



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

December 13, 2017

Mr. Joseph A. Fitzgerald  
President  
Direct Auto Insurance Company  
515 North State Street  
Chicago, IL 60654

**Re: Direct Auto Insurance Company, NAIC 12721**  
*Market Conduct Examination Report Closing Letter*

Dear Mr. Fitzgerald:

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 and Stipulation and Consent Order available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Jack Engle".

Jack Engle, MCM  
Assistant Deputy Director-Market Conduct and Analysis  
Illinois Department of Insurance  
320 West Washington- 5th Floor  
Springfield, IL 62767  
217-558-1058  
E-mail: [Jack.Engle@Illinois.gov](mailto:Jack.Engle@Illinois.gov)

ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF

DIRECT AUTO INSURANCE COMPANY

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: May 1, 2017 through July 7, 2017

EXAMINATION OF: Direct Auto Insurance Company  
NAIC #12721

LOCATION: 515 North State Street  
Chicago, Illinois 60654

PERIOD COVERED BY  
EXAMINATION: April 1, 2016 through March 31, 2017  
(Complaints reviewed for the period October 1,  
2015 through March 31, 2017)

EXAMINERS: Timothy R. Nutt, Examiner-in-Charge  
Thomas Brinkley, Senior Examiner  
Michael Currier, Senior Examiner  
Miryam Ramirez, Senior Examiner

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## I. SUMMARY

A targeted compliance market conduct examination of Direct Auto Insurance Company (the “Company”) was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

The following represents general findings, however specific details are found in each section of the report.

<b>TABLE OF TOTAL VIOLATIONS</b>						
<b>Crit</b>	<b>Statute/Rule</b>	<b>Description of Violations</b>	<b>Population</b>	<b>Files Reviewed</b>	<b>Number of Violations</b>	<b>Error %</b>
2	215 ILCS 5/143.19.1(g)	Risk Selection: Nonrenewals—Failure to provide required number of days notice.	231	82	2	2%
3	215 ILCS 5/143.17(e)	Risk Selection: Nonrenewals—Failure to provide specific reason for nonrenewal.	231	82	2	2%
4	50 Ill. Adm. Code 926.40(a)	Complaint Handling: DOI Complaints—Failure to respond timely.	299	84	2	2%
8	50 Ill. Adm. Code 919.30(c)	Complaint Handling: Consumer Complaints—Failure to maintain detailed documentation.	6	6	1	17%
9	50 Ill. Adm. Code 919.80(b)(2)	Claims: Total Loss—Failure to provide written notice of delay.	332	82	2	2%
10	50 Ill. Adm. Code 919.80(c)	Claims: Total Loss—Information required in Exhibit A not provided.	332	82	1	1%
16	215 ILCS 5/143b	Claims: Subrogation—Failure to return deductibles timely.	96	76	11	14%
17	50 Ill. Adm. Code 919.30(c)	Claims: Subrogation—Failure to maintain detailed documentation.	96	76	1	1%

## II. BACKGROUND

Direct Auto Insurance Company is an Illinois domiciled property and casualty insurer. The Company was incorporated on October 22, 2006, and licensed by the Illinois Department of Insurance on December 1, 2006. The Company commenced business on January 1, 2007. The Company writes private passenger automobile policies solely in the State of Illinois. The Company markets its products through a network of general insurance agencies.

The Company's corporate offices are located at 515 North State Street, Chicago, Illinois 60654.

The Company's 2016 NAIC Annual Statement reflects the following:

Year	Business Line	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
2016	Other Private Passenger Automobile Liability	18,376,120	17,005,531	2,577,815	9,053,042
2016	Private Passenger Automobile Physical Damage	10,184,982	9,671,238	4,152,057	4,647,537

### **III. METHODOLOGY**

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The period under review was generally April 1, 2016 through March 31, 2017. The following categories were the general areas examined:

- A. Complaint Handling
- B. Risk Selection
- C. Underwriting and Rating
- D. Claims

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

Criticisms were provided to the Company addressing violations discovered in the review processes. All valid criticisms were incorporated in this report.

The following methods were used to obtain the required samples and to assure a statistically accurate and methodical selection. The samples were developed from Company-generated data. The sample size was based on the most recent NAIC *Market Regulation Handbook*. Random samples were generated using Audit Command Language (“ACL”) software and the selected samples were provided to the Company for retrieval.

#### **Complaint Handling**

Department of Insurance and Consumer Complaints for the period October 1, 2015 through March 31, 2017, were reviewed for compliance with applicable state laws and Company guidelines.

Department of Insurance (“DOI”) Complaints – The population request for this category consisted of complaints received from the DOI during the examination period. The Company’s complaint registry was reconciled with the individual file information and the DOI records to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

Consumer Complaints – The population request for this category consisted of complaints received directly from consumers during the examination period. The Company’s complaint registry was reconciled with the individual file information to determine the completeness and accuracy of the data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

### Risk Selection

The Risk Selection portion of the examination is designed to evaluate the Company's compliance with statutory requirements related to cancellations and nonrenewals. The review included determining the reasons for termination were valid and not unfairly discriminatory. Samples were selected based on transactions occurring during the examination period.

### Underwriting and Rating

The Underwriting and Rating portion of the examination consisted of reviewing new and renewal Private Passenger Automobile business. Samples were selected based on the inception and renewal date occurring during the examination period. Policies were reviewed for rating accuracy, use of filed rates, use of filed forms, and compliance with the Company's underwriting guidelines.

### Claims

Claims were selected based on the settlement occurring within the examination period. Claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*). Reviews were conducted of both claims paid and those closed without payment.



#### IV. SELECTION OF SAMPLES

Survey	Population	Reviewed	% Reviewed
<b><u>Complaint Handling</u></b>			
DOI Complaints	299	84	28.1%
Consumer Complaints	6	6	100.0%
<b><u>Risk Selection</u></b>			
Cancellations – First 60 days	6,945	109	1.6%
Cancellations – After 60 days	12,249	109	.9%
Nonrenewals	231	82	35.5%
Rescissions	271	82	30.3%
<b><u>Underwriting and Rating</u></b>			
New Business	37,511	116	<1%
Renewals	41,923	116	<1%
<b><u>Claims</u></b>			
First-Party Paid	1,736	110	6.3%
First-Party Closed Without Payment	985	105	10.7%
Total Loss	332	82	24.7%
Third-Party Paid	1,080	107	9.9%
Third-Party Closed Without Payment	2,374	108	4.5%
Subrogation	96	76	79.2%

## V. FINDINGS

### A. Complaint Handling

#### 1. Department of Insurance Complaints

For two (2) complaints, the Company failed to respond to the Department of Insurance by the date specified in the DOI's notification as required by 50 Ill. Adm. Code 926.40(a).

#### 2. Consumer Complaints

The Company failed to maintain adequate documentation for one (1) complaint file as required by Ill. Adm. Code 919.30(c).

### B. Risk Selection

#### 1. Cancellations – First 60 Days

No violations were noted.

#### 2. Cancellations – After 60 Days

No violations were noted.

#### 3. Nonrenewals

The Company failed to provide the required number of days notice for two (2) nonrenewals as required by 215 ILCS 5/143.19.1(g).

The Company failed to provide a specific reason in two (2) nonrenewal notices as required by 215 ILCS 5/143.17(e).

#### 4. Rescissions

No violations were noted.

### C. Underwriting and Rating

#### 1. New Business

No violations were noted.

#### 2. Renewals

No violations were noted.

## D. Claims

### 1. First-Party Paid

No violations were noted.

### 2. First-Party Closed Without Payment

No violations were noted.

### 3. Total Loss

The Company failed to provide a written explanation of delay for two (2) claims pending over 40 days as required by 50 Ill. Adm. Code 919.80(b)(2).

In one (1) claim, the Company failed to send a letter with the information required in Exhibit A of 50 Ill. Adm. Code 919.80(c).

### 4. Third-Party Paid

No violations were noted.

### 5. Third-Party Closed Without Payment

No violations were noted.

### 6. Subrogation

In 11 claims, the Company failed to return the deductible timely from the net subrogation recovery as required by 215 ILCS 5/143b. This is a violation of prior order #17 issued to the Company on July 2, 2015.

The Company failed to maintain detailed documentation in order to permit reconstruction of the Company's activities in one (1) file as required by 50 Ill. Adm. Code 919.30(c).

STATE OF ILLINOIS

SS

COUNTY OF TAZEWELL

Timothy R. Nutt, 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 Direct Auto Insurance Company, (the "Company"), NAIC #12721;

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 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.

  
Examiner-In-Charge

Subscribed and sworn to before me  
this 30th day of August, 2017.

  
Notary Public





IN THE MATTER OF:

**DIRECT AUTO INSURANCE COMPANY  
515 NORTH STATE STREET  
CHICAGO, IL 60654**

STIPULATION AND CONSENT ORDER

WHEREAS, the 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, Direct Auto Insurance Company, ("the Company"), NAIC 12721, 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 their 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, they waive 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 policies and procedures whereby the Company shall timely reimburse the pro rata amount of the insured's deductible after recovery from the adverse party as required by 215 ILCS 5/143b.
2. Institute and maintain policies and procedures whereby the Company shall maintain detailed documentation in a claim file in order to permit reconstruction of the Company's activities relative to the claim as required by 50 Ill. Adm. Code 919.30(c).
3. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above two (2) orders within 30 days of execution of this Order.
4. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$14,000 to be paid within 30 days of execution of this Order.

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 DIRECT AUTO INSURANCE COMPANY

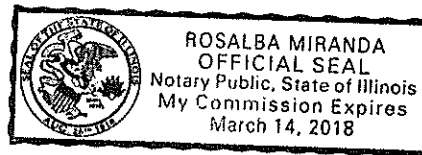
*[Signature]*  
Signature

*Joe Fitzpatrick*  
Name

*PRESIDENT*  
Title

Subscribed and sworn to before me this  
19 day of Nov 2017.

*Rosalba Miranda*  
Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 11/15/17

*[Signature]*  
Jennifer Hammer  
Director

