



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

February 21, 2018

Mr. Timothy G. NeCastro  
President  
Erie Insurance Company  
Erie Insurance Exchange  
100 Erie Insurance Place  
Erie, PA 16530

**Re: Erie Insurance Company, NAIC 26263**  
**Erie Insurance Exchange, NAIC 26271**  
***Market Conduct Examination Report Closing Letter***

Dear Mr. NeCastro:

The Department has reviewed your Companies' 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  
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217-558-1058  
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**ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF**

Erie Insurance Company  
and  
Erie Insurance Exchange

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: August 22, 2016 through July 5, 2017

EXAMINATION OF: Erie Insurance Company  
NAIC Code #26263

Erie Insurance Exchange  
NAIC Code #26271

LOCATIONS: 100 Erie Insurance Place  
Erie, PA 16530

2409 North Main Street Suite 200  
East Peoria, IL 61611

PERIOD COVERED BY EXAMINATION: August 1, 2015 through July 31, 2016  
(Complaints were reviewed for the period February 1, 2015 through July 31, 2016 and Workers' Compensation files were reviewed for the period August 1, 2013 through July 31, 2016)

EXAMINERS: Victor M. Negron, Examiner-in-Charge  
Ben Darnell, Senior Examiner  
Kimberlee Hewitt, Senior Examiner  
Tim Kelley, Senior Examiner  
Sheri Kenney, Senior Examiner  
Sara Moler, Senior Examiner  
Cara Phillips, Senior Examiner  
Miryam Ramirez, Senior Examiner

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## I. SUMMARY

A comprehensive market conduct examination of the Erie Insurance Group, which included Erie Insurance Company (“EIC”) and Erie Insurance Exchange (“EIE”), 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 5/143.17(a)	Risk Selection Nonrenewals: EIE – Company did not provide an appropriate lienholder notice on nonrenewals. Lienholder notices were not an exact and unaltered copy of the nonrenewal notice sent to the named insured.	671	90	46	51%
4	50 Ill. Adm. Code 919.80(b)(2)	Claims PPA First-Party Paid: EIC – Company failed to timely send required delay letter.	166	82	2	2%
5	50 Ill. Adm. Code 919.30(c)	Claims PPA First-Party Paid: EIC – Company failed to maintain detailed documentation to permit the reconstruction of Company activities relative to the claim file.	166	82	1	1%
6	50 Ill. Adm. Code 919.80(b)(2)	Claims PPA First-Party Closed Without Pay (CWP): EIE – Company failed to timely send required delay letter.	3,039	108	4	4%
7	215 ILCS 5/143.12a(b)	Risk Selection Mid-Term Cancellations: EIE – Company failed to return premium in a timely manner.	8,319	66	1	2%
9	215 ILCS 5/143.14(a)	Risk Selection First 60 days Cancellations: EIE – Company failed to maintain proof of mailing of notice of cancellation.	235	43	1	2%
10	215 ILCS 5/143.17(a)	Risk Selection Nonrenewals: EIC – Company did not provide an appropriate lienholder notice on nonrenewals. Lienholder notices were not an exact and unaltered copy of the nonrenewal notice sent to the named insured.	160	23	15	65%
11	215 ILCS 5/143.17(a)	Risk Selection Nonrenewals: EIC – Company failed to provide lienholder notice.	160	23	1	4%
12	50 Ill. Adm. Code 919.80(c)	Claims PPA First-Party CWP: EIC – Company failed to timely send the required Exhibit A.	56	45	1	2%

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13	50 Ill. Adm. Code 919.80(b)(2)	Claims PPA First-Party CWP: EIC – Company failed to timely send required delay letter.	56	45	1	2%
14	50 Ill. Adm. Code 919.80(b)(2)	Claims PPA First-Party Paid: EIE – Company failed to send 40-day delay letter.	11,438	109	3	3%
15	50 Ill. Adm. Code 919.50(a)	Claims PPA First-Party Paid: EIE – Company failed to timely pay the claim within 30 days.	11,438	109	1	1%
16	50 Ill. Adm. Code 919.80(c)	Claims PPA Total Losses: EIC – Company failed to timely send required Exhibit A.	42	28	7	25%
17	50 Ill. Adm. Code 919.80(b)(3)	Claims PPA Third-Party Paid: EIE – Company failed to timely send claim delay letter.	6,559	109	3	3%
18	50 Ill. Adm. Code 919.50(a)	Claims PPA Third-Party Paid: EIE – Company failed to timely pay the claim within 30 days.	6,559	109	2	2%
19	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Homeowners Paid: EIC – Company failed to provide a reasonable written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported.	2,062	108	1	1%
20	50 Ill. Adm. Code 919.50(a)(1)	Claims Homeowners Paid: EIC – Company failed to provide the named insured a reasonable written explanation for the basis of the lower offer within 30 days after the investigation and determination of liability was completed.	2,062	108	2	2%
21	50 Ill. Adm. Code 919.50(a)	Claims Homeowners Paid: EIC – Company failed to affirm or deny liability on claims within a reasonable time and offer payment within 30 days after affirmation of liability.	2,062	108	1	1%
22	50 Ill. Adm. Code 919.60(a)	Claims Homeowners Paid: EIC – Company indicated on the check made to the insured that the payment was “Payment of Final Billing”.	2,062	108	1	1%
24	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Homeowners CWP: EIC – Company failed to provide a timely, reasonable, written explanation for the delay to the insured.	498	83	5	6%

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25	215 ILCS 5/143(2)	Underwriting and Rating Personal Lines Boat Protector & Inland Marine Renewal Business: EIE – Use of an unfiled form.	2,189	57	1	2%
26	50 Ill. Adm. Code 919.80(b)(3)	Claims PPA Third-Party Paid: EIC – Company failed to timely send claim delay letter.	132	63	3	5%
27	50 Ill. Adm. Code 919.50(a)	Claims PPA Third-Party Paid: EIC – Company failed to timely pay the claim within 30 days.	132	63	2	3%
28	50 Ill. Adm. Code 919.50(a)	Claims Homeowners Paid: EIE – Company failed to affirm or deny liability on claims within a reasonable time and offer payment within 30 days after affirmation of liability.	1,538	107	8	7%
29	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Homeowners Paid: EIE – Company failed to provide a reasonable, written explanation to the named insured, for the delay in the claim, when the claim remained unresolved for more than 75 days.	1,538	107	3	3%
31	50 Ill. Adm. Code 919.50(a)(1)	Claims Homeowners Paid: EIE – Company failed to provide the named insured a reasonable written explanation for the basis of the lower offer within 30 days after the investigation and determination of liability was completed.	1,538	107	1	1%
32	50 Ill. Adm. Code 919.60(a)	Claims Homeowners Paid: EIE – Company indicated on the check made to the insured that the payment was “Final”.	1,538	107	1	1%
34	50 Ill. Adm. Code 919.80(c)	Claims PPA Total Losses: EIE – Company failed to timely send required Exhibit A.	1,890	107	35	33%
35	50 Ill. Adm. Code 919.50(a)	Claims PPA Total Losses: EIE – Company failed to timely pay the claim within 30 days.	1,890	107	1	1%
36	50 Ill. Adm. Code 919.80(b)(2)	Claims PPA Total Losses: EIE – Company failed to timely send required delay letter.	1,890	107	1	1%

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37	50 Ill. Adm. Code 919.50(a)(1)	Claims Homeowners CWP: EIE – Company failed to provide the named insured a reasonable written explanation for the basis of the lower offer within 30 days after the investigation and determination of liability was completed.	314	82	2	2%
38	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Homeowners CWP: EIE – Company failed provide a reasonable written explanation to the named insured for the delay in the claim when the claim remained unresolved for more than 75 days.	314	82	2	2%
40	50 Ill. Adm. Code 919.80(d)(7)(A)	Claims Homeowners Paid: EIE – Sample Claims exceeded the 40 days median payment period.	1,538	107	1	1%
41	50 Ill. Adm. Code 919.80(b)(3)	Claims PPA Third-Party CWP: EIC – Company failed to timely send claim delay letter.	60	22	1	5%
42	215 ILCS 5/143b	Claims PPA Subrogation: EIC – Company failed to return the insured’s pro-rata deductible share in a timely manner.	18	18	1	6%
43	215 ILCS 5/459(5)	Claims Workers’ Compensation: EIC – Company failed to follow NCCI’s filed Statistical Plan by filing incorrect unit statistical reports.	150	76	2	3%
44	215 ILCS 5/805.1	Underwriting and Rating Personal Lines Homeowners Renewal Business: EIE – Company failed to obtain the required Illinois Mine Subsidence Coverage waiver form.	27,516	116	4	3%
45	215 ILCS 5/143b	Claims PPA Subrogation: EIE – Company failed to return the insured’s pro-rata deductible share in a timely manner.	875	105	2	2%
46	50 Ill. Adm. Code 919.80(c)	Claims PPA Subrogation: EIE – Company failed to provide named insured a copy of Exhibit A within 7 days of determination of a total loss.	875	105	2	2%
47	215 ILCS 5/143a-2(2)	Underwriting and Rating Personal Lines PPA New Business: EIC – Company failed to obtain a signed UM form.	242	84	1	1%

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48	50 Ill. Adm. Code 919.30(c)	Claims Commercial Auto First-Party Paid: EIE – Company failed to maintain detailed documentation to permit the reconstruction of the Company’s activities relative to the claim file.	621	105	1	1%
51	50 Ill. Adm. Code 919.80(b)(3)	Claims Commercial Auto Third-Party Paid: EIE – Company failed to timely send claim delay letter.	1,608	107	1	1%
52	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Other Commercial Property CWP: EIE – Company failed to provide a timely, reasonable, written explanation for the delay to the insured.	209	69	2	3%
53	50 Ill. Adm. Code 919.50(a)(1)	Claims Other Commercial Property CWP: EIE – Company failed to provide the insured with a reasonable, written explanation for the basis of the lower offer or denial within 30 days after the investigation and determination of liability.	209	69	4	6%
54	820 ILCS 305/19(o)	Claims Workers’ Compensation Paid: EIE – Company failed to provide monthly and/or annual reports to the insured employers.	251	82	8	10%
55	215 ILCS 5/459(5)	Claims Workers’ Compensation: EIE – Company failed to follow NCCI’s filed Statistical Plan by filing incorrect statistical reports.	251	82	4	5%
56	50 Ill. Adm. Code 919.80(c)	Claims Commercial Auto Total Losses: EIE – Company failed to timely send required Exhibit A.	110	76	30	39%
57	50 Ill. Adm. Code 919.80(b)(2)	Claims Commercial Auto Total Losses: EIE – Company failed to timely send required delay letter.	110	76	2	3%
58	50 Ill. Adm. Code 919.80(b)(2)	Claims Commercial Auto First-Party CWP: EIE – Company failed to send required delay letter.	252	82	3	4%
59	50 Ill. Adm. Code 919.50(a)(1)	Claims Commercial Auto First-Party CWP: EIE – Company failed to provide the named insured a reasonable written explanation for the basis of the lower offer within 30 days after the investigation and determination of liability was completed.	252	82	1	1%

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60	50 Ill. Adm. Code 919.80(d)(7)(B)	Claims Other Commercial Property Paid: EIE – Company failed to provide a reasonable, written explanation to the named insureds for the delay in the claim when the claim remained unresolved for more than 75 days.	730	93	11	12%
61	50 Ill. Adm. Code 919.50(a)	Claims Other Commercial Property Paid: EIE – Company failed to affirm or deny liability on claims within a reasonable time and offer payment within 30 days after affirmation of liability.	730	93	1	1%
63	215 ILCS 5/397.1(a)	Claims Other Commercial Property Paid: EIE – Company failed to submit the required notice to the State’s Attorney of the county where the structure is located.	730	93	1	1%
64	215 ILCS 5/500-15	Producer Licensing – Personal Lines: EIC – Company accepted business from unlicensed individuals.	13,039	197	5	3%
65	215 ILCS 5/500-15	Producer Licensing – Personal Lines: EIE – Company accepted business from unlicensed individuals.	12,725	222	4	2%
68	50 Ill. Adm. Code 753.10(a)(1) and (2)	Underwriting and Rating Other Commercial New Business: EIE – Company used unfiled forms, obsolete forms and failed to attach applicable forms to a policy.	2,870	58	4	7%
69	215 ILCS 5/500-80(a)	Producer Licensing – Commercial Lines (CMP): EIE – Company accepted business and paid commissions to an unlicensed agency.	862	58	1	2%
70	215 ILCS 5/456(1)(e)	Underwriting and Rating Workers’ Compensation New Business: EIE – Company failed to provide the required deductible offer.	1,169	58	1	2%
71	215 ILCS 5/459(5)	Underwriting and Rating Workers’ Compensation New Business: EIE – Company failed to follow the filed NCCI rates and rules manual by failing to obtain an officers’ exclusion form.	1,169	58	1	2%

## II. BACKGROUND

The market conduct examination included two (2) companies of the Erie Insurance Group. Any reference in this report to “Company” includes one or both of the companies included in the examination, however each company will be identified when appropriate.

### Erie Insurance Company

Erie Insurance Company (“EIC”) is a Pennsylvania domiciled insurer and was incorporated on September 11, 1972. EIC is a wholly owned subsidiary of Erie Insurance Exchange.

Erie Insurance Company writes private passenger auto, homeowners, workers’ compensation, fidelity, surety and burglary and theft insurance in the state of Illinois. EIC markets and distributes its products through independent insurance agents.

EIC’s 2015 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Homeowners Multiple Peril	39,342,978	35,933,496	21,091,261	22,523,864
CMP Non-Liability	(397)	(397)	101,233	(142,135)
CMP Liability	(12)	(12)	0	(308,135)
Workers’ Compensation	6,378,820	5,337,534	1,145,289	2,178,867
Other PPA Liability	708,364	686,732	675,539	655,661
PPA Physical Damage	611,965	596,155	430,159	412,400
Fidelity	16,134	15,595	0	4,301
Surety	173,731	206,519	0	43,837
Burglary and Theft	134	6	0	0

### Erie Insurance Exchange

Erie Insurance Exchange (“EIE”) is a reciprocal insurer domiciled in the Commonwealth of Pennsylvania. Erie Indemnity Company (Pennsylvania Corporation) is the Attorney-In-Fact for the EIE. The Attorney-in-Fact performs all administrative and underwriting services of EIE, and it charges EIE a management fee computed as a percentage of the affiliated, assumed and direct written premiums of EIE.

Erie Insurance Exchange writes private passenger auto, homeowners, workers’ compensation, fire and allied lines, commercial multi-peril, inland marine, products liability and other liability insurance in the state of Illinois. EIE markets and distributes its products through independent insurance agents.

EIE's 2015 NAIC Annual Statement (Page 19 Illinois) reflects the following:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire	1,518,355	1,677,797	567,604	11,488
Allied Lines	593,160	630,300	313,981	137,050
Homeowners Multi-Peril	26,213,667	27,788,674	16,707,875	14,228,370
CMP Non-Liability	27,707,274	27,436,908	18,118,372	17,747,304
CMP Liability	19,474,562	19,156,951	5,479,445	8,819,666
Inland Marine	883,512	863,631	181,670	173,972
Workers' Compensation	11,807,015	11,882,428	6,600,676	9,970,425
Other Liability – Occurrence	6,492,287	6,283,293	1,138,406	1,226,339
Other Liability – Claims-Made	7,993	8,453	0	(5,237)
Products Liability	96,174	93,652	1,450	(510)
Other Private Passenger Auto Liability	40,393,329	38,654,706	29,583,414	32,414,122
Other Comm. Auto Liability	12,974,142	12,152,818	4,837,486	5,812,793
PPA Physical Damage	33,763,436	32,185,616	21,078,506	21,147,277
Comm. Auto Physical Damage	5,090,613	4,741,937	2,462,085	2,284,807

### **III. METHODOLOGY**

The market conduct examination places emphasis on the Company's systems and procedures used in dealing with insureds and claimants. The period under review was generally August 1, 2015 through July 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
- H. Workers' Compensation Unit Statistical Reports

The review of these categories was accomplished through the 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 ensure a statistically accurate and methodical selection. The samples were developed from Company-generated data. The sample sizes were 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. Some samples were determined on a group basis and sample sizes were allocated proportionally to each company by the entire population of policies and claims for that company.

#### **A. 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, and internal documents, such as the Company's policies, procedures, board minutes, internal audits and external audits. The Company's privacy forms were also reviewed.

In addition, examiners reviewed the Market Conduct Annual Statement ("MCAS") data and submissions for calendar years 2013, 2014 and 2015 to ensure accuracy and completeness.

## B. Complaint Handling

Department of Insurance and Consumer Complaints for the period of February 1, 2015 through June 30, 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 log was reconciled with the individual file information and DOI records to determine completeness and accuracy of 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 log was reconciled with the individual file information to determine completeness and accuracy of data recorded. Each complaint file, along with the underlying claim or underwriting file was reviewed for compliance with regulatory requirements.

## C. 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. Items requested for this category consisted of all sales, advertising, producer training and producer communications created during the examination period. A sample of these was reviewed for compliance with regulatory requirements.

## D. Producer Review

Producer licensing and terminations were reviewed for compliance with statutory requirements. Producer licensing was reviewed as part of the new business samples selected for the underwriting and rating reviews.

## E. Risk Selection

Cancellations, nonrenewals and rescissions were reviewed for the following; compliance with statutory requirements, timeliness and reasons for termination, noting any reasons determined to be non-valid or unfairly discriminatory. Samples were selected based on transactions occurring during the period under examination.

## F. Underwriting and Rating

The Underwriting and Rating samples consisted of 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 Company underwriting guidelines.

#### G. Claims

Claims were selected based on settlements occurring within the examination period. Claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILC 5/1 *et seq.*), the Illinois Workers' Compensation Act (820 ILCS 305/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*). Reviews were conducted of both paid claims and those closed without payment ("CWP").

#### H. Workers' Compensation Unit Statistical Reports

The accuracy and completeness of Workers' Compensation unit's statistical information reported to the National Council on Compensation Insurance ("NCCI") was tested.

#### IV. SELECTION OF SAMPLES

The following figures represent the two companies combined:

	<u>Total Files</u>	<u># Reviewed</u>	<u>% Reviewed</u>
A. Operations and Management			
Internal/External Audits	71	71	100%
Board Minutes	43	43	100%
Prior Examination Reports	6	6	100%
Privacy Notices	29	29	100%
MCAS Reports	12	12	100%
B. Complaint Handling			
DOI Complaints	78	78	100%
Consumer (Non-DOI) Complaints	62	62	100%
C. Marketing and Sales			
Marketing and Sales Materials	745	113	15%
D. Producer Review			
Producer Licensing – Personal Lines	25,764	419	2%
Producer Licensing – Commercial Lines	6,178	274	4%
Producer Terminations	197	197	100%
E. Risk Selection			
Personal Lines Cancellations, Nonrenewals & Rescissions	14,405	315	2%
Commercial Lines Cancellations, Nonrenewals & Rescissions	3,642	131	4%
F. Underwriting and Rating			
Private Passenger Auto New Business	11,211	200	2%
Private Passenger Auto Renewals	52,671	297	1%
Homeowners New Business	12,797	116	1%
Homeowners Renewals	64,413	232	<1%
Personal Catastrophe New Business	1,303	58	4%
Personal Catastrophe Renewals	7,174	58	1%
Boat Protector & Inland Marine New Business	453	58	13%
Boat Protector & Inland Marine Renewals	2,189	57	3%
Workers' Compensation New Business	1,302	100	8%
Workers' Compensation Renewals	6,009	99	2%
Commercial Auto New Business	1,144	58	5%
Commercial Auto Renewal	4,430	57	1%
Commercial Multi-Peril New Business	862	58	7%
Commercial Multi-Peril Renewal	3,843	57	1%
All Other Commercial New Business	2,870	58	2%
All Other Commercial Renewal	11,674	58	<1%

G. Claims

Private Passenger Auto First-Party Paid	11,604	191	2%
Private Passenger Auto First-Party CWP	3,095	153	5%
Private Passenger Auto Third-Party Paid	6,691	172	3%
Private Passenger Auto Third-Party CWP	3,975	130	3%
Private Passenger Auto Total Losses	1,932	135	7%
Private Passenger Auto Subrogation	893	123	14%
Homeowners Paid	3,600	215	6%
Homeowners CWP	812	165	20%
Commercial Auto First-Party Paid	621	105	17%
Commercial Auto First-Party CWP	252	82	33%
Commercial Auto Third-Party Paid	1,608	107	7%
Commercial Auto Third-Party CWP	750	105	14%
Commercial Auto Total Losses	110	76	69%
Workers' Compensation Paid	401	158	39%
Workers' Compensation CWP	62	36	58%
Other Commercial Property Paid	730	93	13%
Other Commercial Property CWP	209	69	33%
Other Commercial Liability Paid	336	14	4%
Other Commercial Liability CWP	198	14	7%

H. Workers' Compensation Unit Statistical Reports

Premium Reports	7,311	199	3%
Claims Reports	401	158	39%

## V. **FINDINGS**

### A. Operations and Management

#### 1. Internal/External Audits

No violations were noted.

#### 2. Board Minutes

No violations were noted.

#### 3. Prior Examination Reports

No violations were noted.

#### 4. Privacy Notices

No violations were noted.

#### 5. Market Conduct Annual Statement Reports

No violations were noted.

### B. Complaint Handling

#### 1. Department of Insurance Complaints

No violations were noted.

#### 2. Consumer (Non-Department of Insurance) Complaints

No violations were noted.

### C. Marketing and Sales

No violations were noted.

### D. Producer Review

#### 1. Producer Licensing – Personal Lines

In five (5) personal lines new business policies, the Company accepted business from unlicensed individuals, which is a violation of 215 ILCS 5/500-15 (Crit #64). In three (3) of these instances the applications were electronically signed and

submitted by agency clerical staff. In two (2) additional instances, the policies were effective prior to the effective date of the agent's license. Effective March 2017, the Company implemented controls to only allow the licensed producer to submit business, and therefore, agency clerical staff can no longer submit applications on behalf of the producers. These findings were applicable to EIC.

In four (4) personal lines new business policies, the Company accepted business from unlicensed individuals, which is a violation of 215 ILCS 5/500-15 (Crit #65). In two (2) of these instances the applications were electronically signed and submitted by agency clerical staff. In two (2) additional instances, the policies were effective prior to the effective date of the agent's license. Effective March 2017, the Company implemented controls to only allow the licensed producer to submit business, and therefore, agency clerical staff can no longer submit applications on behalf of the producers. These findings were applicable to EIE.

## 2. Producer Licensing – Commercial Lines

In one (1) commercial lines new business policy, the Company accepted business and paid commissions to an unlicensed agency, which is a violation of 215 ILCS 5/500-80(a) (Crit #69). The license of the agency was in lapsed status when the policy was issued. This finding was applicable to EIE.

## 3. Producer Terminations

No violations were noted.

## E. Risk Selection

### 1. Personal Lines Cancellations, Nonrenewals and Rescissions

In one (1) instance, the Company failed to maintain proof of mailing of the notice of cancellation as required by 215 ILCS 5/143.14(a) (Crit #9). This finding was applicable to EIE.

In one (1) instance, the Company failed to comply with return premium requirements as required by 215 ILCS 5/143.12a(b) (Crit #7). The Company failed to send the return premium in a timely manner. This finding was applicable to EIE.

In 46 instances, the Company did not provide an appropriate lienholder notice as required by 215 ILCS 5/143.17(a) (Crit #2). Lienholder notices were not an exact and unaltered copy of the nonrenewal notice sent to the named insured. These findings were applicable to EIE.

In 15 instances, the Company did not provide an appropriate lienholder notice as required by 215 ILCS 5/143.17(a) (Crit #10). Lienholder notices were not an exact and unaltered copy of the nonrenewal notice sent to the named insured. These findings were applicable to EIC.

In one (1) instance, the Company did not provide the nonrenewal notice to the lienholder as required by 215 ILCS 5/143.17(a) (Crit #11). The Company identified a systemic issue that prevented nonrenewal notices from being sent to lienholders who had been added or amended after the original nonrenewal notice had been sent. This finding was applicable to EIC.

2. Commercial Lines Cancellations, Nonrenewals and Rescissions

No violations were noted.

F. Underwriting and Rating

1. Private Passenger Auto New Business

No violations were noted.

2. Private Passenger Auto Renewals

In one (1) instance, the Company failed to obtain a signed Uninsured Motorist (“UM”) selection/rejection form as required by 215 ILCS 5/143a-2(2) (Crit #47). This finding was applicable to EIC.

3. Homeowners New Business

No violations were noted.

4. Homeowners Renewals

In four (4) instances, the Company failed to obtain the required Illinois Mine Subsidence Coverage waiver form as required by 215 ILCS 5/805.1 (Crit #44). The Company relies on the agents to maintain documentation; however, it was unable to obtain signed waiver forms for items noted above. These findings were applicable to EIE.

5. Personal Catastrophe New Business

No violations were noted.

6. Personal Catastrophe Renewals

No violations were noted.

7. Boat Protector & Inland Marine New Business

No violations were noted.

8. Boat Protector & Inland Marine Renewals

In one (1) instance, the Company used unfiled form WIMMNP 1/09, which is a violation of 215 ILCS 5/143(2) (Crit #25). The form was a Wisconsin form that was incorrectly attached to this policy. This finding was applicable to EIE.

9. Workers' Compensation New Business

In one (1) instance, the Company failed to provide the required deductible offer, which is a violation of 215 ILCS 5/456(1)(e) (Crit #70). The Company relies on documenting the offer on the applications, however, the signed application could not be provided to support the offer. This finding was applicable to EIE.

In one (1) instance, the Company failed to follow the filed NCCI rates and rules manual, which is a violation of 215 ILCS 5/459(5) (Crit #71). The Company failed to obtain an officer's exclusion form. The Company relies on the application to document the insured's election, however, there was no signed application provided. This finding was applicable to EIE.

10. Workers' Compensation Renewals

No violations were noted.

11. Commercial Auto New Business

No violations were noted.

12. Commercial Auto Renewals

No violations were noted.

13. Commercial Multi-Peril New Business

No violations were noted.

14. Commercial Multi-Peril Renewals

No violations were noted.

## 15. All Other Commercial New Business

In four (4) instances, the Company used unfiled forms, obsolete forms and failed to attach applicable forms to a policy, which is a violation of 50 Ill. Adm. Code Part 753.10(a)(1) and (2) (Crit #68). All instances involved one (1) policy. The Company corrected the issues with the current policy term. These findings were applicable to EIE.

## 16. All Other Commercial Renewals

No violations were noted.

## G. Claims

### 1. Private Passenger Auto First-Party Paid

In two (2) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #4). These findings were applicable to EIC.

In one (1) instance, the Company failed to maintain detailed documentation to permit the reconstruction of Company activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #5). This finding was applicable to EIC.

In three (3) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #14). These findings were applicable to EIE.

In one (1) instance, the Company failed to timely pay the claim within 30 days as required by 50 Ill. Adm. Code 919.50(a) (Crit #15). The finding was applicable to EIE.

### 2. Private Passenger Auto First-Party Closed Without Payment

In one (1) instance, the Company failed to timely send the required Exhibit A as required by 50 Ill. Adm. Code 919.80(c) (Crit #12). The Company declared a total loss on 6/24/15, but did not send the total loss packet until 7/23/15. This finding was applicable to EIC.

In one (1) instance, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #13). This finding was applicable to EIC.

In four (4) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #6). These findings were applicable to EIE.

3. Private Passenger Auto Third-Party Paid

In three (3) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(3) (Crit #26). These findings were applicable to EIC.

In two (2) instances, the Company failed to timely pay the claim within 30 days as required by 50 Ill. Adm. Code 919.50(a) (Crit #27). These findings were applicable to EIC.

In three (3) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(3) (Crit #17). These findings were applicable to EIE.

In two (2) instances, the Company failed to timely pay the claim within 30 days as required by 50 Ill. Adm. Code 919.50(a) (Crit #18). These findings were applicable to EIE.

4. Private Passenger Auto Third-Party Closed Without Payment

In one (1) instance, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(3) (Crit #41). This finding was applicable to EIC.

5. Private Passenger Auto Total Losses

In seven (7) instances, the Company failed to timely send the required Exhibit A as required by 50 Ill. Adm. Code 919.80(c) (Crit #16). These findings were applicable to EIC.

In 35 instances, the Company failed to timely send the required Exhibit A as required by 50 Ill. Adm. Code 919.80(c) (Crit #34). These findings were applicable to EIE.

In one (1) instance, the Company failed to timely pay the claim within 30 days as required by 50 Ill. Adm. Code 919.50(a) (Crit #35). The finding was applicable to EIE.

In one (1) instance, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #36). This finding was applicable to EIE.

6. Private Passenger Auto Subrogation

In one (1) instance, the Company failed to return the insured's pro-rata deductible share in a timely manner as required by 215 ILCS 5/143b (Crit #42). The claimant

paid the insured \$100.00 and then paid EIC monthly installments. EIC paid the insured \$35.00 on 2/18/14, 3/12/14 and 4/19/14; however, EIC still owed the insured \$45.00. The Company issued a check for \$45.00 to the insured on 3/17/17. This finding was applicable to EIC.

In two (2) instances, the Company failed to properly distribute the named insured's pro rata deductible at the time monies were collected as required by 215 ILCS 5/143b (Crit #45). These findings were applicable to EIE.

In two (2) instances, the Company failed to timely send the required Exhibit A as required by 50 Ill. Adm. Code 919.80(c) (Crit #46). These findings were applicable to EIE.

#### 7. Homeowners Paid

In one (1) instance, the Company failed to provide a reasonable, written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #19). The finding was applicable to EIC.

In two (2) instances, the Company failed to provide the named insured a reasonable, written explanation with the basis of the lower offer or denial within 30 days after the investigation and determination of liability was completed as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #20). These findings were applicable to EIC.

In one (1) instance, the Company failed to affirm or deny liability on claims within a reasonable time and offer payment within 30 days after affirmation of liability as required by 50 Ill. Adm. Code 919.50(a) (Crit #21). The finding was applicable to EIC.

In one (1) instance, the Company stated "Payment of Final billing" on check issued, which is a violation of 50 Ill. Adm. Code 919.60(a) (Crit #22). The finding was applicable to EIC.

In eight (8) instances, the Company failed to affirm or deny liability on claims within a reasonable time and offer payment within 30 days after affirmation of liability as required by 50 Ill. Adm. Code 919.50(a) (Crit #28). These findings were applicable to EIE.

In three (3) instances, the Company failed to provide a reasonable, written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #29). The findings were applicable to EIE.

In one (1) instance, the Company failed to provide the named insured a reasonable, written explanation for the basis of the lower offer or denial within 30 days after the investigation and determination of liability is completed as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #31). This finding was applicable to EIE.

In one (1) instance, the Company stated “Payment of Final billing” on check issued, which is a violation of 50 Ill. Adm. Code 919.60(a) (Crit #32). The finding was applicable to EIE.

The review of a sample of 107 Homeowners paid claims showed that the median payment period exceeded 40 days, which is a violation of 50 Ill. Adm. Code 919.80(d)(7)(A) (Crit #40). The median for this survey resulted in 43 days. The finding was applicable to EIE.

#### 8. Homeowners Closed Without Payment

In five (5) instances, the Company failed to provide a reasonable, written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #24). These findings were applicable to EIC.

In two (2) instances, the Company failed to provide the insured with a reasonable, written explanation of the basis of the lower offer or denial within 30 days after the investigation and determination of liability as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #37). In one (1) of these instances the Company stated it could not provide a copy of the denial letter, therefore, there was no evidence it was sent. In the second instance, the Company acknowledged that the letter was not sent at all. These findings were applicable to EIE.

In two (2) instances, the Company failed to provide a reasonable, written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #38). These findings were applicable to EIE.

#### 9. Commercial Auto First-Party Paid

In one (1) instance, the Company failed to maintain detailed documentation to permit the reconstruction of the Company’s activities relative to the claim file as required by 50 Ill. Adm. Code 919.30(c) (Crit #48). This finding was applicable to EIE.

#### 10. Commercial Auto First-Party Closed Without Payment

In three (3) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #58). These findings were applicable to EIE.

In one (1) instance, the Company failed to provide the insured with the Notice of Availability and contact information for the Illinois Department of Insurance as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #59). This finding was applicable to EIE.

#### 11. Commercial Auto Third-Party Paid

In one (1) instance, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(3) (Crit #51). This finding was applicable to EIE.

#### 12. Commercial Auto Third-Party Closed Without Payment

No violations were noted.

#### 13. Commercial Auto Total Losses

In 30 instances, the Company failed to timely send the required Exhibit A as required by 50 Ill. Adm. Code 919.80(c) (Crit #56). These findings were applicable to EIE.

In two (2) instances, the Company failed to timely send the claim delay letter as required by 50 Ill. Adm. Code 919.80(b)(2) (Crit #57). These findings were applicable to EIE.

#### 14. Workers' Compensation Paid

In eight (8) instances, the Company failed to provide monthly and/or annual written reports to the insured employers as required by 820 ILCS 305/19(o) (Crit #54). These findings were applicable to EIE.

#### 15. Workers' Compensation Closed Without Payment

No violations were noted.

#### 16. Other Commercial Property Paid

In 11 instances, the Company failed to provide a reasonable, written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #60). The findings were applicable to EIE.

In one (1) instance, the Company failed to timely pay the claim within 30 days as required by 50 Ill. Adm. Code 919.50(a) (Crit #61). The finding was applicable to EIE.

In one (1) instance, the Company failed to submit the required notice to the State's Attorney of the county where the structure is located as required by 215 ILCS 5/397.1(a) (Crit #63). The finding was applicable to EIE.

#### 17. Other Commercial Property Closed Without Payment

In two (2) instances, the Company failed to provide a reasonable written explanation for delay in resolving a claim that was more than 75 calendar days from the date it was reported, to the named insured as required by 50 Ill. Adm. Code 919.80(d)(7)(B) (Crit #52). These findings were applicable to EIE.

In four (4) instances, the Company failed to provide the insured with a reasonable, written explanation of the basis of the lower offer or denial within 30 days after the investigation and determination of liability as required by 50 Ill. Adm. Code 919.50(a)(1) (Crit #53). These findings were applicable to EIE.

#### 18. Other Commercial Liability Paid

No violations were noted.

#### 19. Other Commercial Liability Closed Without Payment

No violations were noted.

### H. Workers' Compensation Unit Statistical Reports (USR)

#### 1. Premium Reports

No violations were noted.

#### 2. Claims Reports

In two (2) instances, the Company failed to follow NCCI's filed Statistical Plan as required by 215 ILCS 5/459(5) (Crit #43). The Company filed incorrect unit statistical reports. In one (1) instance, the Company reported \$40,285.00 to NCCI when the correct amount should have been \$40,340.12. In another instance, the Company reported \$790.00 when it should have reported \$861.74. The Company stated that the difference was due to a recovery received from a medical provider. The Company issued a refund check in the amount of \$71.55 to the insured and submitted correction reports to NCCI. These findings were applicable to EIC.

In four (4) instances, the Company failed to follow the filed NCCI Statistical Plan as required by 215 ILCS 5/459(5) (Crit #55). The reported claim payment amounts did not match the actual claim payments made. The Company submitted correction reports to NCCI. These findings were applicable to EIE.

## **VI. INTERRELATED FINDINGS**

1. In two (2) instances, the Company failed to apply the correct deductible required by the ACLA 01 endorsement. In one (1) instance a \$500.00 deductible was incorrectly applied instead of the applicable \$100.00 deductible and in another instance a \$2,000.00 deductible was incorrectly applied instead of the \$100.00 deductible. The Company reimbursed the difference totaling \$2,300.00 to the insureds. These findings were applicable to EIE.
  
2. In two (2) instances, the Company failed to apply the correct payment. In one (1) instance an underpayment of \$100.00 was made in a claim and in another instance a \$432.00 underpayment was made in a claim. The Company processed both refunds totaling \$543.00 to the insureds. These findings were applicable to EIE.

STATE OF FLORIDA            )  
  ) ss  
COUNTY OF MARION        )

Victor M. Negron, 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 Erie Insurance Company (the "Company"), NAIC #26263 and Erie Insurance Exchange, (the "Company"), NAIC #26271.

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;

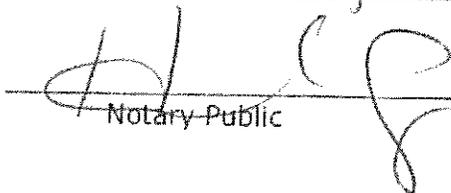
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

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 1<sup>st</sup> day of August, 2017.

  
\_\_\_\_\_  
Notary Public



Humberto Cruz-Ortiz  
State of Florida  
My Commission Expires 08/30/2019  
Commission No. FF 914033

# STATUTE OF ILLINOIS

## DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**ERIE INSURANCE COMPANY  
ERIE INSURANCE EXCHANGE  
100 ERIE INSURANCE PLACE  
ERIE, PA 16530**

### 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, Erie Insurance Company, NAIC 26263, and Erie Insurance Exchange, NAIC 26271, collectively referred to as “the Company,” are 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.*), the Worker’s Compensation Act (820 ILCS 305/1 *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, 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).
2. Institute and maintain policies and procedures whereby the Company shall affirm or deny liability on claims within a reasonable time and shall offer payment within 30 days after determination of liability as required by 50 Ill. Adm. Code 919.50(a).
3. Institute and maintain policies and procedures whereby the Company shall notify the insured employer by the 15th day of each month of any workers' compensation compensable claim incurred during the preceding month and the amounts paid or reserved including a summary and brief statement of the reasons for compensability. The company shall also furnish the insured employer a cumulative report of all claims incurred during the calendar year or continued from the previous year within 30 days after the end of the year as required by 820 ILCS 305/19(o).
4. Institute and maintain policies and procedures whereby the Company shall provide a delay letter on fire and extended coverage claims unresolved for more than 75 calendar days from the date reported, or 25 calendar days after receipt of proof of loss, whichever is less, as required by 50 Ill. Adm. Code 919.80(d)(7)(B).
5. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above four (4) orders within 30 days of execution of this Order.
6. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$21,250 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 ERIE INSURANCE COMPANY and ERIE INSURANCE EXCHANGE

*Tim NeCastro*

Signature

*Timothy NeCastro*

Name

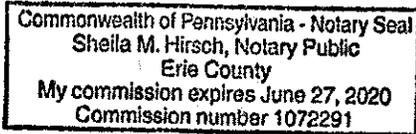
*President + CEO*

Title

Subscribed and sworn to before me this  
15<sup>th</sup> day of JANUARY 2018.

*Sheila M. Hirsch*

Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE

*1/22/18*

*Jennifer Hammer*

Jennifer Hammer  
Director

