



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

September 24, 2018

Mr. Francis W. Purmort III  
President  
Central Mutual Insurance Company  
800 South Washington Street  
Van Wert, OH 45891

**Re: Central Mutual Insurance Company, NAIC 20230  
Market Conduct Examination Report Closing Letter**

Dear Mr. Purmort:

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,

Erica Weyhenmeyer  
Acting Assistant Deputy Director - Market Conduct  
Illinois Department of Insurance  
320 West Washington St., 5th Floor  
Springfield, IL 62767  
Phone: 217-782-1790  
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**ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF**

**Central Mutual Insurance Company**

## **MARKET CONDUCT EXAMINATION REPORT**

**DATE OF EXAMINATION:** January 8, 2018 through April 6, 2018

**EXAMINATION OF:** Central Mutual Insurance Company  
(P & C) NAIC #20230

**LOCATION:** 800 S. Washington St.  
Van Wert, OH 45891

**PERIOD COVERED BY  
EXAMINATION:** August 1, 2016 through July 31, 2017

**EXAMINERS:** Ron Cochran, Examiner-in-Charge  
Sara Moler, MCM

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I. SUMMARY

A market conduct examination of Central Mutual Insurance Company was performed to determine compliance with Illinois Statutes and the Illinois Administrative Code.

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

<b>TABLE OF TOTAL VIOLATIONS</b>						
Crit #	Statute/Rule	Survey / Description	Population	Files Reviewed	Number of Violations	Error %
3	215 ILCS 5/143.27	Home Owner Nonrenewals – failure to provide rehabilitation notice to insured prior to notice of nonrenewal	17	17	4	23.53%
4	215 ILCS 5/154.6(j)	Private Passenger Auto 1 <sup>st</sup> Party Paid – unreasonable caps on paint or materials when estimating vehicle repairs	336	84	2	2.38%
5	50 Ill. Adm. Code 919.50(a)(1)	Private Passenger Auto 1 <sup>st</sup> Party Closed Without Payment – failure to provide Notice of Availability	111	76	1	1.32%
6	215 ILCS 5/500-80(a)	Producer Licensing – producer not licensed in Illinois at the time of the sale of the policy	378	82	1	1.22%
7	50 Ill. Adm. Code 919.80(c)	Private Passenger Auto 1 <sup>st</sup> Party Total Loss Paid – failure to provide minimum of Exhibit A within 7 days of declaring insured vehicle a total loss	109	76	7	9.21%
8	50 Ill. Adm. Code 919.80(c)(3)(A)(i)	Private Passenger Auto 1 <sup>st</sup> Party Total Loss Paid – failure to reimburse the insured for the applicable sales tax and title and transfer fees when a vehicle is replaced or leased	109	76	1	1.32%

## II. BACKGROUND

Central Mutual Insurance Company (“Central” or “the Company”) was founded in 1876. Central's companion stock company All America Insurance Company was established in April 1961, and is a wholly-owned stock affiliate. Central writes over 350,000 insurance policies for policyholders in 20 states. Central's home office is located in Van Wert, Ohio, with regional offices in Atlanta, Boston, Dallas, and Van Wert, Ohio.

### Central Mutual Insurance Company

2016 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC # 20230

	Line	Direct premium written	Direct premium earned	Direct losses paid	Direct losses incurred
01	Fire	\$226,256	\$251,801	\$90,392	\$94,937
02.1	Allied lines	\$154,451	\$178,621	\$66,873	-\$18,226
04	Home Owners multiple peril	\$5,322,301	\$5,200,255	\$2,375,623	\$1,938,313
05.1	Commercial multiple peril (non-liability portion)	\$2,511,888	\$2,326,438	\$560,774	\$861,435
05.2	Commercial multiple peril (liability portion)	\$931,963	\$938,356	\$1,385,521	-\$1,991,470
09	Inland Marine	\$491,696	\$504,130	\$98,430	\$54,321
12	Earthquake	\$57,999	\$55,562	\$31,380	\$31,380
16	Workers' compensation	\$67,404	\$64,666	\$1,047,776	\$1,170,885
17.1	Other liability - occurrence	\$1,081,209	\$1,029,935	\$2,012,240	-\$4,789,433
17.2	Other liability - claims made	\$0	\$0	\$0	\$0
17.3	Excess workers' compensation	\$0	\$0	\$0	\$0
18	Product liability	\$356,486	\$312,663	\$9,580	-\$176,163
19.2	Private passenger auto liability	\$4,284,968	\$4,181,230	\$2,301,437	\$3,044,737
19.4	Other commercial auto liability	\$644,145	\$539,588	\$562,355	\$354,247
21.1	Private passenger auto physical damage	\$3,215,792	\$3,045,794	\$2,195,777	\$2,208,433
21.2	Commercial auto physical damage	\$168,834	\$160,886	\$89,168	\$88,972
26	Burglary and theft	\$440	\$440		
27	Boiler and machinery	\$9,544	\$14,047		
35	Total	\$19,543,376	\$18,804,412	\$12,827,326	\$2,872,368

2017 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC # 20230

	Line	Direct premium written	Direct premium earned	Direct losses paid	Direct losses incurred
01	Fire	\$177,211	\$202,084	\$63,024	\$35,359
02.1	Allied lines	\$141,327	\$135,059	\$79,345	\$79,919
04	Home Owners multiple peril	\$5,451,867	\$5,354,297	\$3,223,955	\$3,766,286
05.1	Commercial multiple peril (non-liability portion)	\$2,534,365	\$2,403,967	\$393,344	\$1,131,944
05.2	Commercial multiple peril (liability portion)	\$903,770	\$875,448	\$65,434	-\$212,295
09	Inland Marine	\$465,360	\$467,402	\$64,061	\$63,533
12	Earthquake	\$55,131	\$56,541	\$5,357	\$5,357
16	Workers' compensation	\$44,565	\$45,322	\$1,148,921	-\$744,267
17.1	Other liability - occurrence	\$1,014,674	\$1,018,136	\$48,363	\$105,356
18	Product liability	\$227,231	\$275,826	\$0	-\$96,518
19.2	Private passenger auto liability	\$4,277,363	\$4,266,137	\$3,236,394	\$2,659,666
19.4	Other commercial auto liability	\$652,760	\$650,507	\$191,330	\$628,665
21.1	Private passenger auto physical damage	\$3,413,773	\$3,287,609	\$2,276,245	\$2,268,105
21.2	Commercial auto physical damage	\$218,102	\$179,704	\$68,167	\$72,842
22	Aircraft (all perils)	\$141	\$357	\$0	\$0
27	Boiler & machinery	\$4,786	\$5,487	\$0	\$0
35	Total	\$19,582,426	\$19,223,883	\$10,863,940	\$9,763,952

### 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 Illinois 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.

#### 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 Title 50 of the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*).

#### Complaints & Producer Review

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



#### IV. SELECTION OF SAMPLE

	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
<u>Risk Selection</u>			
Private Passenger Auto Cancellations	443	87	19.64%
Private Passenger Auto Nonrenewals	32	32	100.00%
Home Owner Cancellations	570	117	20.53%
Home Owner Nonrenewals	17	17	100.00%
Dwelling Fire Cancellations	45	45	100.00%
Dwelling Fire Nonrenewals	2	2	100.00%
<u>Underwriting</u>			
Private Passenger Auto New Business	494	86	17.41%
Private Passenger Auto Renewals	4,487	115	2.56%
Home Owner New Business	656	113	17.23%
Home Owner Renewals	4,808	115	2.39%
Dwelling Fire New Business	39	39	100.00%
Dwelling Fire Renewals	312	84	26.92%
<u>Claims</u>			
Private Passenger Auto 1 <sup>st</sup> Party Paid	336	84	25.00%
Private Passenger Auto 1 <sup>st</sup> Party CWP	111	76	68.47%
Private Passenger Auto 3 <sup>rd</sup> Party Paid	266	82	30.83%
Private Passenger Auto 3 <sup>rd</sup> Party CWP	37	37	100.00%
Private Passenger Auto Subrogation	97	97	100.00%
Private Passenger Auto 1 <sup>st</sup> Party Total Loss Paid	109	76	69.72%
Private Passenger Auto 3 <sup>rd</sup> Party Total Loss Paid	41	41	100.00%
Home Owner Paid	267	82	30.71%
Home Owner CWP	62	62	100.00%
Dwelling Fire Paid	10	10	100.00%
Dwelling Fire CWP	6	6	100.00%
<u>Policyholder Service</u>			
Department Complaints	9	9	100%
Consumer Complaints	0	0	N/A
Producer Terminations	0	0	N/A
Producer Licensing	378	82	21.69%

V. FINDINGS:

A. Risk Selection

1. Private Passenger Automobile Cancellations

No criticisms were found in the following surveys:

Cancellations in the First 60 Days

Cancellations Mid Term (After First 60 Days)

Insured Requested Cancellations and Cancellations for Non-Payment of Premium

2. Private Passenger Automobile Nonrenewals

No criticisms were found in the survey.

3. Home Owner Cancellations

No criticisms were found in the following surveys:

Cancellations in the First 60 Days

Cancellations Mid Term (After First 60 Days)

Insured Requested Cancellations and Cancellations for Non-Payment of Premium

4. Home Owner Nonrenewals

In four (4) nonrenewal policy files (23.53% of the 17 nonrenewal policy files reviewed) the Company failed to provide a rehabilitation notice to the named insured prior to sending a notice of nonrenewal in violation of 215 ILCS 5/143.27.

5. Dwelling Fire Cancellations

No criticisms were found in the following surveys:

Cancellations in the First 60 Days

Cancellations Mid Term (After First 60 Days)

Insured Requested Cancellations and Cancellations for Non-Payment of Premium

6. Dwelling Fire Nonrenewals

No criticisms were found in the survey.

B. Underwriting

1. Private Passenger Automobile New Business

No criticisms were found in the survey.

2. Private Passenger Automobile Renewals

No criticisms were found in the survey.

3. Home Owner New Business

No criticisms were found in the survey.

4. Home Owner Renewals  
No criticisms were found in the survey.
5. Dwelling Fire New Business  
No criticisms were found in this survey.
6. Dwelling Fire Renewals  
No criticisms were found in this survey.

C. Claims

1. Private Passenger Automobile First Party Paid & Median

The median payment period was eight (8) days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	73	86.9%
31-60	7	8.3%
61-90	1	1.2%
91-180	3	3.6%
181-365	0	0%
<u>Over 365</u>	<u>0</u>	<u>0%</u>
Total	84	100.00%

In two (2) claim files (2.38% of the 84 claim files reviewed) the Company completed estimates for vehicle repairs that included an unreasonable limit on the paint and/or materials used for the vehicle repairs in violation of 215 ILCS 5/154.6(j). The Company responded to the criticism that the caps were applied without its knowledge by an appraisal vendor and that the cap has since been removed.

2. Private Passenger Automobile First Party Closed Without Payment

In one (1) claim file (1.32% of the 76 claim files reviewed) the Company failed to provide the Notice of Availability of the Department of Insurance on the explanation of nonpayment of the claim to the insured in violation of 50 Ill. Adm. Code 919.50(a)(1).

3. Private Passenger Automobile Third Party Paid & Median  
No criticisms were found in the survey.

The median payment period was 10 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	70	85.4%
31-60	6	7.3%
61-90	4	4.9%
91-180	2	2.4%
181-365	0	0%
<u>Over 365</u>	<u>0</u>	<u>0%</u>
Total	82	100.00%

4. Private Passenger Automobile Third Party Closed Without Payment  
No criticisms were found in the survey.

5. Private Passenger Automobile Subrogation  
No criticisms were found in the survey.

6. Private Passenger Automobile First Party Total Losses Paid  
In seven (7) claim files (9.21% of the 76 claim files reviewed) the Company failed to provide the insured with, at a minimum, the information contained in Exhibit A within 7 days of declaring the vehicle a total loss in violation of 50 Ill. Adm. Code 919.80(c).

In one (1) claim file (1.32% of the 76 claim files reviewed) the Company failed to provide the insured with reimbursement of the applicable sales tax and title and transfer fees incurred on account of the purchase or lease of a replacement of the vehicle in violation of 50 Ill. Adm. Code 919.80(c)(3)(A)(i). The Company issued a corrective payment during the exam.

7. Private Passenger Automobile Third Party Total Losses Paid  
No criticisms were found in the survey.

8. Home Owner Paid & Median  
No criticisms were found in the survey.

The median payment period was 25 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	52	63.4%
31-60	22	26.8%
61-90	6	7.3%
91-180	2	2.4%
181-365	0	0%
<u>Over 365</u>	<u>0</u>	<u>0%</u>
Total	82	100%

9. Home Owner Closed Without Payment  
No criticisms were found in the survey.

10. Dwelling Fire Paid & Median  
No criticisms were found in the survey.

The median payment period was 29 days distributed as follows:

Days	Number	Percentage
0-30	6	60.0%
31-60	3	30.0%
61-90	0	0.0%
91-180	1	10.0%
181-365	0	0%
<u>Over 365</u>	<u>0</u>	<u>0%</u>
Total	10	100%

11. Dwelling Fire Closed Without Payment  
No criticisms were found in this survey.

#### D. Policyholder Service

1. Department and Consumer Complaints  
No criticisms were found in the survey.

2. Producer Licensing  
In one (1) new insurance policy (1.22% of the 82 new business policies reviewed) the Company issued a commission payment for the sale of a policy by a producer not licensed in the State of Illinois at the time of the sale in violation of 215 ILCS 5/500-80(a).

## VI. INTERRELATED FINDINGS

The Company reimbursed \$290.00 to four (4) separate insureds for reimbursement of title transfer fees and license plate transfer fees, for replacement of policyholders' vehicles declared a total loss.

The Company overpaid \$558.89 in sales tax reimbursements to two (2) insureds based on documentation in the claim files.

STATE OF ILLINOIS            )  
  ) ss  
COUNTY OF SANGAMON        )

Ron Cochran, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Acting Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of Central Mutual Insurance Company, (the "Company"), NAIC 20230.

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;

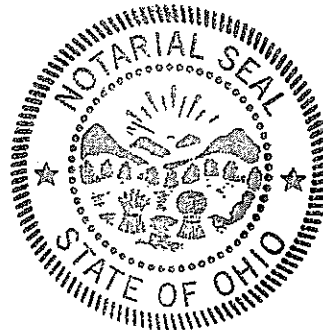
That she/he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

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.

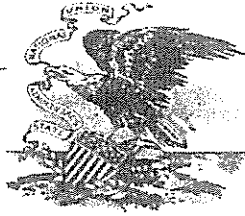
  
Examiner-In-Charge

Subscribed and sworn to before me  
this 5<sup>th</sup> day of April, 2018

  
Notary Public  
PATRICIA S. KIEHL  
NOTARY PUBLIC, VAN WERT COUNTY, OHIO  
MY COMMISSION EXPIRES 11-26-2021



STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**CENTRAL MUTUAL INSURANCE COMPANY  
800 S WASHINGTON STREET  
VAN WERT, OH 45891**

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, Central Mutual Insurance Company (“the Company”), NAIC 20230, 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 a reasonable period of time for rehabilitation of property prior to nonrenewal, as required by 215 ILCS 5/143.27.
2. Institute and maintain policies and procedures whereby the Company shall provide the insured who experienced a total loss the information contained in Exhibit A and will provide that information within seven (7) days of the insured vehicle being determined a total loss as required by 50 Ill. Adm. Code 919.80(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 \$1,000.00 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 CENTRAL MUTUAL INSURANCE COMPANY



Signature

Francis W. Purmont, III

Name

President

Title

Subscribed and sworn to before me this  
20th day of August 2018.

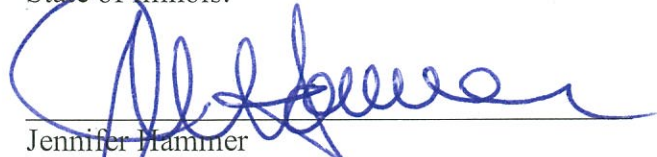
Notary Public

**CHRISTOPHER EMORY WASSON, ATTORNEY AT LAW**  
NOTARY PUBLIC, STATE OF ILLINOIS  
My commission has no expiration date.  
Section 147.03 R.C.

DATE

9/16/18

DEPARTMENT OF INSURANCE of the  
State of Illinois:

  
Jennifer Hammer  
Director

