



# Illinois Department of Insurance

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PAT QUINN  
Governor

ANDREW BORON  
Director

August 27, 2014

Mr. John Martin Anderson  
President  
1111 East Touhy Avenue  
Suite 300  
Des Plaines, IL 60018

Re: Founders Insurance Company NAIC# 14249  
*Market Conduct Examination Report Closing letter*

Dear Mr. Anderson:

The Department has reviewed your company's proof of compliance and deems it adequate and sufficient. Therefore, 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.

If you have any questions, my contact information is listed below.

Sincerely,

A handwritten signature in cursive script, appearing to read "Miryam Ramirez".

Miryam Ramirez  
Acting Deputy Director  
Consumer Outreach and Protection  
Illinois Department of Insurance  
122 S. Michigan Avenue, 19th Floor  
Chicago, IL 60603  
Phone: 312-814-2117  
E-mail: [Miryam.Ramirez@Illinois.gov](mailto:Miryam.Ramirez@Illinois.gov)

Founders Insurance Company

## MARKET CONDUCT TARGET EXAMINATION REPORT

DATE OF EXAMINATION: April 1, 2013, through, May 1, 2013

EXAMINATION OF: Founders Insurance Company  
Domestic (P & C), NAIC #14249

LOCATION: 1111 East Touhy Avenue, Suite 300  
Des Plaines, IL 60018

PERIOD COVERED BY EXAMINATION: January 1, 2011, through December 31, 2012

EXAMINERS: Kent Dover  
Judi Miller  
Cindy Wood  
John D'Amato  
Marg Spencer  
Wayne Johnson  
Carolyn Maynard  
Barry Wells  
Examiner-in-Charge

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I. BACKGROUND:

Founders Insurance Company

Founded in 1901, Founders Insurance Company (FIC) has evolved into a multi-line, multi-state carrier, serving the insurance needs of independent insurance agents and their customers for over 100 years.

By the 1960s, FIC merged with Founders Mutual Insurance Company, which mainly wrote fire coverage for foundry workers and converted to a stock company under the name of Illinois Founders Insurance Company. At the end of the 1950s, FIC began writing non-standard automobile insurance and liquor liability coverage, a current specialty of the Company, for Illinois taverns and restaurants.

In 1982, Illinois Founders was sold to the Lutz family. In 1990, Illinois Founders added personal automobile to its lines of business and the Company dropped "Illinois" from its name in 1999 to reflect its expansion into additional states.

Company's 2013 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC #14249

	Line	Direct premium written	Direct premium earned	Direct losses paid	Direct losses incurred
01	Fire	\$4,413	\$25,589	\$62,696	\$62,696
02.1	Allied lines	\$591	\$3,623	\$0	\$-5,700
04	Homeowners multiple peril	\$4,666,106	\$4,260,657	\$1,323,299	\$1,369,602
17.1	Other liability - occurrence	\$648,057	\$843,210	\$1,351,329	\$1,051,810
19.2	Private passenger auto liability	\$30,911,254	\$31,205,158	\$20,253,800	\$19,617,879
19.4	Other commercial auto liability	\$805,050	\$790,248	\$204,154	\$230,050
21.1	Private passenger auto physical damage	\$16,240,717	\$14,605,617	\$6,730,021	\$6,811,170
21.2	Commercial auto physical damage	\$110,119	\$103,573	\$19,623	\$11,724
34	Aggregate write-ins for other lines of business	\$187,441	\$298,478	\$47,806	\$70,790
35	Total	\$52,573,748	\$52,136,158	\$29,992,728	\$29,220,021

## II. METHODOLOGY:

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The scope of this market conduct examination was limited to the following general areas.

1. Underwriting
2. Claims
3. Complaints and Unclaimed Property

The review of these categories is accomplished through examination of individual underwriting and 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 following method was used to obtain the required samples and to assure a statistically sound 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.

### Underwriting

The underwriting of new applicants for coverage with the company was selected based on the inception date of the policy falling within the period under examination. New policies were reviewed for rating accuracy, use of filed rates, use of filed forms, for compliance with company underwriting guidelines and to ensure that the coverage provided was as requested by the applicant.

### Claims

Claims were requested based on the settlement occurring or the claim file being closed without payment 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).

### Complaints & Producer Review

Complaints were reviewed for completion, accuracy and validity of the complaint based on complaints received by the Department of Insurance during the examination experience period. Producer terminations and licensing were reviewed for their compliance with statutory requirements.

### III. FINDINGS:

#### A. Underwriting:

##### 1. Private Passenger Automobile New Business

In thirty-seven (37) auto new business policies within municipalities which had a population over 2,000,000, the Company was criticized for failing to issue the policies with the same motor vehicle bodily injury premium resulting in twenty-eight (28) annual undercharges, and nine (9) annual overcharges totaling fifty six dollars. The Company was in violation of 215 ILCS 5/155.17 and in conflict with 50 Ill. Adm. Code 754.10(b)(1) and/or 50 Ill. Adm. Code 754.10(b)(2).

In one (1) auto new business policy the Company was criticized for failing to follow and use the rules and rates filed with the Illinois Department of Insurance as required by 50 Ill. Adm. Code 754.10.

##### 2. Homeowner New Business

There were none in this survey.

#### B. Claims

##### 1. Private Passenger Automobile First Party Paid & Median

In one (1) first party paid claims the Company was criticized for failing to provide the insured with a reasonable explanation for delay when the claim remained unresolved for more than 40 days from the date of report to the date of final payment or rendering of the repaired vehicle as required by 50 Ill. Adm. Code 919.80(b)(2).

##### 2. Private Passenger Automobile First Party Closed without Payment

There were none in this survey.

##### 3. Private Passenger Automobile Third Party Paid & Median

In one (1) third party paid claim the Company was criticized for failing to provide the claimant with a reasonable explanation for delay when the claim remained unresolved in excess of 60 days from the date of report to the date of final payment or rendering of the repaired vehicle as required by 50 Ill. Adm. Code 919.80(b)(3).

##### 4. Private Passenger Automobile Third Party Closed without Payment

There were none in this survey.

5. Private Passenger Automobile Subrogation

There were none in this survey.

6. Private Passenger Automobile Total Losses

There were none in this survey.

7. Homeowners Paid & Median

In two (2) homeowner paid claims the Company failed to provide a reasonable written explanation of delay when the claim remained unresolved for 75 days as required by 50 Ill. Adm. Code 919.80(d)(7)(B).

In one (1) homeowner paid claims the Company failed to affirm or deny liability within 30 days as required by 50 Ill. Adm. Code 919.50a.

8. Homeowners Closed without Payment

In four (4) homeowner closed without payment claims the Company failed to affirm or deny liability within 30 days as required by 50 Ill. Adm. Code 919.50(a).

9. Arbitration Claims

In two (2) arbitration claims the Company failed to respond to the arbitration by the "Material Due Date" as required by 215 ILCS 5/143.24d.

In one (1) arbitration claim the Company failed to pay the arbitration award within 30 days as required by 215 ILCS 5/143.24d. The company has therefore violated 215 ILCS 5/154.6d for failing to effectuate a prompt and fair settlement.

C. Complaints and Unclaimed Property

1. Complaints

There were none in this survey.

2. Unclaimed Property

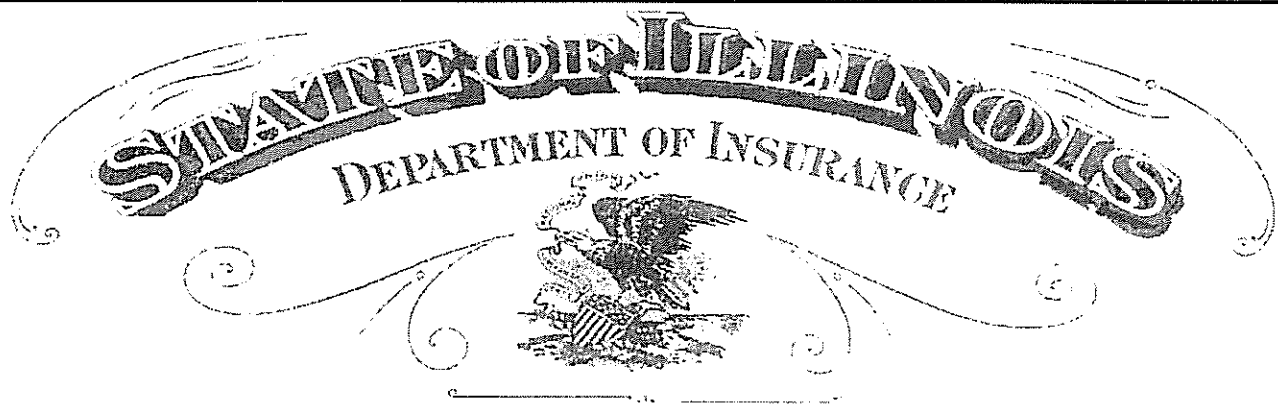
There were none in this survey.



IV. TECHNICAL APPENDICES:

V. INTER-RELATED FINDINGS:





IN THE MATTER OF:  
FOUNDERS INSURANCE COMPANY  
NAIC #14249  
1111 EAST TOUHY AVENUE, SUITE 300  
DES PLAINES, IL 60018

**STIPULATION AND CONSENT ORDER**

WHEREAS, the Director ("Director") of the Illinois Department of Insurance ("Department") 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, Founders Insurance Company ("FIC") is authorized under the insurance laws of this State and by the Director 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 Department pursuant to Sections 132, 401, 402, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department's examiners filed a Market Conduct Examination Report which is an official document of the Department; and

WHEREAS, said report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

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, 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.

NOW, THEREFORE, IT IS agreed by and between the Company and the Director as follows:

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

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain procedures whereby motor vehicle bodily injury territory rating codes will be properly assigned as outlined in 215 ILCS 5/155.17 and 50 Ill. Adm. Code 754.10.
2. Institute and maintain procedures which provide that if the first party physical damage automobile claim remains unresolved for more than 40 calendar days from the date it is reported, the insurer shall provide a reasonable written explanation for the delay to the insured as outlined in 50 Ill. Adm. Code 919.80(b)(2). Notice of Availability of the Department of Insurance shall accompany the written explanation.
3. Institute and maintain procedures which provide that if an automobile property damage liability claim remains unresolved in excess of 60 calendar days from the date it is reported, the insurer shall provide a reasonable written explanation for the delay to the third party claimant as outlined in 50 Ill. Adm. Code 919.80(b)(3). Notice of Availability of the Department of Insurance shall accompany the written explanation.
4. Institute and maintain procedures which provide that if a claim on a policy of fire and extended coverage insurance, as defined in 215 ILCS 5/143.13, remains unresolved for more than 75 calendar days from the date it is reported, or 25 calendar days after receipt of proof of loss, whichever is less, the insurer shall provide a reasonable written explanation for the delay of payment to the insured as outlined in 50 Ill. Adm. Code 919.80(d)(7)(B). Notice of Availability of the Department of Insurance shall accompany the written explanation.
5. Institute and maintain procedures whereby the company shall affirm or deny liability on claims within a reasonable time and shall offer payment within 30 days after affirmation of liability, if the amount of the claim is determined and not in dispute, as outlined in 50 Ill. Adm. Code 919.50(a).

6. Submit to the Director of Insurance, proof of compliance with the above five (5) Orders within 30 days of the execution of these Orders.
7. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$13,500.00 to be paid within 30 days of the execution of these Orders.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of FOUNDERS INSURANCE COMPANY

*John M. Anderson*

Signature

John M. Anderson

Name

President & COO

Title

Subscribed and sworn to before me this

15<sup>th</sup> day of August A.D. 2014.



*Katrina M. Lowery*

Notary Public

DEPARTMENT OF INSURANCE of the  
State of Illinois:

*Andrew Boron*

Andrew Boron  
Director

DATE

8/14/14