



Illinois Department of Insurance

BRUCE RAUNER
Governor

JENNIFER HAMMER
Director

April 5, 2017

Joseph J. Richardson, Jr.
President
Auto Club Insurance Association
Memberselect Insurance Company
1 Auto Club Drive
Dearborn, MI 48126

Re: Auto Club Insurance Association, NAIC 21202
Memberselect Insurance Company, NAIC 21229
Market Conduct Examination Report Closing Letter

Dear Mr. Richardson:

On March 8, 2017, the Department sent your Companies a draft copy of the examination report. On April 5, 2017, the Department received correspondence from Michael Hailer indicating Auto Club Insurance Association and Memberselect Insurance Company are in agreement with the findings contained in the report.

I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report is 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.

The Department has completed the Market Conduct examination of Auto Club Insurance Association and Memberselect Insurance Company and is closing its file on the exam. A copy of the verified Examination Report is enclosed.

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

Enclosure

**ILLINOIS DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION OF**

**Auto Club Insurance Association
and
MemberSelect Insurance Company**

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: April 17, 2016 through December 20, 2016

EXAMINATION OF: Auto Club Insurance Association
NAIC #21202

MemberSelect Insurance Company
NAIC #21229

LOCATION: One Auto Club Drive
Dearborn, MI 48126

PERIOD COVERED BY
EXAMINATION: Claims: February 1, 2015 through January 31, 2016
Complaints: September 1, 2014 through January 31, 2016

EXAMINERS: André J. Mumper-Ham, Examiner-in-Charge
June Coleman
Phillip Chesson

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I. SUMMARY

A comprehensive market conduct examination of Auto Club Insurance Association and MemberSelect Insurance Company was performed to determine compliance with Illinois statutes and the Illinois Administrative Code. The companies were examined as a group and are hereinafter collectively referred to as "the Company." The lines of business reviewed were Private Passenger Automobile and Homeowners.

The following table represents general findings with specific details in each section of the report.

Table of Total Violations						
Crit No.	Statute/Rule	Description of Violations	Population	Files Reviewed	No. of Violations	Error %
1	215 ILCS 5/143d(b)	The Company failed to respond to complaints within 21 days of receipt of the complaint	33	33	2	6%
2	215 ILCS 5/143.12a(b)(1)	The Company failed to refund unearned premium to the insured within 30 days from the date of the cancellation notice	149	79	7	8.9%

II. BACKGROUND

Auto Club Insurance Association - NAIC #21202

Auto Club Insurance Association's ("the Association") Articles of Incorporation were signed by the incorporators on March 1, 1922, operating pursuant to the provisions of Chapter 72 of the Michigan Insurance Code, under the name, "Detroit Automobile Inter-Insurance Exchange." The current name, "Auto Club Insurance Association," was adopted in July 1981. The Association filed amended and restated rules and regulations with the Michigan Department of Insurance and Financial Services on July 11, 2013.

The Association's purpose is to extend the benefits of its operations to eligible subscribers in the exchange to any or all lines of insurance now or hereafter permitted by law and authorized by the board of governors. The Association is authorized to write the following lines of business: property, ocean and inland marine, legal expense, automobile insurance-limited, casualty (including steam boiler, flywheel and machinery, automobile, workers' compensation, liability, plate glass, sprinkler and water damage, credit, burglary and theft, livestock, malpractice, and miscellaneous trip interruption), disability, and surety and fidelity.

Subscribers are limited to persons who qualify under standards approved by the board of governors and who are issued policies of insurance by the Association. Such standards may vary among the jurisdictions where the Association conducts business, taking into account the recommendations of the Attorney-in-Fact, so as to enable compliance with applicable law and consideration of relevant business issues.

The Company's 2015 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

	Line	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
19.1	Private Passenger Automobile No-fault (Personal Injury Protection)	\$0	\$0	\$0	\$0
19.2	Other Private Passenger Automobile Liability	\$33,105,910	\$31,994,065	\$22,628,648	\$27,083,570
21.1	Private Passenger Automobile Physical Damage	\$27,561,537	\$26,772,973	\$18,368,810	\$19,099,754
	Total for Above Lines	\$60,667,447	\$58,767,038	\$40,997,459	\$46,183,324
35	Totals All Lines	\$60,667,447	\$58,767,038	\$40,997,459	\$46,183,324

MemberSelect Insurance Company - NAIC #21229

MemberSelect Insurance Company (“MemberSelect”) was organized and authorized to transact business in September, 1964, as the Motor State Insurance Company. The company’s name was changed to Motor Land Insurance Company in 1969, to Auto Club Casualty Insurance Company in 1981, and to Castle Insurance Company in 1986. The company’s current name, MemberSelect Insurance Company, was adopted in November 1999. On December 1, 2003, Auto Club Insurance Association’s wholly owned subsidiary, Chicago Motor Club Insurance Company (“CMCIC”), an Illinois-domiciled company, merged with MemberSelect and CMCIC’s stock was retired.

MemberSelect’s purpose is to write any and all kinds of insurance defined in Chapter 6 of the Michigan Insurance Code. MemberSelect is authorized to write disability, property, ocean and inland marine, automobile insurance-limited, casualty (including liability, automobile and miscellaneous trip interruption), and surety and fidelity insurance.

The Company’s 2015 NAIC Annual Statement, Page 14 (Illinois), reflects the following information:

	Line	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred
4	Homeowners-Multiple Peril	\$41,815,488	\$40,765,675	\$25,795,771	\$26,795,771
19.1	Private Passenger Automobile No-fault (Personal Injury Protection)	\$0	\$0	\$0	\$0
19.2	Other Private Passenger Automobile Liability	\$14,521,846	\$15,108,874	\$14,885,980	\$11,362,388
21.1	Private Passenger Automobile Physical Damage	\$9,685,042	\$10,167,267	\$5,066,409	\$5,062,363
	Totals for Lines Above	\$66,022,376	\$66,041,816	\$45,748,160	\$43,220,522
35	Totals All Lines	\$67,253,319	\$67,243,057	\$46,100,462	\$43,654,556

III. METHODOLOGY

The market conduct examination process places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The lines of business reviewed in this examination were Private Passenger Automobile and Homeowners. This report is a collective report with group samples that combine both companies.

The scope of this examination was a comprehensive examination including a review of the following areas:

- A. Company Operations and Management
- B. Complaints
- C. Producer Licensing
- D. Risk Selection
- E. Underwriting
- F. Claims

The review of the categories was accomplished through examination of material related to the Company's operations and management, complaint files, producer lists, underwriting files, risk selection files and claim files, as well as interviews with various Company personnel and Company responses to the Coordinator's Handbook, Interrogatories and Criticisms. Each of the categories listed above was examined for compliance with Illinois Department of Insurance ("ILDOP") rules and regulations and applicable state laws.

The following method was used to obtain the required samples and to ensure a statistically sound selection. Surveys were developed from Company-generated Excel spreadsheets. Random statistical file selections were generated by the examiners from these spreadsheets. In the event the number of files was too low for a random sample, the sample consisted of the universe of files.

Company Operations and Management

A review was conducted of the Company's underwriting and claims guidelines and procedures, policy forms, third party vendor oversight, internal audits, certificates of authority, previous market conduct examinations and annual statements. These documents were reviewed for compliance with Illinois statutes and the Illinois Administrative Code.

There were no exceptions noted.

Complaints

The Company was requested to identify all consumer and ILDOI complaints received during the examination period (plus five (5) months prior for trending purposes) and to provide copies of the complaint logs. All complaint files and logs were received and reviewed. The files were reviewed for compliance with Illinois statutes and the Illinois Administrative Code.

Producer Licensing

The Company was requested to provide a list of all producers licensed to do business in the State of Illinois and a list of those producers paid commission in Illinois during the examination period. The Company identified a universe of producers. A random sample of producers was reviewed in comparison to the State of Illinois licensing database and for compliance with Illinois statutes and the Illinois Administrative Code. Newly issued business was also reviewed to determine if solicitations were made by duly licensed persons.

Risk Selection

The Company was requested to provide a list of all policies in the following categories during the examination period: company initiated cancellations, cancellations for nonpayment of premium, insured requested cancellations, rescissions and nonrenewals. The Company identified the universes of policies. Random samples of the files were made by the examiners and submitted to the Company. The files were received and reviewed unless the small population of files required an examination of the entire universe. The files were reviewed to ensure that the policies were processed in compliance with Illinois statutes and the Illinois Administrative Code. The review determined compliance with statutory requirements, assessed the accuracy and validity of reasons given for cancellations, nonrenewals, and rescissions, and analyzed for any possible unfair discrimination.

Underwriting

The Company was requested to provide a list of all new business policies in the line of business under review. The Company identified the universes of policies. Random samples of the files were made by the examiners and submitted to the Company. The files were received and reviewed. The files were reviewed to ensure that the policies were processed in compliance with Illinois statutes and the Illinois Administrative Code. The review included the premium rating of the sample policies for Private Passenger Automobile and Homeowners. New policies were also reviewed to determine the correct use of filed rates, the use of filed forms, compliance with Company underwriting guidelines and to ensure that the coverage provided was as requested by the applicant.

Claims

The Company was requested to provide a list of all claims in various categories during the examination period, to include paid and closed without payment ("CWOP"). The Company provided paid and CWOP claims. The files were reviewed to ensure the claims were processed in compliance with the policy, Illinois statutes and the Illinois Administrative Code.

IV. SELECTION OF SAMPLES

	Population	# Reviewed	% Reviewed
Complaints			
ILDOI Complaints	87	87	100%
Consumer Complaints	33	33	100%
Producer Licensing			
Commissions	113	113	100%
Risk Selection			
Private Passenger Automobile Cancellations	149	79	53%
Private Passenger Automobile Insured Requested Cancellations	6,782	116	1.7%
Private Passenger Automobile Nonpayment Cancellations	3,832	115	3%
Private Passenger Automobile Nonrenewals	347	83	23.9%
Private Passenger Automobile Rescissions	0	0	0%
Homeowners Cancellations	870	113	12.9%
Homeowners Insured Requested Cancellations	4,046	115	2.3%
Homeowners Nonpayment Cancellations	600	113	18%
Homeowners Nonrenewals	260	84	32.3%
Renters Cancellations	17	17	100%
Renters Insured Requested Cancellations	2,181	115	5.3%
Renters Nonpayment Cancellations	817	113	13.8%
Renters Nonrenewals	46	46	100%
Underwriting			
Private Passenger Automobile New Business	14,529	116	0.8%
Homeowners New Business	5,487	116	2.1%
Renters New Business	4,742	115	2.4%
Claims			
Private Passenger Automobile First Party Paid & Median	3,657	108	2.9%
Private Passenger Automobile First Party Closed without Payment	2,317	108	4.6%
Private Passenger Automobile Third Party Paid & Median	4,055	108	2.6%
Private Passenger Automobile Third Party Closed without Payment	4,238	108	2.5%
Private Passenger Automobile First Party Total Loss	1,097	107	9.7%
Private Passenger Automobile First Party Subrogation	996	105	10.5%
Homeowners Paid	1,630	107	6.5%
Homeowners Closed without Payment	833	105	12.6%
Renters Paid	83	83	100%
Renters Closed without Payment	61	61	100%

V. FINDINGS

A. COMPLAINTS

1. ILDOI Complaints

There were no criticisms in the ILDOI Complaints survey.

2. Consumer Complaints

In two (2) instances of the 33 Consumer Complaints files reviewed, for an error rate of 6%, the Company failed to respond to the consumer within 21 days of receipt. This is in violation of 215 ILCS 5/143d(b).

Item No.	Complaint Number	Due Date for Company Response	Date of Response	Criticism Comment
17	XXX	12/05/2014	01/13/2015	The Company did not respond to Consumer within 21 days of receipt of complaint
24	XXX	02/13/2015	03/24/2015	The Company did not respond to Consumer within 21 days of receipt of complaint

B. PRODUCER LICENSING

There were no criticisms in the Producer Licensing survey.

C. RISK SELECTION

1. Private Passenger Automobile Cancellations

In seven (7) instances of the 79 Private Passenger Automobile Cancellations files reviewed, for an error rate of 8.9%, the Company failed to refund the unearned premium to the insured within 30 days from the date of the cancellation notice. This is in violation of 215 ILCS 5/143.12a(b)(1).

Item No.	Notice Date	Date Unearned Premium Returned	No. of Days to Return	Criticism Comment
16	8/14/2015	9/18/2015	35	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.
25	12/2/2015	1/8/2016	37	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.
34	8/28/2015	10/5/2015	38	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.

36	12/11/2015	1/19/2016	39	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.
44	2/9/2015	3/16/2015	35	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.
63	8/7/2015	9/16/2015	40	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.
79	9/1/2015	10/7/2015	36	The Company agrees that the refund was not made within 30 days from the date of the cancellation notice.

2. Private Passenger Automobile Insured Requested Cancellations

There were no criticisms in the Private Passenger Automobile Insured Requested Cancellations survey.

3. Private Passenger Automobile Nonpayment Cancellations

There were no criticisms in the Private Passenger Automobile Nonpayment Cancellations survey.

4. Private Passenger Automobile Nonrenewals

There were no criticisms in the Private Passenger Automobile Nonrenewals survey.

5. Homeowners Cancellations

There were no criticisms in the Homeowners Cancellations survey.

6. Homeowners Insured Requested Cancellations

There were no criticisms in the Homeowners Insured Requested Cancellations survey.

7. Homeowners Nonpayment Cancellations

There were no criticisms in the Homeowners Nonpayment Cancellations survey.

8. Homeowners Nonrenewals

There were no criticisms in the Homeowners Nonrenewals survey.

9. Renters Cancellations

There were no criticisms in the Renters Cancellations survey.

10. Renters Insured Requested Cancellations

There were no criticisms in the Renters Insured Requested Cancellations survey.

11. Renters Nonpayment Cancellations

There were no criticisms in the Renters Nonpayment Cancellations survey.

12. Renters Nonrenewals

There were no criticisms in the Renters Nonrenewals survey.

D. UNDERWRITING

1. Private Passenger Automobile New Business

There were no criticisms in the Private Passenger Automobile New Business survey.

2. Homeowners New Business

There were no criticisms in the Homeowners New Business survey.

3. Renters New Business

There were no criticisms in the Renters New Business survey.

E. CLAIMS

1. Private Passenger Automobile First Party Paid & Median

There were no criticisms in the Private Passenger Automobile First Party Paid survey.

2. Private Passenger Automobile First Party Closed without Payment

There were no criticisms in the Private Passenger Automobile First Party Closed without Payment survey.

3. Private Passenger Automobile Third Party Paid & Median

There were no criticisms in the Private Passenger Automobile Third Party Paid survey.

4. Private Passenger Automobile Third Party Closed without Payment

There were no criticisms in the Private Passenger Automobile Third Party Closed without Payment survey.

5. Private Passenger Automobile First Party Total Loss

There were no criticisms in the Private Passenger Automobile First Party Total Loss survey.

6. Private Passenger Automobile First Party Subrogation

There were no criticisms in the Private Passenger Automobile First Party Subrogation survey.

7. Homeowners Paid

There were no criticisms in the Homeowners Paid survey.

8. Homeowners Closed without Payment

There were no criticisms in the Homeowners Closed without Payment survey.

9. Renters Paid

There were no criticisms in the Renters Paid survey.

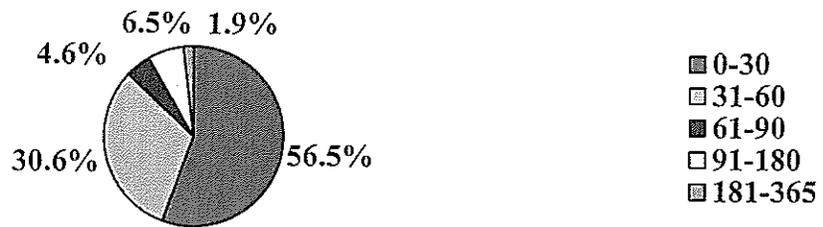
10. Renters Closed without Payment

There were no criticisms in the Renters Closed without Payment survey.

VI. TECHNICAL APPENDICES

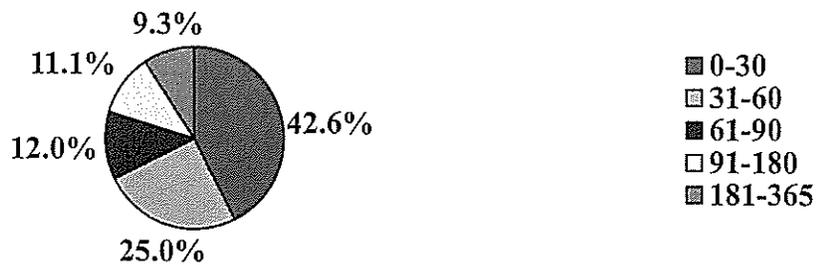
Private Passenger Automobile First Party Claims Paid and Median – 10 Days

Number of Days	Number of Files	Percent
0-30	61	56.5%
31-60	33	30.6%
61-90	5	4.6%
91-180	7	6.5%
181-365	2	1.9%
Over 365	0	0.0%
Total	108	100.0%



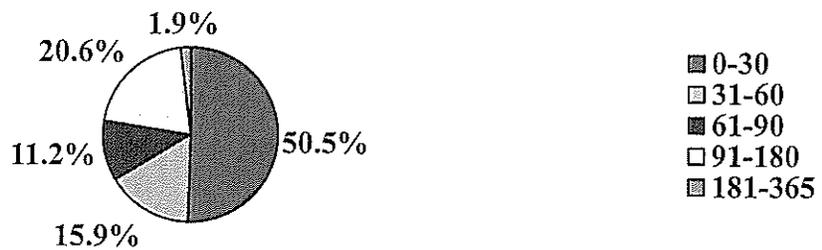
Private Passenger Automobile Third Party Claims Paid and Median – 19 Days

Number of Days	Number of Files	Percent
0-30	46	42.6%
31-60	27	25.0%
61-90	13	12.0%
91-180	12	11.1%
181-365	10	9.3%
Over 365	0	0.0%
Total	108	100.0%



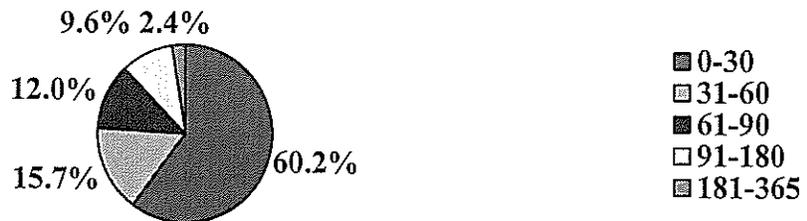
Homeowners Claims Paid and Median – 10 Days

Number of Days	Number of Files	Percent
0-30	54	50.5%
31-60	17	15.9%
61-90	12	11.2%
91-180	22	20.6%
181-365	2	1.9%
Over 365	0	0.0%
Total	107	100.0%



Renters Claims Paid and Median – 10 Days

Number of Days	Number of Files	Percent
0-30	50	60.2%
31-60	13	15.7%
61-90	10	12.0%
91-180	8	9.6%
181-365	2	2.4%
Over 365	0	0.0%
Total	83	100.0%



STATE OF PENNSYLVANIA)
) ss
COUNTY OF YORK)

André J. Mumper-Ham, 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 Auto Club Insurance Association NAIC 21202 and MemberSelect Insurance Company NAIC 21229.

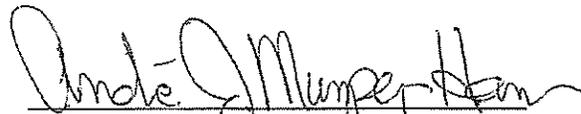
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Companies with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Companies' business and affairs and the manner in which the Companies conduct their 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 Companies nor any of the Companies' 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;

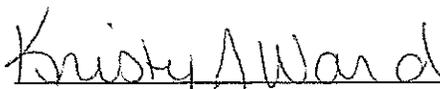
That an examination was made of the affairs of the Companies pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

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 Companies 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.


Examiner-In-Charge

Subscribed and sworn to before me
this 8th day of February, 2017


Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Kristy J. Ward, Notary Public
York, York County
My Commission Expires November 13, 2019