



Illinois Department of Insurance

BRUCE RAUNER
Governor

JENNIFER HAMMER
Director

VIA ELECTRONIC MAIL
VIA USPS

January 15, 2019

Donald F. Wurster
President
National Liability & Fire Insurance Company
1314 Douglas Street
Omaha, NE 68102-1944

**Re: National Liability & Fire Insurance Company, NAIC 20052
Market Conduct Examination Report Closing Letter**

Dear Mr. Wurster:

The Department has reviewed your Company's proof of compliance and deems it adequate and sufficient. Therefore, the Department is closing its file on this exam.

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

Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Erica Weyhenmeyer".

Erica Weyhenmeyer
Assistant Deputy Director - Market Conduct
Illinois Department of Insurance
320 West Washington St., 5th Floor
Springfield, IL 62767
Phone: 217-782-1790
E-mail: Erica.Weyhenmeyer@Illinois.gov

ILLINOIS DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION OF

NATIONAL LIABILITY & FIRE INSURANCE COMPANY

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: November 27, 2017 through February 28, 2018

EXAMINATION OF: National Liability & Fire Insurance Company
(NAIC #20052)

LOCATION: 1314 Douglas Street
Omaha, NE 68102-1944

PERIOD COVERED BY
EXAMINATION: September 1, 2016 through August 31, 2017
(Complaints reviewed for the period March 1, 2016 through
August 31, 2017)
(Workers' Compensation reviewed for the period September
1, 2014 through August 31, 2017)

EXAMINERS: Timothy D. Kelley, CIE, MCM, JD, Examiner-in-Charge
Michael Currier, MCM
Cheryl Cole, AIE, MCM, FLMI, LUTCF

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I. SUMMARY

A targeted market conduct examination of National Liability & Fire Insurance Company was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

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

TABLE OF VIOLATIONS						
Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
1	215 ILCS 5/143.10a(1)	Risk Selection: Commercial Automobile Cancellations – First 60 days— Company did not provide loss runs with Notices of Cancellations.	37	37	6	16%
5	215 ILCS 5/143.17a(a)	Risk Selection: Commercial Automobile Nonrenewals— The Company failed to mail written notice to the named insured at least 60 days prior to the expiration date of the current policy.	50	50	1	2%
6	215 ILCS 5/143.17a(d)	Risk Selection: Commercial Automobile Nonrenewals— The Company failed to maintain a proof of mailing of the notice of intention not to renew.	50	50	2	4%
7	215 ILCS 5/143.10a(1)	Risk Selection: Commercial Automobile Nonrenewals— The Company failed to provide the loss information to the insured.	50	50	1	2%
8	215 ILCS 5/143.14(a)	Risk Selection: Commercial Automobile Cancellations – After 60 Days— Company failed to maintain proof of mailing for a ten day cancellation for nonpayment.	221	84	1	1%
9	215 ILCS 5/143a-2(2)	Underwriting: Commercial Automobile New Business— Company failed to obtain Illinois Uninsured and Underinsured Motorist Selection Form.	514	113	5	4%

TABLE OF VIOLATIONS

Crit #	Statute/Rule	Description of Violation	Population	Files Reviewed	Number of Violations	Error %
10	50 Ill. Adm. Code 919.60(a)	Claims: Commercial Automobile First Party Paid— Company failed to abstain from using the words “final” and “release” on claim payments.	113	79	7	9%
11	50 Ill. Adm. Code 919.50(a)(1)	Claims: Commercial Automobile First Party Paid— Company failed to provide Notice of Availability of the Department of Insurance.	113	79	1	1%
12	215 ILCS 5/143.17a(b)	Underwriting: Commercial Automobile Renewals— Company failed to deliver proper written notice of the premium increase to the insured.	401	86	2	2%
13	820 ILCS 305/19(o)	Claims: Workers’ Compensation Paid— Company failed to provide monthly or annual claim reports.	166	76	76	100%
14	820 ILCS 305/8.2(d)(1)	Claims: Workers’ Compensation Paid— Company did not make timely payments to providers.	166	76	35	46%
15	820 ILCS 305/8.2(d)(3)	Claims: Workers’ Compensation Paid— Company did not pay interest to providers for late payments. (Interest paid during exam.)	166	76	35	46%

II. BACKGROUND

National Liability & Fire Insurance Company (the “Company”) was incorporated under the laws of the State of Illinois on April 23, 1957, and redomesticated to the State of Connecticut on December 6, 1995. The Company is a wholly owned subsidiary of Berkshire Hathaway Inc. writing property and casualty lines of business in the United States and Canada. The Company writes mainly commercial automobile, workers’ compensation, aircraft and cargo (inland marine) insurance coverages.

The commercial automobile and cargo coverages are managed and underwritten from the administrative offices in Omaha, Nebraska; this business is sold nationwide through wholesale insurance agents, brokers, and one direct agency. The workers’ compensation coverage is directed and managed from the statutory offices in Stamford, Connecticut; this business is sold through underwriting managers, a program manager and online.

The Company’s corporate offices are located at 1314 Douglas Street, Omaha NE 68102.

National Liability & Fire Insurance Company’s 2016 NAIC Annual Statement (Statutory Page 14) reflects the following for Illinois:

Line of Business	Direct Premium Written	Direct Premium Earned	Direct Losses Paid	Direct Losses Incurred
Fire				(6)
Allied Lines				(66)
Ocean Marine				(33,594)
Inland Marine	\$1,679,920	\$2,558,541	\$1,834,632	\$1,252,409
Earthquake				(23)
All Other A&H	36,286	17,043		7,258
Workers’ Compensation	8,439,149	7,688,755	1,959,170	4,904,796
Other Liability Occurrence	396,915	518,134		795,763
Other Liability Claims Made	1,000,701	2,468,324	340,000	(786,469)
Products Liability	75,110	78,446		2,962
Other Commercial Automobile Liability	19,888,930	30,791,194	10,288,051	13,796,582
Comm. Automobile Physical Damage	3,167,845	3,822,322	1,688,325	1,831,560
Aircraft	1,191,475	1,194,008	689,082	1,243,225
Surety	27,170	27,170		
Boiler and Machinery				(1)
TOTALS	\$35,903,501	\$49,163,937	\$16,799,260	\$23,014,396

III. METHODOLOGY

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The period under review was generally September 1, 2016 through August 31, 2017, with the exception of March 31, 2016 through August 31, 2017 for Complaints and September 1, 2014 through August 31, 2017 for Workers' Compensation. The following categories were the general areas examined:

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

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

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

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

A. Complaint Handling

Department of Insurance Complaints and Consumer Complaints for the period March 1, 2016 through August 31, 2017, were reviewed for compliance with applicable state laws and Company guidelines.

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

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

B. Risk Selection

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

C. Underwriting and Rating

The Underwriting and Rating portion of the examination consisted of reviewing new and renewal business. Samples were selected based on the inception and renewal date occurring during the examination period. Policies were reviewed for use of filed forms and compliance with underwriting guidelines.

D. Claims

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

SELECTION OF SAMPLES

National Liability & Fire Insurance Company

	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
<u>Complaint Handling</u>			
DOI Complaints	11	11	100%
Consumer Complaints	1	1	100%
<u>Risk Selection</u>			
Commercial Automobile Cancellations – First 60 Days	37	37	100%
Commercial Automobile Cancellations – After 60 Days	221	84	38%
Commercial Automobile Nonrenewals	50	50	100%
Commercial Automobile Rescissions	0	0	0%
Workers' Compensation Cancellations – First 60 Days	14	14	100%
Workers' Compensation Cancellations – After 60 Days	62	62	100%
Workers' Compensation Nonrenewals	32	32	100%
Workers' Compensation Rescissions	0	0	100%
<u>Underwriting and Rating</u>			
Commercial Automobile New Business	514	113	22%
Commercial Automobile Renewals	401	86	21%
Workers' Compensation New Business	654	113	17%
Workers' Compensation Renewals	422	86	20%
<u>Claims</u>			
Commercial Automobile First Party Paid	113	79	70%
Commercial Automobile First Party CWP	75	75	100%
Commercial Automobile Total Losses	33	33	100%
Commercial Automobile Third Party Paid	603	113	19%
Commercial Automobile Third Party CWP	464	86	19%
Workers' Compensation Paid	166	76	46%
Workers' Compensation CWP	44	44	100%

IV. FINDINGS

A. Complaint Handling

1. Department of Insurance Complaints

No violations were noted.

2. Consumer Complaints

No violations were noted.

B. Risk Selection

1. Commercial Automobile Cancellations – First 60 Days

In six (6) cancellations, the Company did not provide loss runs with Notices of Cancellations as required by 215 ILCS 5/143.10a(1).

2. Commercial Automobile Cancellations – After 60 Days

In one (1) cancellation, the Company failed to maintain proof of mailing for a ten day cancellation for nonpayment as required by 215 ILCS 5/143.14(a).

3. Commercial Automobile Nonrenewals

In one (1) nonrenewal, the Company failed to mail written notice to the named insured at least 60 days prior to the expiration date of the current policy as required by 215 ILCS 5/143.17a(a).

In two (2) nonrenewals, the Company failed to maintain a proof of mailing of the notice of intention not to renew as required by 215 ILCS 5/143.17a(d).

In one (1) nonrenewal, the Company failed to provide the loss information to the insured as required by 215 ILCS 5/143.10a(1).

4. Commercial Automobile Rescissions

No violations were noted.

5. Workers' Compensation Cancellations – First 60 days

No violations were noted.

6. Workers' Compensation Cancellations – After 60 Days

No violations were noted.

7. Workers' Compensation Nonrenewals

No violations were noted.

8. Workers' Compensation Rescissions

No violations were noted.

C. Underwriting and Rating

1. Commercial Automobile New Business

In five (5) new business files, the Company failed to obtain an Illinois Uninsured and Underinsured Motorist Selection Form as required by 215 ILCS 5/143a-2(2).

2. Commercial Automobile Renewals

In two (2) renewal files, the Company failed to deliver proper written notice of the premium increase to the insured as required by 215 ILCS 5/143.17a(b).

3. Workers' Compensation New Business

No violations were noted.

4. Workers' Compensation Renewals

No violations were noted.

D. Claims

1. Commercial Automobile First Party Paid

In seven (7) claims, the Company failed to abstain from using the terms “final” and “release” on claim payments as required by 50 Ill. Adm. Code 919.60(a).

In one (1) claim, the Company failed to provide Notice of Availability of the Department of Insurance as required by 50 Ill. Adm. Code 919.50(a)(1).

2. Commercial Automobile First Party CWP

No violations were noted.

3. Commercial Automobile Total Losses

No violations were noted.

4. Commercial Automobile Third Party Paid

No violations were noted.

5. Commercial Automobile Third Party CWP

No violations were noted.

6. Workers' Compensation Paid

In 76 claims, the Company failed to provide monthly or annual claim reports as required by 820 ILCS 305/19(o).

In 35 claims, the Company failed to pay claims within 30 days of receipt as required by 820 ILCS 305/8.2(d)(1).

In 35 claims, the Company failed to pay interest on late payments as required by 820 ILCS 305/8.2(d)(3). The interest was paid by the Company during the examination.

7. Workers' Compensation CWP

No violations were noted.

STATE OF KANSAS)
) ss
COUNTY OF JOHNSON)

Timothy Kelley, 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 The National Liability and Fire Insurance Company, (the "Company"), NAIC #20052;

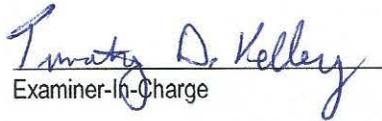
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish 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;

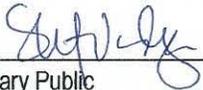
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

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 26th day of March, 2018.



Notary Public



STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

NATIONAL LIABILITY & FIRE INSURANCE COMPANY
1314 DOUGLAS STREET, SUITE 1400
OMAHA, NE 68102-1944

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, National Liability & Fire Insurance Company ("the Company"), NAIC 20052, 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.*), 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 loss information for the three (3) previous policy years to the insured at the same time as the notice of cancellation or nonrenewal as required by and outlined in 215 ILCS 5/143.10a(1).
2. Institute and maintain policies and procedures whereby the Company shall not indicate to an insured on any payment draft, check or in any accompanying letter that said payment is "final" or "a release" of any claim unless the policy limit has been paid or there is a bona fide dispute either over coverage or the amount payable under the policy as required by 50 Ill. Adm. Code 919.60(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 ensure claims submitted by providers are paid within 30 days of receipt of the bill which contains substantially all of the required data elements necessary to adjudicate the bill as required by 820 ILCS 305/8.2(d)(1).
5. Institute and maintain policies and procedures whereby the Company shall ensure interest is paid at a rate of one percent (1%) per month on any workers' compensation medical bill or portion unpaid within such 30-day period as required by 820 ILCS 305/8.2(d)(3).
6. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above five (5) orders within 30 days of execution of this Order.
7. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$22,250.00 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 NATIONAL LIABILITY & FIRE INSURANCE COMPANY

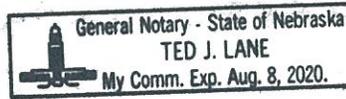
Philip M. Wolf
Signature

PHILIP M. WOLF
Name

SENIOR VICE PRESIDENT
Title

Subscribed and sworn to before me this
28th day of NOVEMBER 2018.

Ted J. Lane
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE 12/13/18

Karin Zaset
~~Jennifer Hammer~~ Acting Director

