



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

October 16, 2014

Mr. Robert Schimek, President
Illinois National Insurance Company
80 Pine Street, 30th Floor
New York, NY 10005

Re: Illinois National Insurance Company NAIC# 23817
Market Conduct Examination Report Closing letter

Dear Mr. Schimek:

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 black ink, 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

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE



IN THE MATTER OF THE EXAMINATION OF

ILLINOIS NATIONAL INSURANCE COMPANY
300 SOUTH RIVERSIDE PLAZA
SUITE 2100
CHICAGO, IL 60606

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 Eileen M. Letts of Green and Letts as Examiner-in-Charge, and Roger Henschen of the Illinois Department of Insurance, Martin P. Greene, Kevin T. Lee, Kenya Jenkins-Wright, and Dartesia Pitts, each of Greene & Letts, as Examiners, to examine the insurance business and affairs of Illinois National Insurance Company, NAIC # 23817, and to make a full and true report to me of the examination made by them of the Company's workers' compensation claim settlement and policy administration practices 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 costs of this examination shall be borne by Illinois National Insurance 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 Illinois National Insurance Company. This warrant supersedes the warrant dated January 7, 2013 that was previously issued by the State of Illinois for Illinois National Insurance Company.



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

Done at the City of Chicago, this 23rd day of September, 2013

Andrew Boron / m 70
Andrew Boron

Director

Illinois National Insurance Company

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: January 5, 2013 through
May 27, 2013

EXAMINATION OF: Illinois National Insurance
Company, NAIC# 23817

LOCATIONS OF EXAMINATION: Greene and Letts
55 W. Monroe, Suite 600
Chicago, IL 60603

AIG Insurance Branch Office
120 S. Central
Clayton, Missouri 63105

PERIOD COVERED BY
EXAMINATION: July 1, 2011 through
June 30, 2012

EXAMINERS: Roger O. Henschen
Kenya A. Jenkins-Wright
Kevin T. Lee
Dartesia A. Pitts
Eileen M. Letts
Examiner-in-Charge

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I. SUMMARY

1. The Company is criticized under 820 ILCS 305/8.2(d). The Company failed to pay interest to providers on bills that took in excess of 30 days to pay after receipt of the bill which contained substantially all of the required data elements necessary to adjudicate the bill.

A Class Criticism applies due to a 100% error ratio.

2. The Company was criticized under 820 ILCS 305/19(o) of the Workers' Compensation Act for failing to "notify" and "furnish" information concerning compensable losses to insured employers.

A Class Criticism applies due to a 100% error rate.

II. BACKGROUND

Illinois National Insurance Company (the "Company") was incorporated under the laws of Illinois and began business on October 5, 1933. The company emerged from the consolidation of the United States Underwriters of Jacksonville, Illinois, a reciprocal exchange formed in 1926, with the surviving company the Illinois National Casualty Company, which was organized on August 1, 1930, as the successor to another reciprocal, the National Automobile Underwriters established in 1916 in Chicago. The present name was adopted effective March 1, 1956.

Paid-up capital is \$5,000,000 which consists of 250,000 shares of capital stock at a par value of \$20 per share. All authorized shares are outstanding. All outstanding shares of the company are held by New Hampshire Insurance Company, a member of American International Group, Inc.

The Company's 2011 and 2012 NAIC Annual Statement State Page Exhibit, Page 19, a/k/a, Statutory Page 14, indicate the following with respect to the Company's Illinois workers compensation business during the experience period:

Year	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid
2011	71,693,087	97,509,400	59,974,788	76,668,142	206,318,827
2012	48,289,547	47,679,755	46,495,744	16,114,744	175,937,827

The Company has engaged various service providers to administer claims on some but not all of its Illinois workers compensation.

In order to obtain the loss information, the examiners did not review the actual files as it was unnecessary based on the Company's interrogatory response. In response to an interrogatory, the Company admitted that it did not send notice of compensable claims to the insured Employer by the 15th of each month, and it did not send a cumulative report of all claims incurred during that calendar year in response to an interrogatory on this topic. Instead, per the Company's interrogatory response, it "offers all its Insureds and brokers access to its real time claims system, IntelliRisk. IntelliRisk provides our Insureds the ability to generate their own loss runs." It was determined by the examiners that this response was unsatisfactory and violated 820 ILCS 305/19. The Company did not send a notice; instead, it made the information available on-line. It was determined that it was necessary for the Company to send actual notice to the Insured's by the 15th of each month and a cumulative report yearly.

III. METHODOLOGY

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

The examination was targeted to determine compliance with three provisions in the Illinois Workers Compensation Act. The first provision is 820 ILCS 305/19(o) which reads as follows.

(o) By the 15th day of each month each insurer providing coverage for losses under this Act shall notify each insured employer of any compensable claim incurred during the preceding month and the amounts paid or reserved on the claim including a summary of the claim and a brief statement of the reasons for compensability. A cumulative report of all claims incurred during a calendar year or continued from the previous year shall be furnished to the insured employer by the insurer within 30 days after the end of that calendar year.

The second is 820 ILCS 305/29.2(b) which requires workers compensation insurers to submit an annual report to the Director of Insurance regarding Illinois claims.

The third is 820 ILCS 305/8.2(d) which reads, in relevant part, as follows:

(d) When a patient notifies a provider that the treatment, procedure, or service being sought is for a work-related illness or injury and furnishes the provider the name and address of the responsible employer, the provider shall bill the employer directly. The employer shall make payment and providers shall submit bills and records in accordance with the provisions of this Section.

.. . (3) In the case of nonpayment to a provider within 30 days of receipt of the bill which contained substantially all of the required data elements necessary to adjudicate the bill or nonpayment to a provider of a portion of such a bill up to the lesser of the actual charge or the payment level set by the Commission in the fee schedule established in this Section, the bill, or portion of the bill, shall incur interest at a rate of 1% per month payable to the provider. Any required interest payments shall be made within 30 days after payment.

This review was accomplished through the examination of individual claim files and the response to any written interrogatories. All files were examined for compliance with Departmental Rules and Regulations and applicable state law.

A list of claims was requested based upon provider payments issued during the experience period.

Selection of Samples

	Total # of Claims	# in Sample	% in Sample
All Workers Compensation claims from providers	3247	114 (out of the 114 claim files, there were over 1500 provider bills examined).	3.51%
Workers' Compensation Claims Paid 30 days after receipt without proper interest paid	7	7	100%

IV. FINDINGS

A. Workers' Compensation Claims

1. On seven claims, the insurer took more than 30 days to make payment(s) to providers after receipt of the bill which contained substantially all of the required data elements necessary to adjudicate the bill. In seven (7) of those files (100%), the Company failed to pay interest to the providers as required by 820 ILCS 305/8.2(d). A Class Criticism applies due to a 100% error ratio.

Since 820 ILCS 305/8.2(d) imposes a one percent interest penalty per month on claims submitted by health care providers which are not paid "within 30 days of receipt of the bill which contained substantially all of the required data elements necessary to adjudicate the bill," a threshold issue was determining what the Company considers to be "substantially all of the required data elements necessary to adjudicate the bill."

The examiners concluded that the standards used by the Company to determine whether a bill contains substantially all of the required data elements necessary to adjudicate the bill were reasonable.

The next issue was determining how to divide all bills initially submitted by health care providers into those that did contain substantially all the data elements necessary to adjudicate the claim from those that did not.

Specifically, the examination team had to open up each file (either paper or electronic) and determine the earliest date by which the company had received substantially all the required data elements to adjudicate the claim. Once the examiners determined the earlier date on which the Company had the proper information, the examiners reviewed the documents to determine if the bill was paid within 30 days, and, if not, whether interest was paid.

Through its review, the examiners were able to ascertain that if the Company believed it was missing documentation (e.g., medical records or medical bills), the Company would send a follow-up letter within a reasonable time to the provider requesting the missing information.

2. The Company was in compliance with 820 ILCS 305/29.2 (b).

This was determined by verification with the Department of Insurance.

3. In response to an Interrogatory, the Company indicated that it does not have procedures in place to provide monthly and annual reports to policyholders regarding claims activity to its policyholders as required by 820 ILCS 305/19(o).

The Company indicated that it posted the information required by 820 ILCS 305/19(o) online where insured employers could readily access the information. That may be the case. However, the statute requires that insurers “shall notify each insured employer of any compensable claim incurred during the preceding month” and that:

“A cumulative report of all claims incurred during a calendar year or continued from the previous year shall be furnished to the insured employer”.

Posting the information online does not satisfy the requirement that insurers “notify” and “furnish” the information to the insured employer.

STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Eileen M. Letts, being first duly sworn upon his oath, deposes and says:

That she 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:

Illinois National Insurance Company, NAIC # 23817

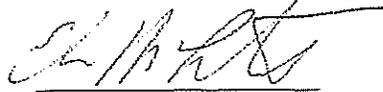
That, as Examiner-In-Charge, she was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither she 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 Company nor any of the Company's affiliates other than as policyholders, and that neither she 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 Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

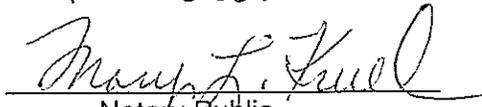
That she was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

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.



Eileen M. Letts
Examiner-In-Charge

Subscribed and sworn to before me
this 4 day of Oct., 2013.



Notary Public



STATE OF ILLINOIS
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

Illinois National Insurance Company
Suite 2100
300 South Riverside Plaza
Chicago, IL 60606-6613

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, Illinois National Insurance Company, NAIC Number 23817, ("Company") is authorized under the insurance laws of this State and by the Director as a domestic stock property 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 appointed by the Director 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); and

WHEREAS, the appointed examiners have filed an examination report as an official document of the Department 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 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. That 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. That 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 to ensure that workers compensation claims submitted by providers are paid within thirty (30) days of receipt of the bill which contains substantially all of the required data elements necessary to adjudicate the bill and to pay interest at a rate of one percent (1%) per month on any bill or portion thereof not paid within such thirty day period as required by 820 ILCS 305/8.2(d).
2. Institute and maintain procedures to notify each insured employer by the 15th day of each month of any compensable claim incurred during the preceding month and the amounts paid or reserved on the claim including a summary of the claim and a brief statement of the reasons for compensability as required by 820 ILCS 305/19(o).
3. Institute and maintain procedures to furnish to each insured employer a cumulative report of all claims incurred during the preceding calendar year or continued from the previous year by the 30th day of each January as required by 820 ILCS 305/19(o).
4. Submit to the Director proof of compliance within thirty (30) days of the date on which this Stipulation and Consent Order is executed by the Director.
5. The Company shall pay to the Director a civil forfeiture of twenty thousand dollars (\$20,000) within thirty days of the date on which this Stipulation and Consent Order is executed by the Director.

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:
Illinois National Insurance Company

Signature


RICHARD C. WOOLLAMS

Name

SR. VICE PRESIDENT

Title

Subscribed and sworn to before me this
9 day of April 2014.

Vincent J. Patalano

Notary Public

VINCENT J. PATALANO
Notary Public, State of New York
No. 01PA4987423
Qualified in New York County
Commission Expires October 15, 2017

DEPARTMENT OF INSURANCE of the
State of Illinois;

DATE April 21, 2014

Andrew Boron
Andrew Boron
Director

