



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

November 25, 2014

Mr. David Warner Michelson
National Interstate Insurance Company
3250 Interstate Dr.
Richfield, OH 44286

Re: National Interstate Insurance Company NAIC#32620
Market Conduct Examination Report Closing letter

Dear Mr. Michelson:

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,

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

NATIONAL INTERSTATE INSURANCE COMPANY
3250 INTERSTATE DR
RICHFIELD, OH 44286

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 Bernie Sullivan, Examiner-in-Charge, as the proper person to examine the insurance business and affairs of National Interstate Insurance Company, NAIC #32620, and to make a full and true report to me of the examination made by them of National Interstate Insurance Company, with a full statement of the condition and operation of the business and affairs of National Interstate 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 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 National Interstate Insurance Company.



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

Done at the City of Chicago, this 8th day of January 2014.

Andrew Boron
Andrew Boron

Director

National Interstate Insurance Company

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: February 24, 2014 through April 4, 2014

EXAMINATION OF: National Interstate Insurance Company
(P & C Foreign) NAIC #32620

LOCATION: 3250 Interstate Drive
Richfield, OH 44286

PERIOD COVERED BY
EXAMINATION: January 1, 2013 through December 31, 2013

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

INDEX

| | Page # |
|--|--------|
| I. SUMMARY | 1 |
| II. BACKGROUND | 2 |
| III. METHODOLOGY | 3-4 |
| IV. SELECTION OF SAMPLE | 5 |
| V. FINDINGS | 6-9 |
| A. Risk Selection | |
| 1. Private Passenger Automobile Cancellations | |
| 2. Commercial Cancellations | |
| B. Underwriting | |
| 1. Private Passenger Automobile New Business | |
| 2. Commercial Renewals | |
| 3. Workers' Compensation | |
| C. Claims | |
| 1. Private Passenger First Party Paid & Median Claims | |
| 2. Commercial First Party Paid & Median Claims | |
| 3. Private Passenger First Party Closed without Payment Claims | |
| 4. Commercial First Party Closed without Payment Claims | |
| 5. Private Passenger Third Party Paid & Median Claims | |
| 6. Commercial Third Party Paid & Median Claims | |
| 7. Commercial Third Party Closed without Payment Claims | |
| 8. Subrogation Claims | |
| 9. Commercial Subrogation Claims | |
| 10. Commercial Total Loss Claims | |
| D. Department Complaints & Producer Review | |
| 1. Department Complaints | |
| 2. Producer Licensing | |
| VI. TECHNICAL APPENDICES | 10-12 |

I. SUMMARY

1. The Company was criticized under Illinois Administrative Code 919.80(b)(2) for failing to provide the insureds with a reasonable written explanation of 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.
2. The Company was criticized for a miscellaneous rating error for issuing a policy with UM/UIM limits rejected by the insured as referenced by 215 ILCS 5/143a-2(2).
3. The Company was criticized under 215 ILCS 5/154.6(c) and as referenced in 50 Ill. Adm. Code 919.50(a) for failing to pay a claim within 30 days of receipt of the estimate.
4. The Company was criticized under 215 ILCS 5/154.6(c) for failing to attempt communication with the claimant.

II. BACKGROUND:

National Interstate Insurance Company

National Interstate Insurance Company (NIIC), a wholly owned subsidiary of National Interstate Corporation, is a specialty property and casualty insurance holding company with a niche orientation and focus on the transportation industry. NIIC was founded in 1989 to serve the passenger transportation industry. Since that time, NIIC has become a leading writer of charter bus, municipal transit, public transportation and limousine risks across the country. Over the years, NIIC has expanded its portfolio to approximately 30 specialty products. NIIC's programs include traditional insurance and innovative captive options for commercial companies, as well as a portfolio of personal lines products for specialty vehicle owners.

As of December, 31, 2012, policyholder surplus was in excess of \$269,000,000. NIIC is rated "A" (Excellent) IX by A.M. Best Company.

Company's 2012 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC #32620

| | Line | Direct premium written | Direct premium earned | Direct losses paid | Direct losses incurred |
|------|---|------------------------|-----------------------|--------------------|------------------------|
| 05.1 | Commercial multiple peril (non-liability portion) | \$19,346 | \$16,755 | \$0 | \$606 |
| 09 | Inland Marine | \$134,870 | \$144,267 | \$19,180 | -\$22,641 |
| 16 | Workers' compensation | \$5,397,864 | \$3,662,363 | \$1,103,645 | \$1,997,963 |
| 17.1 | Other liability - occurrence | \$1,619,018 | \$1,292,400 | \$607,970 | \$593,530 |
| 17.2 | Other liability - claims made | \$25,005 | \$24,375 | \$28,228 | -\$172,142 |
| 19.2 | Private passenger auto liability | \$48,329 | \$53,122 | \$5,426 | \$9,750 |
| 19.4 | Other commercial auto liability | \$6,832,891 | \$6,642,223 | \$3,152,635 | \$3,606,494 |
| 21.1 | Private passenger auto physical damage | \$279,335 | \$309,216 | \$152,492 | \$145,613 |
| 21.2 | Commercial auto physical damage | \$1,043,490 | \$1,092,401 | \$872,839 | \$1,261,158 |
| 35 | Total | \$15,447,905 | \$13,289,500 | \$5,942,415 | \$7,421,802 |

III. 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. Risk Selection
2. Underwriting
3. Claims
4. Complaints & Producer Review

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 report concerns itself with improper practices performed with such frequency as to indicate general business practices.

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.

Risk Selection

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

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 (50 Ill. Adm. Code 919).

Complaints & Producer Licensing

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 licensing was reviewed using the State Based System of the NAIC.

IV. SELECTION OF SAMPLE:

| <u>Survey</u> | <u>Population</u> | <u># Reviewed</u> | <u>% Reviewed</u> |
|--|-------------------|-----------------------|-----------------------|
| Risk Selection: | | | |
| Private Passenger Automobile Cancellations | 32 | 32 | 100.00% |
| Commercial Auto Cancellations | 12 | 12 | 100.00% |
| Underwriting: | | | |
| Private Passenger Automobile New Business | 38 | 38 | 100.00% |
| Commercial Auto Renewals | 81 | 81 | 100.00% |
| Workers' Compensation | 23 | 23 | 100.00% |
| Claims: | | | |
| P. P. Auto First Party Paid & Median | 10 | 10 | 100.00% |
| Commercial Auto First Party Paid & Median | 4 | 4 | 100.00% |
| P. P. Auto First Party Closed without Payment | 3 | 3 | 100.00% |
| Commercial Auto First Party Closed without Payment | 23 | 23 | 100.00% |
| P. P. Auto Third Party Paid & Median | 1 | 1 | 100.00% |
| Commercial Auto Third Party Paid & Median | 95 | 95 | 100.00% |
| Commercial Auto Third Party Closed without Payment | 112 | 112 | 100.00% |
| P. P. Auto Subrogation | 1 | 1 | 100.00% |
| Commercial Auto Subrogation | 4 | 4 | 100.00% |
| Commercial Auto Total Losses | 3 | 3 | 100.00% |
| Complaints & Producer Review: | | | |
| Department Complaints | 3 | 3 | 100.00% |
| Producer Licensing | 133 | 44 | 33.08% |

V. FINDINGS:

A. Risk Selections:

1. Private Passenger Automobile Cancellations

There were no criticisms in this survey

2. Commercial Auto Cancellations

There were no criticisms in this survey

B. Underwriting:

1. Private Passenger Automobile New Business

The Company was criticized for a miscellaneous rating error for issuing one (1) policy (2.63% of the 38 files reviewed) for UM/UIM limits higher than the insured requested creating an overcharge of \$5.00. The insured rejected the higher limits pursuant to 215 ILCS 5/143a-2(2). A refund was issued during the examination.

2. Commercial Auto Renewals

There were no criticisms in this survey

3. Workers' Compensation

There were no criticisms in this survey

C. Claims

1. Private Passenger Auto First Party Paid & Median

The median payment period was 32 days distributed as follows:

| <u>Days</u> | <u>Number</u> | <u>Percentage</u> |
|-----------------|---------------|-------------------|
| 0-30 | 5 | 50.00% |
| 31-60 | 3 | 30.00% |
| 61-90 | 1 | 10.00% |
| 91-180 | 1 | 10.00% |
| 181-365 | 0 | 0.00% |
| <u>Over 365</u> | 0 | <u>0.00%</u> |
| Total | 10 | 100.00% |

In three (3) private passenger auto first party paid claims (30% of the 10 files reviewed) the Company was criticized for failing to provide the insureds with a reasonable written explanation of 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).

| Claim Number | Date Reported | Date Paid | Criticism |
|--------------|---------------|-----------|---|
| | 04/23/13 | 07/20/13 | the claim remained unresolved for 88 days without a reasonable written explanation provided |
| | 07/16/13 | 08/30/13 | the claim remained unresolved for 45 days without a reasonable written explanation provided |
| | 07/24/13 | 09/12/13 | the claim remained unresolved for 50 days without a reasonable written explanation provided |

2. Commercial Auto First Party Paid & Median

The median payment period was 60 days distributed as follows:

| <u>Days</u> | <u>Number</u> | <u>Percentage</u> |
|-----------------|---------------|-------------------|
| 0-30 | 2 | 50.00% |
| 31-60 | 0 | 0.00% |
| 61-90 | 0 | 0.00% |
| 91-180 | 2 | 50.00% |
| 181-365 | 0 | 0.00% |
| <u>Over 365</u> | 0 | <u>0.00%</u> |
| Total | 4 | 100.00% |

There were no criticisms in this survey

3. Private Passenger Auto First Party Closed without Payment

There were no criticisms in this survey

4. Commercial Auto First Party Closed without Payment

In one (1) claim file (4.34% of the 23 files reviewed) the Company was criticized under 215 ILCS 5/154.6(c) for failing to pay the claim within 30

days of receipt of the estimate. The claim was closed without payment then re-opened on May 29, 2013 but not paid until July 25, 2013.

5. Private Passenger Auto Third Party Paid & Median

The median payment period was 34 days distributed as follows:

| <u>Days</u> | <u>Number</u> | <u>Percentage</u> |
|-----------------|---------------|-------------------|
| 0-30 | 0 | 0.00% |
| 31-60 | 1 | 100.00% |
| 61-90 | 0 | 0.00% |
| 91-180 | 0 | 0.00% |
| 181-365 | 0 | 0.00% |
| <u>Over 365</u> | 0 | <u>0.00%</u> |
| Total | 1 | 100.00% |

There were no criticisms in this survey

6. Commercial Auto Third Party Paid & Median

The median payment period was 30 days distributed as follows:

| <u>Days</u> | <u>Number</u> | <u>Percentage</u> |
|-----------------|---------------|-------------------|
| 0-30 | 48 | 50.53% |
| 31-60 | 21 | 22.11% |
| 61-90 | 12 | 12.63% |
| 91-180 | 9 | 9.47% |
| 181-365 | 5 | 5.26% |
| <u>Over 365</u> | 0 | <u>0.00%</u> |
| Total | 95 | 100.00% |

There were no criticisms in this survey

7. Commercial Auto Third Party Closed without Payment

In one (1) claim file (.89% of the 112 files reviewed) the company failed to attempt communication as required by 215 ILCS 5/154.6(c).

8. Private Passenger Auto Subrogation

There were no criticisms in this survey

9. Commercial Auto Subrogation

There were no criticisms in this survey

10. Commercial Auto Total Losses

The median payment period was 82 days distributed as follows:

| <u>Days</u> | <u>Number</u> | <u>Percentage</u> |
|-----------------|---------------|-------------------|
| 0-30 | 0 | 0.00% |
| 31-60 | 1 | 33.33% |
| 61-90 | 1 | 33.33% |
| 91-180 | 0 | 0.00% |
| 181-365 | 1 | 33.33% |
| <u>Over 365</u> | 0 | <u>0.00%</u> |
| Total | 3 | 100.00% |

There were no criticisms in this survey

D. Complaints and Producer Review

1. Department Complaints

There were no criticisms in this survey

2. Producer Licensing

There were no criticisms in this survey

VII. TECHNICAL APPENDICES:

FIRST PARTY PAID & MEDIAN

| MEDIAN DISTRIBUTION | | |
|----------------------------|--------|---------|
| No. Days Category | Number | Percent |
| 0-30 | 5 | 50.00% |
| 31-60 | 3 | 30.00% |
| 61-90 | 1 | 10.00% |
| 91-180 | 1 | 10.00% |
| 181-365 | 0 | 0.00% |
| over 365 | 0 | 0.00% |
| Total | 10 | 100.00% |

COMMERCIAL FIRST PARTY PAID & MEDIAN

| MEDIAN DISTRIBUTION | | |
|----------------------------|--------|---------|
| No. Days Category | Number | Percent |
| 0-30 | 2 | 50.00% |
| 31-60 | 0 | 0.00% |
| 61-90 | 0 | 0.00% |
| 91-180 | 2 | 50.00% |
| 181-365 | 0 | 0.00% |
| over 365 | 0 | 0.00% |
| Total | 4 | 100.00% |

VII. TECHNICAL APPENDICES continued:

THIRD PARTY PAID & MEDIAN

| MEDIAN DISTRIBUTION | | |
|----------------------------|--------|---------|
| No. Days Category | Number | Percent |
| 0-30 | 0 | 0.00% |
| 31-60 | 1 | 100.00% |
| 61-90 | 0 | 0.00% |
| 91-180 | 0 | 0.00% |
| 181-365 | 0 | 0.00% |
| over 365 | 0 | 0.00% |
| Total | 1 | 100.00% |

COMMERCIAL THIRD PARTY PAID & MEDIAN

| MEDIAN DISTRIBUTION | | |
|----------------------------|--------|---------|
| No. Days Category | Number | Percent |
| 0-30 | 48 | 50.53% |
| 31-60 | 21 | 22.11% |
| 61-90 | 12 | 12.63% |
| 91-180 | 9 | 9.47% |
| 181-365 | 5 | 5.26% |
| over 365 | 0 | 0.00% |
| Total | 95 | 100.00% |

VII. TECHNICAL APPENDICES continued:

COMMERCIAL TOTAL LOSSES

| MEDIAN DISTRIBUTION | | |
|----------------------------|--------|---------|
| No. Days Category | Number | Percent |
| 0-30 | 0 | 0.00% |
| 31-60 | 1 | 33.33% |
| 61-90 | 1 | 33.33% |
| 91-180 | 0 | 0.00% |
| 181-365 | 1 | 33.33% |
| over 365 | 0 | 0.00% |
| Total | 3 | 100.00% |

STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

Bernie Sullivan, being first duly sworn upon his/her 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 National Interstate Insurance Company ., (the "Company"), NAIC #32620;

That the Examiner-In-Charge 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 the Examiner-In-Charge nor any other persons so designated 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 a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated 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/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 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 Company.

Bernie Sullivan
Examiner-In-Charge

Subscribed and sworn to before me
this 12th day of September, 2014.

Kathleen Snyder
Notary Public



STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:
NATIONAL INTERSTATE INSURANCE COMPANY
3250 INTERSTATE DR
RICHFIELD, OH 44286

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, National Interstate Insurance Company ("Company"), NAIC #32620, 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 a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403 and 5/425); and

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

WHEREAS, the Market Conduct Examination 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, and 407, 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 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 Department Regulations.

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

1. Institute and maintain procedures whereby the Company will provide its insureds with a reasonable written explanation of delay when a claim remains unresolved for more than 40 days from the date of the report of the claim, to the date of final payment or rendering of the repaired vehicle as outlined in Illinois Administrative code 919.80(b)(2).
2. Institute and maintain procedures whereby all insureds have the right to reject additional UM/UIM coverage as required by 215 ILCS 5/143a-2(2).
3. Institute and maintain procedures whereby the Company pays claims within 30 days of receipt of the estimate as required by 215 ILCS 5/154.6(c), and Illinois Administrative Code 919.50(a).
4. Institute and maintain procedures whereby the Company communicates with the claimant in order to establish reasonable standards for the prompt investigation and settlement of claims arising under its policies, as required by 215 ILCS 5/154.6(c).
5. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above four (4) orders within 30 days of receipt of this Order.
6. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$3,500 to be paid within 30 days of receipt 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 NATIONAL INTERSTATE INSURANCE COMPANY



Signature

Thomas S. Kinney

Name

Corporate Attorney

Title

Subscribed and sworn to before me this

13th day of October 2014.

Gail A. Miller

Notary Public



Gail A. Miller
Resident Medina County
Notary Public, State of Ohio
My Commission Expires: 07/21/2015

DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE 10/22/14



Andrew Boron
Director