.89% of the nine (9), the Company failed to provide at least 60 days notice when the reason used for the nonrenewal was not one of the reasons listed in the statute. A Class Criticism was issued.

In two (2) files or 8.00% of the 25 examined, the Company failed to provide a specific explanation of the reasons for nonrenewal in violation of 215 ILCS 5/143.17(e).

#### 3. Homeowner Cancellations

Five files were examined. In four (4) files, the policy was canceled for defects in the property. The Company was in violation of 215 ILCS 5/143.27 for failing to provide the insured a notice of need for repair and for failing to allow a reasonable period of time in which to make repairs prior to canceling coverage in three (3) of these files, or 75% of the time. A Class Criticism was issued.

In one (1) file or 20.00% of the five (5) examined, the Company was in violation of 215 ILCS 5/143.15 for failing to provide a specific explanation of the reason(s) for cancellation. A General Trend Criticism was issued.

4. Homeowner Nonrenewals

There were no homeowner nonrenewals.

B. Underwriting

1. Automobile New Business

Ninety-three files were examined. In 81 of these files, the insurer took an adverse action based upon credit. The price or premium for the auto insurance was based upon personal information including the applicant/insured's insurance score. In 29 of the 81 or 35.80%, the Company was in violation of 215 ILCS 157/35(2) for failing to provide the insured sufficiently clear and specific language regarding the basis for the adverse action (28 files) and in another file no reason(s) for the adverse action was provided at all. A General Trend Criticism was issued.

In six (6) files or 6.45% of the 93 examined, the Company used rules and/or rates not filed with the Illinois Department of Insurance. There were 10 vehicles rated in these six (6) files. One vehicle was rated correctly and the remaining nine (9) were rated incorrectly creating four (4) premium overcharges of \$256.00 annually and five (5) premium undercharges of \$646.00 annually. Reimbursements and/or corrections have been made. A criticism was issued to the Company for being in conflict with 50 Ill. Adm. Code 754.10(b)(1) and/or 50 Ill. Adm. Code 754.10(b)(2).

2. Homeowner - New Business

Eighty files were examined and rated. In two (2) files, the property was located in counties where mine subsidence coverage was required. The Company failed to provide this coverage in both files (100.00%) and was in violation of 215 ILCS 5/805.1(a). A Class Criticism was issued.

Eighty files were examined and rated. In one (1) file or 1.25% of the 80, the Company was in conflict with 50 Ill. Adm. Code 754.10(b)(1) and/or 50 Ill. Adm. Code 754.10(b)(2) for using rules and/or rates that have not been filed with the Illinois Department of Insurance creating an annual overcharge of \$14.00. Reimbursement to the insured and correction to the policy have been made.

C. Claims

1. First Party Auto Median & Paid

The median payment period with 19 total losses included was 16 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percent</u>
0-30	61	76.25
31-60	13	16.25
61-90	2	2.50
91-180	3	3.75
181-365	1	1.25
<u>over 365</u>	<u>0</u>	<u>0.00</u>
Total	80	100.00

Eighty files were examined. Nineteen of those 80 files were total losses. The total losses were used in determining the median payment period, but were not included in any criticisms in this survey. The total losses were criticized in the Total Loss Survey. In 19 files, or 31.15% of the applicable 61 files, the Company indicated to the insured on a payment draft, check or in an accompanying letter that said payment was "final" or a "release" of any claim when the policy limit had not been paid or there was no bona fide dispute over coverage or the amount payable under the policy. A General Trend Criticism was issued for violation of 50 Ill. Adm. Code 919.60(a).

2. First Party Auto Closed Without Payment

Fifty-two files were examined. One (1) file remained unresolved for more than 40 calendar days from the date the loss was reported and a written explanation for the delay was to be provided the insured as outlined in 50 Ill. Adm. Code 919.80(b)(2). The Company failed to provide that written explanation in that file. A Class Criticism was issued.

3. Third Party Auto Median & Paid

The median payment period was 15 days with arbitration, subrogation and litigation files included. When excluded, the median was 10 days and distributed as follows:

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<u>Days</u>	<u>Number</u>	<u>Percent</u>
0-30	48	85.71
31-60	6	10.71

61-90	1	1.79
91-180	1	1.79
181-365	0	0.00
<u>over 365</u>	<u>0</u>	<u>0.00</u>
Total	56	100.00

Sixty-seven files were examined. In one (1) file or 1.49% of the 67 examined, the Company was criticized for failing to disclose to the third party claimant that the claimant could rent a vehicle for the rental amount the company is willing to pay. This is a violation of 50 Ill. Adm. Code 919.80(d)(2).

4. Third Party Auto Closed Without Payment

Eleven files were examined. The third party was denied payment for their property damage in two (2) files. In one (1) file or 50.00%, there was no evidence the Company sent a denial letter to this third party claimant which is a violation of 50 Ill. Adm. Code 919.50(a)(2). A General Trend Criticism was issued.

5. Auto Subrogation

There were no criticisms.

6. Auto Total Losses - First Party

Thirty-one total losses were examined. In 100.00% of these files, there was no evidence the Company provided the insured with informational letters commonly known as the right of recourse letter and/or EXHIBIT A. Failing to provide this information is a violation of 50 Ill. Adm. Code 919.80(c) and 919.EXHIBIT A Total Loss Automobile Claims. A Class Criticism was issued.

Fourteen of the 31 total loss claims remained unresolved for more than 40 calendar days from the date the loss was reported and a written explanation for the delay was to be provided the insured as outlined in 50 Ill. Adm. Code 919.80(b)(2). The Company failed to provide that written explanation in 100.00% of the files. A Class Criticism was issued.

The Company was in violation of 215 ILCS 5/154.6(r) as related to "equitable settlement" described in 215 ILCS 5/154.6(d) and also as related to "sales tax and transfer and title fees" described in 50 Ill. Adm. Code 919.80(c)(3)(A)(i). The Company paid sales tax on all vehicles (except when owner retained) but was inconsistent when paying title and transfer fees. If the Company is going to pay sales tax and title and transfer fees with no proof of a replacement vehicle, they can do that but

they must pay correctly and pay to all. Title and transfer fees are \$80.00. In four (4) files, they paid \$69.00. In 12 files, they paid \$65.00. In one (1) file, the payment was \$19.00, and in another file they paid \$11.00. In seven (7) files, they paid no title and transfer fees. There was a total of 25 underpayments totaling \$914.00. The Company has made payments to these insureds. A Class Criticism was issued.

Thirty-one total losses were examined. In 21 files, a check was made payable to the insured. In 10 files, or 47.62% of the 21, the Company indicated to the insured on the payment draft, check or in an accompanying letter that said payment was "final" or "a release" of any claim when the policy limit had not been paid or there was no bona fide dispute over coverage or the amount payable under the policy. A General Trend Criticism was issued for violation of 50 Ill. Adm. Code 919.60(a).

The Company made Claim Underpayments in two (2) files or 6.45% of the 31 examined. In one (1) file, the Company reissued a check and reversed two (2) numbers creating a \$9.00 underpayment and in the other file the calculation was incorrect creating a \$10.00 underpayment. The Company has made reimbursement to both insureds.

In two (2) files or 6.45% of the 31 total losses examined, the claim file failed to contain documentation of how the market value of the insured vehicle was determined pursuant to 50 Ill. Adm. Code 919.80(c)(2)(E), creating two (2) overpayments totaling \$329.00.

7. Homeowner Median & Paid

The median payment period was 35 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percent</u>
0-30	1	33.33
31-60	2	66.67
61-90	0	0.00
91-180	0	0.00
181-365	0	0.00
<u>over 365</u>	<u>0</u>	<u>0.00</u>
Total	3	100.00

There were no criticisms.

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8. Homeowner Closed Without Payment

Two files were examined. In both files, the claim remained unresolved for more than 75 calendar days from the date the loss was reported and a reasonable written explanation for the delay was to be provided the

insured as outlined in 50 Ill. Adm. Code 919.80(d)(7)(B). In both files, or 100.00%, the Company failed to provide the written explanation to the insured. A Class Criticism was issued.

D. Complaints

1. Department Complaints

There were no criticisms.

2. Consumer Complaints

There were no Consumer Complaints.

V. ADDITIONAL and INTERRELATED FINDINGS

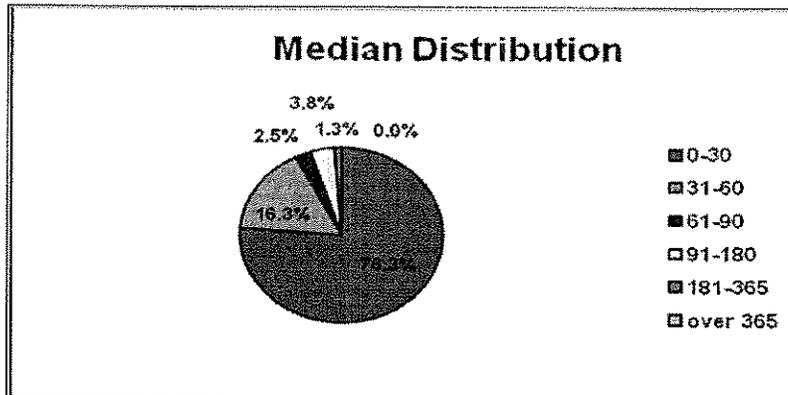
1. The Company was presented with an interrogatory regarding homeowner and automobile claim adjusters' knowledge, training, and awareness of 50 Ill. Admin Code 919. The response to this interrogatory indicated that, to the Regional Claim Manager's knowledge, claim adjusters have no knowledge of 50 Ill. Adm. Code 919. The Regional Claim Manager indicated copies of "919" are not distributed and further indicated it was the first time he had seen the document. The Regional Claim Manager is unaware of any "919" training to any claims personnel.
  
2. When delay letters were due auto insureds or third party claimants or were due homeowner insureds, the Company failed to provide the reasonable written explanation for the delay in 17 of 17 instances or 100.00% of the time. Failure to provide such written explanations are violations of 50 Ill. Adm. Code 919.80(b)(2), 50 Ill. Adm. Code 919.80(b)(3) or 50 Ill. Adm. Code 919.80(d)(7)B). While examining auto claim files, Class Criticisms were issued in the First Auto Party Closed Without Payment Survey and the Auto Total Loss Survey. A Class Criticism was issued in the Homeowner Closed Without Payment Survey.

<u>Survey</u>	<u># of times delay letter was due</u>	<u># of times not sent correctly</u>
First Party Auto Median & Paid	0	N/A
First Party Auto C.W.P.	1	1
Third Party Auto Median & Paid	0	N/A
Third Party Auto C.W.P	0	N/A
Total Losses	14	14
Homeowner Paid	0	N/A
Homeowner C.W.P.	<u>2</u>	<u>2</u>
	17	17

VI. TECHNICAL APPENDICES

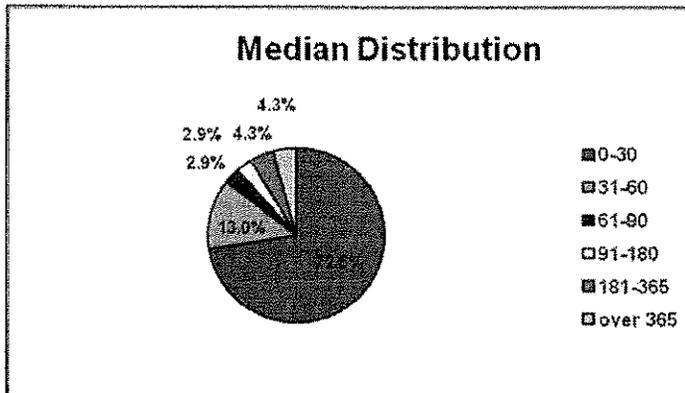
Auto First Party Paid

	MEDIAN DISTRIBUTION	
# Days	Number	Percent
0-30	61	76.3%
31-60	13	16.3%
61-90	2	2.5%
91-180	3	3.8%
181-365	1	1.3%
over 365	0	0.0%
Total	80	100.0%



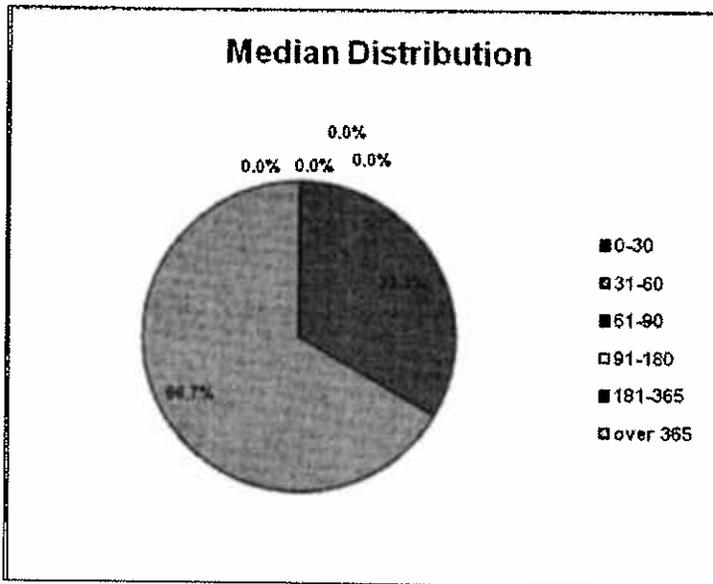
Auto Third Party Paid

MEDIAN DISTRIBUTION		
# Days	Number	Percent
0-30	50	72.5%
31-60	9	13.0%
61-90	2	2.9%
91-180	2	2.9%
181-365	3	4.3%
over 365	3	4.3%
Total	69	100.0%



Homeowner Paid

MEDIAN DISTRIBUTION		
# Days	Number	Percent
0-30	1	33.3%
31-60	2	66.7%
61-90	0	0.0%
91-180	0	0.0%
181-365	0	0.0%
over 365	0	0.0%
Total	3	100.0%



STATE OF ILLINOIS            )  
  ) ss  
COUNTY OF COOK            )

Roger Henschen, 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:

Unitrin Direct Insurance Company, NAIC # 10226

Unitrin Direct Property & Casualty Company, NAIC # 10915

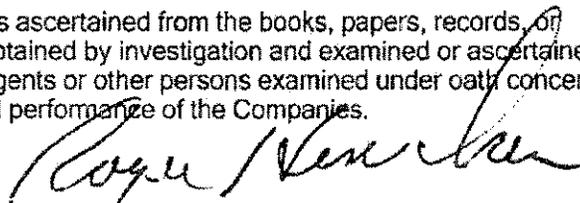
That, as Examiner-In-Charge, he was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Companies with any other information as shall in the opinion of the Examiner-In-Charge be requisite to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

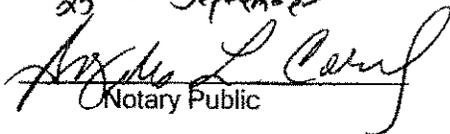
That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Companies for the period covered by the Report as determined by the examiners;

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.

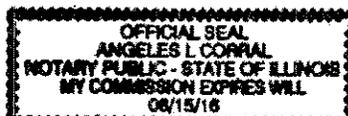


Roger Henschen  
Examiner-In-Charge

Subscribed and sworn to before me  
this 25 day of September 2013.



Notary Public



STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

UNITRIN DIRECT INSURANCE COMPANY, NAIC #10226  
UNITRIN DIRECT PROPERTY & CASUALTY COMPANY, NAIC #10915

STIPULATION AND CONSENT ORDER

WHEREAS, Andrew Boron, the Director of the Illinois Department of Insurance of the State of Illinois, is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Unitrin Direct Insurance Company, NAIC #10266, and Unitrin Direct Property & Casualty Company, NAIC #10915, (collectively, "Company") are authorized under the insurance laws of this State and by the Director as an Illinois domiciled multi-line property and casualty insurance company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by duly qualified examiners of the Illinois Department of Insurance pursuant to Sections 131.21, 132, 401, 402 and 425 of the Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425); and

WHEREAS, the Department of Insurance examiners have filed an examination report as an official document of the Department of Insurance as a result of the Market Conduct Examination; and

WHEREAS, said report cited various areas in which the Company was not in compliance with the Illinois Insurance Laws (Chapter 215 Illinois Compiled Statutes Annotated) and Department Regulations (50 Ill. Adm. Code 50, *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection herewith, shall constitute, or be construed as, or be deemed to be, an admission of fault, liability or wrongdoing of any kind whatsoever on the part of any party hereto.

WHEREAS, the Company is aware of and understands its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407 and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, the Company and the Director of the Department of Insurance, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

THEREFORE, IT IS agreed by and between the Company and the Director of the Department of Insurance as follows:

1. That the Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Laws and/or Department Regulations; and
2. That the Director of the Department of Insurance and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Laws and/or Department Regulations.

THEREFORE, IT IS HEREBY AGREED TO BY the Company and ORDERED by Andrew Boron, Director of the Department of Insurance, that the Company shall:

1. Institute and maintain procedures whereby all Private Passenger Automobile policyholders whose policies are being cancelled are provided with at least 30 days advanced notice of cancellation and provided with the specific reason or reasons for cancellation as mandated by 215 ILCS 5/143.15.
2. Institute and maintain procedures whereby all Private Passenger Automobile policyholders whose policies are being cancelled are provided with a notice of cancellation as mandated by 215 ILCS 5/143.14 and that the company maintains proof of mailing of such notice.
3. Institute and maintain procedures whereby all private passenger Automobile policyholders whose policies have been effective or renewed for five (5) or more years are provided written notice of nonrenewal at least 60 days in advance when nonrenewal is not due to one of the reasons listed in 215 ILCS 143.19.1.
4. Institute and maintain procedures whereby the notification to a consumer of an adverse action based upon credit information includes the reason for the adverse action in sufficiently clear and specific language so that the consumer can identify the basis for insurer's decision as mandated by 215 ILCS 157/35(2).
5. Institute and maintain procedures whereby the Company follows the rules and / or rating plans as filed with the Illinois Department of Insurance when rating and issuing homeowner policies pursuant to 50 Ill. Adm. Code 754.10.
6. Institute and maintain procedures whereby the Company follows the rules and / or rating plans as filed with the Illinois Department of Insurance when rating and issuing private passenger automobile policies pursuant to 50 Ill. Adm. Code 754.10.
7. Institute and maintain procedures whereby payment drafts, checks or accompanying letters to insureds do not indicate that payment is "final" or that the claim has been released where the policy limit has not been paid or where there is not a bonafide dispute over coverage or of the amount payable under the policy pursuant to 50 Ill. Adm. Code 919.60(a).
- ~~8. Institute and maintain procedures whereby all first party collision claimants whose claims remain open for more than 40 days from the date the loss is reported to the date the claim is closed without payment are provided with a reasonable written explanation for the delay in the payment of their claims as required by and as outlined in 50 Ill. Adm. Code 919.80(b)(2).~~
9. Institute and maintain procedures whereby all third party property damage claimants whose claims have been denied are provided with a reasonable written explanation for the basis of the denial as required by and as outlined in 50 Ill. Adm. Code 919.50(a)(2).

10. Institute and maintain procedures whereby all insureds with a total loss to their vehicle are provided, at a minimum, with the information contained in Exhibit A as required by 50 Ill. Adm. Code 919.80(c).

11. Institute and maintain procedures whereby all insureds who experience a total loss their vehicle and whose claim remains unresolved for more than 40 days from the date the loss was reported, are provided a reasonable written explanation for the delay as required by and as outlined in 50 Ill. Adm. Code 919.80(b)(2).

12. Institute and maintain procedures whereby all insureds with a total loss claim are treated equally when the Company pays the tax, title and transfer fees as mandated by 215 ILCS 5/154.6(d) and 50 Ill. Adm. Code 919.80(c)(3)(A)(i).

13. Institute and maintain procedures whereby all named insureds are provided with a notice of the need to repair defects in the insured property and are allowed a reasonable period of time in which to make those repairs prior to canceling or nonrenewing the homeowner policy as mandated by 215 ILCS 5/143.27.

14. Institute and maintain procedures whereby all homeowner policyholders whose policies are being cancelled are provided with the specific reason or reasons for cancellation as mandated by 215 ILCS 5/143.15.

15. Institute and maintain procedures whereby mine subsidence coverage is provided to homeowner policyholders as required by 215 ILCS 5/805.1(a).

16. Institute and maintain procedures whereby all homeowner policyholders whose claim was closed without payment but remained open for more than 75 days from the date of report, or 25 days after receipt of proof of loss, whichever is less, are provided with a reasonable written explanation for the delay in payment of their claims as required by 50 Ill. Adm. Code 919.80(d)(7)(B).

17. Institute and maintain procedures whereby all claims personnel receive training on 50 Ill. Adm. Code 919 requirements, standards, procedures, and practices.

18. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above seventeen (17) Orders within 30 days of receipt of this Order.

19. Submit to the Director of Insurance, State of Illinois, a civil forfeiture of \$50,000 to be paid within 30 days of receipt of this Order.

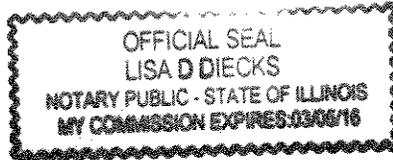
NOTHING herein contained shall prevent the Director of the Department of Insurance from taking any and all appropriate action should Unitrin Direct violate any provision of the Insurance Code, Department Regulations, or this Order.

Unitrin Direct Insurance Company, NAIC #10226

By: [Signature]

SUBSCRIBED and SWORN to before me  
this 10<sup>th</sup> day of October, 2013

[Signature]  
Notary Public



Unitrin Direct Property & Casualty Company, NAIC #10915

By: [Signature]

SUBSCRIBED and SWORN to before me  
this 10<sup>th</sup> day of October, 2013

[Signature]  
Notary Public



ILLINOIS DEPARTMENT OF INSURANCE

[Signature]  
Andrew Boron,  
Director

Date: October 12, 2013



# Illinois Department of Insurance

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PAT QUINN  
Governor

ANDREW BORON  
Director

December 20, 2013

Elizabeth Lupetini  
Vice President, Compliance & Underwriting  
Kemper Direct  
One East Wacker Dr, Suite 3700  
Chicago, IL 60601

Re: ***Unitrin Direct Insurance Company & Unitrin Direct Property & Casualty Company  
Market Conduct Examination Report***

Dear Ms. Lupetini;

The company has submitted to the Department proofs of compliance with Order # 1 through Order #17 and has submitted the \$50,000 civil forfeiture as outlined in the Stipulation and Consent Order issued by the Department. These proofs of compliance have been reviewed and are satisfactory.

The 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.

Sincerely,

A handwritten signature in cursive script that reads "Caryn C. Carmean".

Caryn C. Carmean, A.C.A.S., M.A.A.A.  
Acting Deputy Director Consumer Outreach and Protection  
Illinois Department of Insurance  
320 West Washington Street  
Springfield, IL 62767  
217-557-7311  
Caryn.Carmean@illinois.gov