



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

December 6, 2017

Mr. Michael R. Parrillo  
President  
Falcon Insurance Company  
724 Enterprise Drive  
Oak Brook, IL 50623

**Re: Falcon Insurance Company, NAIC 14254**  
*Market Conduct Examination Report Closing Letter*

Dear Mr. Parrillo:

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,

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  
FALCON INSURANCE COMPANY**

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: March 13, 2017 through April 28, 2017

EXAMINATION OF: Falcon Insurance Company  
NAIC #14254

LOCATION: 724 Enterprise Drive  
Oak Brook, Illinois 60523

PERIOD COVERED BY EXAMINATION: September 1, 2015 through August 31, 2016  
(Complaints reviewed for the period March 1, 2015 through August 31, 2016)

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

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## I. SUMMARY

A comprehensive market conduct examination of Falcon Insurance Company (herein referred to as 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><u>TABLE OF TOTAL VIOLATIONS</u></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>
1	215 ILCS 5/1005(B)(4)	Operations and Management: Privacy form not compliant	1	1	1	100%
2	50 Ill. Adm. Code 919.80(b)(2)	Claims: PPA First-Party Paid—Failure to provide written notice of delay	587	105	16	15%
3	215 ILCS 5/143b	Claims: PPA First-Party Paid—Deductible reimbursement not timely	587	105	1	1%
4	215 ILCS 5/143.15	Risk Selection: PPA Cancellations-First 60 days—Notice of cancellation not timely	11,104	116	1	1%
5	50 Ill. Adm. Code 919.80(b)(2)	Claims: PPA First-Party CWP—Failure to provide written notice of delay	399	82	17	21%
6	50 Ill. Adm. Code 919.50(a)(1)	Claims: PPA First-Party CWP—Failure to send denial letter	399	82	6	7%
7	50 Ill. Adm. Code 926.40(a)	Complaint Handling: DOI Complaints—Failure to respond timely	86	79	3	4%
8	215 ILCS 5/143.17(e)	Risk Selection: PPA Nonrenewals—Failure to provide specific reason for nonrenewal	104	79	7	9%
9	215 ILCS 5/141.01	Risk Selection: PPA Nonrenewals—Used prohibited reason for nonrenewal	104	79	5	6%
10	50 Ill. Adm. Code 919.80(b)(2)	Claims: PPA Total Losses—Failure to provide written notice of delay	19	19	8	42%
11	50 Ill. Adm. Code 919.80(c)	Claims: PPA Total Losses—Information required by Exhibit A not provided	19	19	11	58%

**TABLE OF TOTAL VIOLATIONS**

<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>
13	215 ILCS 5/143d(b)	Complaint Handling: Consumer Complaints— Failure to respond timely	26	26	5	19%
15	50 Ill. Adm. Code 919.80(b)(3)	Claims: PPA Third-Party CWP—Failure to provide written notice of delay	893	105	9	9%
16	50 Ill. Adm. Code 919.50(a)(2)	Claims: PPA Third-Party CWP—Failure to send denial letters	893	105	6	6%
17	50 Ill. Adm. Code 919.30(c)	Claims: PPA Third-Party CWP—Failure to maintain detailed documentation	893	105	2	2%
18	50 Ill. Adm. Code 919.80(b)(3)	Claims: PPA Third-Party Paid—Failure to provide written notice of delay	1,433	107	7	7%
20 & 21	215 ILCS 5/143b	Claims: PPA Subrogation—Failure to return deductibles or return timely	36	36	8	22%
22	215 ILCS 5/143.25a	Underwriting and Rating: PPA Renewals—No notice of availability of higher deductibles	18,209	116	9	8%
24	50 Ill. Adm. Code 919.30(c)	Claims: PPA Third-Party Paid—Failure to maintain detailed documentation	1,433	107	2	2%
25	50 Ill. Adm. Code 754.10(b)(2)	Underwriting and Rating: PPA Renewals—Failure to use filed rates	18,209	116	1	1%

## II. BACKGROUND

Falcon Insurance Company (FIC) is a wholly owned subsidiary of Falcon Insurance Group. FIC is domiciled in the state of Illinois and is licensed to write private passenger automobile insurance in Illinois, Indiana, Nevada, Oklahoma, Texas and Utah. FIC was formed in 2012, and began issuing policies in March of 2013. Policies are currently being sold in Illinois, Texas (beginning in March, 2014), and Indiana (December, 2016). The Company markets its products through independent agents.

The Company's corporate offices are located at 724 Enterprise Drive, Oak Brook, Illinois 60623.

The Company's 2015 NAIC Annual Statement reflects the following for Illinois:

Year	Business Line	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
2015	Other Private Passenger Automobile Liability	10,187,576	9,301,507	2,592,737	5,392,562
2015	Private Passenger Automobile Physical Damage	3,916,359	3,366,446	1,596,336	1,935,617

### **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 September 1, 2015 through August 31, 2016. The following categories were the general areas examined:

- A. Operations and Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Review
- E. Risk Selection
- F. Underwriting and Rating
- G. 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 process. 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.

#### Operations and Management

The review of the Company's Operations and Management is designed to determine how the Company operates. Examiners reviewed both publicly available documents, such as prior market conduct examinations and annual statements, as well as internal documents such as Company procedures, Market Conduct Annual Statement filings, and internal audit reports.

#### Complaint Handling

Department of Insurance and Consumer Complaints for the period March 1, 2015 through August 31, 2016, 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 Illinois Department 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.

### Marketing and Sales

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the Company about its products or services. The items requested for this category consisted of all sales, advertising, producer training and producer communications created during the examination period. The review is typically based on judgmental sampling techniques.

### Producer Review

The Producer Review is designed to evaluate the Company’s compliance with producer licensing and terminations statutory requirements. Samples were selected based on transactions occurring during the examination period.

### 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. This 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 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 (CWP).

#### IV. SELECTION OF SAMPLES

	<u>Total</u>	<u>Number Reviewed</u>	<u>Percentage</u>
Complaint Handling			
1. DOI Complaints	86	79	92%
2. Consumer Complaints	26	26	100%
Marketing and Sales			
1. Marketing and Sales	0	0	N/A
Producer Review			
1. Producer Licensing	0	0	N/A
2. Producer Terminations	0	0	N/A
Risk Selection			
1. PPA Cancellations – First 60 days	11,104	116	1%
2. PPA Cancellations – After 60 days	11,253	116	1%
3. PPA Nonrenewals	104	79	76%
4. PPA Rescissions	515	86	17%
Underwriting and Rating			
1. PPA New Business	24,420	116	<1%
2. PPA Renewals	18,209	116	1%
Claims			
1. PPA First-Party Paid	587	105	18%
2. PPA First-Party CWP	399	82	21%
3. PPA Total Losses	19	19	100%
4. PPA Third-Party Paid	1,433	107	7%
5. PPA Third-Party CWP	893	105	12%
6. PPA Subrogation	36	36	100%

## V. FINDINGS

### A. Operations and Management

Privacy form F-005, “Notice of Privacy Policy” does not contain a description of the rights established under Sections 1009 (“Access to Recorded Personal Information”) and 1010 (“Correction, Amendment or Deletion of Recorded Personal Information”) of 215 ILCS as required by 215 ILCS 5/1005(B)(4).

### B. Complaint Handling

#### 1. Department of Insurance Complaints

For three (3) 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 did not respond to five (5) complaints within 21 days of receipt as required by 215 ILCS 5/143d(b).

### C. Marketing and Sales

No violations were noted.

### D. Producer Review

#### 1. Producer Licensing

No violations were noted.

#### 2. Producer Terminations

The Company indicated there were no producer terminations for the examination period. Since the Company did not record producer information, compliance with producer terminations authority could not be tested.

### E. Risk Selection

#### 1. Private Passenger Automobile Cancellations – First 60 Days

The Company failed to provide timely notice for one (1) cancellation as required by 215 ILCS 5/143.15.

2. Private Passenger Automobile Cancellations – After 60 Days

No violations were noted.

3. Private Passenger Automobile Nonrenewals

The Company failed to provide a specific reason in seven (7) nonrenewal notices as required by 215 ILCS 5/143.17(e).

The Company did not renew five (5) policies because of agency termination, which is prohibited by 215 ILCS 5/141.01.

4. Rescissions

No violations were noted.

F. Underwriting and Rating

1. Private Passenger Automobile New Business

No violations were noted.

2. Private Passenger Automobile Renewals

The Company failed to notify policyholders of the availability of higher deductibles for nine (9) underwriting files as required by 215 ILCS 5/143.25a.

The Company failed to use the correct filed rate for one (1) underwriting file in violation of 50 Ill. Adm. Code 754.10(b)(2).

G. Claims

1. Private Passenger Automobile First-Party Paid

The Company failed to provide a written explanation of delay for 16 claims pending over 40 days as required by 50 Ill. Adm. Code 919.80(b)(2).

In one (1) claim, the Company failed to return the deductible timely from the net subrogation recovery as required by 215 ILCS 5/143b.

2. Private Passenger Automobile First-Party Closed Without Payment

The Company failed to provide a written explanation of delay for 17 claims pending over 40 days as required by 50 Ill. Adm. Code 919.80(b)(2).

The Company failed to provide written explanation of denial for six (6) claims as required by 50 Ill. Adm. Code 919.50(a)(1).

3. Private Passenger Automobile Total Losses

The Company failed to provide a written explanation of delay for eight (8) claims pending over 40 days as required by 50 Ill. Adm. Code 919.80(b)(2).

In 11 claims, the Company failed to send a letter with the information required by Exhibit A of 50 Ill. Adm. Code 919.80(c).

4. Private Passenger Automobile Third-Party Paid

The Company failed to provide a written explanation for delay for seven (7) claims pending over 60 days as required by 50 Ill. Adm. Code 919.80(b)(3).

The Company failed to maintain detailed documentation in order to permit reconstruction of the Company's activities in two (2) files as required by 50 Ill. Adm. Code 919.30(c).

5. Private Passenger Automobile Third-Party Closed Without Payment

The Company failed to provide a written explanation for delay for nine (9) claims pending over 60 days as required by 50 Ill. Adm. Code 919.80(b)(3).

The Company failed to provide written explanation of denial for six (6) claims as required by 50 Ill. Adm. Code 919.50(a)(2).

The Company failed to maintain detailed documentation in order to permit reconstruction of the Company's activities in two (2) files as required by 50 Ill. Adm. Code 919.30(c).

6. Private Passenger Automobile Subrogation

In eight (8) claims, the Company failed to return the deductible or return the deductible timely from the net subrogation recovery as required by 215 ILCS 5/143b.



# STATE OF ILLINOIS

## DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**FALCON INSURANCE COMPANY**  
724 ENTERPRISE DRIVE  
OAK BROOK, IL 60523

### 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, Falcon Insurance Company, (“the Company”), NAIC 14254, 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 provide the insured with a reasonable written explanation of the basis of the lower offer or denial within 30 days after determination of liability as required by 50 Ill. Adm. Code 919.50(a)(1).
2. Institute and maintain policies and procedures whereby the Company shall ensure the Notice of Insurance Information describes the rights established under Sections 1009 (“Access to Recorded Personal Information”) and 1010 (“Correction, Amendment or Deletion of Recorded Personal Information”) and the manner in which such rights may be exercised as required by 215 ILCS 5/1005(B)(4).
3. Institute and maintain policies and procedures whereby the Company shall provide the insured with a reasonable written explanation for the delay when a claim remains unresolved for more than 40 days from the date it is reported as required by 50 Ill. Adm. Code 919.80(b)(2).
4. Institute and maintain policies and procedures whereby the Company shall provide the claimant with a reasonable written explanation for the delay when a third party claim remains unresolved in excess of 60 calendar days from the date it is reported as required by 50 Ill. Adm. Code 919.80(b)(3).
5. Institute and maintain policies and procedures whereby the Company shall provide the insured with, at a minimum, the information contained in Exhibit A, within 7 days of determination of the total loss as required by 50 Ill. Adm. Code 919.80(c).
6. Institute and maintain policies and procedures whereby the Company shall return the full and correct pro-rata share of the deductible to the insureds as soon as it is collected as required by 215 ILCS 5/143b.
7. Institute and maintain policies and procedures whereby the Company shall provide a written response to written inquiries and complaints within 21 days of receipt as required by 215 ILCS 5/143d(b).
8. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above seven (7) orders within 30 days of execution of this Order.
9. 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 FALCON INSURANCE COMPANY

*Michael Parrillo*  
Signature

MICHAEL PARRILLO  
Name

PRESIDENT  
Title



Subscribed and sworn to before me this  
6 day of October 2017.

*Jennifer Plume*  
Notary Public

DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 11/7/17

*Jennifer Hammer*  
Jennifer Hammer  
Director

