



Illinois Department of Insurance

JB Pritzker
Governor

Dana Popish Severinghaus
Acting Director

VIA ELECTRONIC MAIL

September 14, 2021

Mr. Timothy NeCastro, President
c/o Penelope Andrews
Erie Insurance Company
100 Erie Ins. Place
Erie, PA 16530

Re: Erie Insurance Company, NAIC 26263
Erie Insurance Property & Casualty Company, NAIC 26830
Erie Insurance Exchange, NAIC 26271
Market Conduct Examination Report Closing Letter

Dear Mr. NeCastro:

The Department has received your Company's proof of compliance. Therefore, the Department is closing its file on this exam.

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

Please contact me if you have any questions.

Sincerely,

Erica Weyhenmeyer

Erica Weyhenmeyer
Chief Market Conduct Examiner
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

**ERIE INSURANCE COMPANY
ERIE INSURANCE PROPERTY & CASUALTY COMPANY
ERIE INSURANCE EXCHANGE**

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION:

EXAMINATION OF:

Erie Insurance Exchange NAIC #26271

Erie Insurance Company NAIC #26263

Erie Insurance Property & Casualty Company NAIC #26830

LOCATION:

100 Erie Insurance Place

Erie, PA 16530

PERIOD COVERED BY

EXAMINATION:

July 1, 2017 through July 13, 2020

EXAMINERS:

Lucinda Woods, Examiner-in-Charge

Linda Miller, Examiner

June Coleman, Examiner

Shelly Schuman, Supervisory Insurance Examiner

INDEX

I. FOREWORD.....	1
II. SCOPE OF THE EXAMINATION	2
III. SUMMARY	3
IV. BACKGROUND.....	4
V. METHODOLOGY	6
VI. SAMPLE SELECTION	7
VII. FINDINGS	8
a. Underwriting.....	8
b. Policyholder service	8
i. Department Complaints.....	8
ii. Consumer Complaints.....	8
iii. Telephone Complaints	8
c. Producer Licensing	8
d. Marketing and Sales.....	9

I. FOREWORD

This is a market conduct examination report of Erie Insurance Exchange, Erie Insurance Company, and Erie Insurance Property & Casualty Company (“Company” or “Companies”). This examination was conducted at the offices of the Company at 100 Erie Insurance Place, Erie, PA 16530, the office of the Illinois Department of Insurance in Springfield, Illinois or other authorized offsite locations.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures or files does not constitute approval thereof by the Illinois Department of Insurance (“IDOI” or “Department”).

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

II. SCOPE OF THE EXAMINATION

The Department has the authority to conduct this examination pursuant to, but not limited to, 215 ILCS 5/132.

The purpose of the examination was to determine if the Company complied with the Illinois Insurance Code (215 ILCS 5/1 et seq.), the Illinois Administrative Code (50 Ill. Admin. Code 101 et seq.), and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review was July 1, 2017 to July 13, 2020, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination involved the following business functions and lines of business: agency terminations and the handling of the related business.

In performing this examination, the examiners reviewed a sample of the Company's practices, procedures, producer licensing, producer contracting, producer termination and complaints. Therefore, some noncompliant events may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

III. SUMMARY

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

Crit #	Statute/Rule	Survey / Description	Population	Files Reviewed	Violations	Error %
1	50 ILL Adm. Code 919.50(a)(2) and 50 ILL Adm. Code 919.40	Department of Insurance Complaints – Failure to include the correct Chicago Department of Insurance address in the Notice of Availability.	47	47	1	2.13%
4	215 ILCS 5/143.20	Department of Insurance Complaints- Failed to include in their notice of non-renewal to the Insured, of their right of Eligibility to the Illinois Automobile Insurance Plan.	78	78	1	1.28%
6	215 ILCS 5/143.20	Consumer Complaints- Failed to include in their notice of non-renewal to the Insured, of their right of Eligibility to the Illinois Automobile Insurance Plan.	50	50	2	4.00%
8	215 ILCS 5/143.20	EIC - Telephone Complaints- Failed to include in their notice of non-renewal to the Insured, of their right of Eligibility to the Illinois Automobile Insurance Plan.	115	50	1	2.0%
10	215 ILCS 5/143.20	EIE - Telephone Complaints- Failed to include in their notice of non-renewal to the Insured, of their right of Eligibility to the Illinois Automobile Insurance Plan.	312	50	21	42%

Crit #	Statute/Rule	Description-Business Practice
16	215 ILCS 5/500-77 and 215 ILCS 5/149	The Company improperly used a terminated agent’s expirations to renew personal lines and commercial lines policies. Without the written consent of the agent, the Company made direct contact with the agent’s policyholders by letter advising that policies would be renewed, systematically moved policies to the Company as “branch accounts” and renewed policies without a specific policyholder request. These are violations of 215 ILCS 5/500-77. In one situation the Company sent a cancellation notice to a policyholder that included an inaccurate reason notice for cancellation in violation of 215 ILCS 5/149.

IV. BACKGROUND

Erie Insurance Exchange

Erie Insurance Exchange (“Exchange”) is a Pennsylvania domiciled reciprocal insurance exchange organized under Article X of Pennsylvania’s Insurance Company Law of 1921 under which individuals, partnerships and corporations are authorized to exchange reciprocal or inter-insurance contracts with each other, or with individuals, partnerships, and corporations of other states and countries, providing indemnity among themselves from any loss which may be insured against under any provision of the insurance laws except life insurance. Each applicant for insurance from the Exchange signs a subscriber’s agreement, which appoints Erie Indemnity Company (“Indemnity”) as the attorney-in-fact for the subscriber (policyholder) to transact the business of the Exchange on their behalf. As attorney-in-fact, Indemnity is required to perform certain services relating to the sales, underwriting and issuance of policies on behalf of the Exchange. Indemnity also provides management services to the Exchange and its insurance subsidiaries. Indemnity is a public company and, as such, is regulated by the Securities and Exchange Commission (“SEC”) and is subject to the Rules of the Nasdaq Stock Market. Erie Insurance Exchange began operations on April 20, 1925.

The 2019 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC # 26271

Line	Direct premium written
Fire	\$922,192
Allied lines	\$362,138
Homeowners multiple peril	\$16,945,629
Commercial multiple peril (non-liability portion)	\$29,288,444
Commercial multiple peril (liability portion)	\$23,263,129
Inland marine	\$812,831
Workers’ compensation	\$15,445,394
Other liability-occurrence	\$9,343,337
Other liability-claims-made	\$9,685
Products liability	\$78,075
Other private passenger auto liability	\$53,673,925
Other commercial auto liability	\$22,292,506
Private passenger auto physical damage	\$45,162,499
Commercial auto physical damage	\$9,078,723
Total	\$226,678,508

Erie Insurance Company

Erie Insurance Company was incorporated September 11, 1972, under the laws of Pennsylvania. They first began business on January 1, 1973. This is a companion carrier of Erie Insurance Exchange.

The 2019 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC # 26263

Line	Direct premium written
Homeowners multiple peril	\$57,453,928
Commercial multiple peril (non-liability portion)	
Commercial multiple peril (liability portion)	
Workers' compensation	\$6,030,188
Other Private passenger auto liability	\$1,072,223
Private Passenger Auto physical damage	\$912,914
Fidelity	\$10,942
Surety	\$225,759
Total	\$65,705,954

Erie Insurance Property & Casualty Company

The 2019 NAIC Annual Statement Page 19 (Illinois) reflects the following: NAIC #26830

Line	Direct premium written
Workers' compensation	\$2,732,606

V. METHODOLOGY

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The scope of the examination includes, but is not limited to, the Company's practices and procedures relating to activities in:

- a. Agency terminations and the handling of the related business
- b. Complaints & Producer Review
- c. Marketing and Sales

Lines of business under review will include for commercial (commercial multi-peril, general liability, and commercial automobile), and for personal lines (homeowners and private passenger auto) policies. As there were no policies in Erie Insurance Property & Casualty Company for these lines of business, the Company was not reviewed.

The review of these categories is accomplished through examination of individual underwriting, written interrogatories and interviews with company personnel. Each of these categories is examined for compliance with Department of Insurance rules and regulations and applicable state laws. In addition, two thousand (2,000) plus emails and documents were reviewed to understand how the Company interacted and communicated with their Illinois producers with a specific focus on the Company's agency termination process.

Underwriting

A review was conducted of the Company's practices of underwriting, terminating and handling policies of terminated producers for compliance with Illinois laws.

Complaints & Producer Review

Complaints were reviewed for completion, accuracy and validity of the complaint based on complaints received by the Department, consumer and telephone during the examination experience period.

Producer processes and procedures were reviewed for their compliance with statutory requirements.

Marketing & Sales

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the Company about its products or services. The items requested for this category consisted of all sales, advertising, producer training, and producer communications created during the examination period. This portion is not typically based on sampling techniques. This review was based on a judgmental sample.

VI. SAMPLE SELECTION

Survey	Population	# Reviewed	% Reviewed
Department Complaints			
Erie Insurance Exchange	78	78	100%
Erie Insurance Co	47	47	100%
Consumer Complaints			
Erie Insurance Exchange	50	50	100%
Erie Insurance Co	12	12	100%
Telephone Complaints			
Erie Insurance Exchange	312	50	16%
Erie Insurance Co	115	50	44%

Survey	Population	# Reviewed	% Reviewed
Producer Licensing	1826	N/A	N/A
Producer Terminations	546	N/A	N/A
Producer Licensed	1280	N/A	N/A

VII. FINDINGS

a. Underwriting:

The Company was criticized for renewing personal lines policies by making direct contact with a terminated agent's policyholders by sending letters advising the insureds the Company would be renewing the policies directly in violation of 215 ILCS 5/500-77.

The Company was criticized for sending a cancellation notice to a policyholder that included an inaccurate reason for cancellation in violation of 215 ILCS 5/149.

b. Policyholder service

i. Department Complaints

1. The Company was criticized for failure to include in their notice of non-renewal to the insured, of their right of eligibility to the Illinois Automobile Insurance Plan in violation of 215 ILCS 5/143.20.
2. The Company was criticized for failure to include the correct Chicago Department of Insurance address in the Notice of Availability in violation of 50 ILL Adm. Code 919.50 (a)(2) as defined by 50 ILL Adm. Code 919.40.

ii. Consumer Complaints

1. The Company was criticized for failure to include in their notice of non-renewal to the insured, of their right of eligibility to the Illinois Automobile Insurance Plan in violation of 215 ILCS 215 ILCS 5/143.20.

iii. Telephone Complaints

1. Applicable to EIC -The Company was criticized for failure to include in their notice of non-renewal to the insured, of their right of eligibility to the Illinois Automobile Insurance Plan in violation of 215 ILCS 5/143.20.
2. Applicable to EIE - The Company was criticized for failure to include in their notice of non-renewal to the insured, of their right of eligibility to the Illinois Automobile Insurance Plan. In violation of 215 ILCS 5/143.20.

c. Producer Licensing

No criticisms were found in this survey.

d. Marketing and Sales

- i. The Agency Agreement between the Company and one of its agents provides that the agent owns all expirations and that if the Agency Agreement is terminated, the Company will not renew property and casualty policies within the agent's expirations unless required by law or as agreed. Agency Agreement, p. 6. The Agency Agreement further provides that promptly after termination, the Company will nonrenew property and casualty policies within the terminated agent's expirations to the extent permitted by law. Id. at p. 5.
- ii. The Company terminated the agent due to the sale of the agency. Instead of nonrenewing property and casualty policies within the terminated agent's expirations upon the termination of the Agency Agreement, the Company used policy information owned by the terminated agent to renew both personal lines and commercial lines policies without any request by the policyholder or the terminated agent's permission to do so. This was accomplished by systematically moving the terminated agent's accounts to "branch account" status and, in the case of personal lines accounts, also directly contacting the insured and advising that the insured's policy would be renewed as a branch account. This was a violation of 215 ILCS 5/500-77. The Company sent a cancellation notice to one account that included an inaccurate reason for cancellation in violation of 215 ILCS 5/149.
- iii. Section 500-77 of the Illinois Insurance Code provides that "all information relative to an insurance policy" is owned by the agent and the insured. Furthermore, "no insurance company...shall use such expirations, records, or other written or electronically stored information to solicit, sell, or negotiate the renewal or sale of insurance coverage, insurance products, or insurance services to the insured or for any other marketing purposes, either directly or by providing such information to others, without, separate from the general agency contract, the written consent of the business entity." 215 ILCS 5/500-77.
- iv. Section 141.02(4)(B) of the Illinois Insurance Code requires in certain instances, among other things, that the carrier "renew all policies written by the [terminated] independent insurance agent for one policy term or for a period of one year if the policy is longer than one year...." Under, however, § 141.02(5), "[p]aragraphs (1) through (4) of this Section shall not apply to terminations for...sale or material change of ownership of agency..." Consequently, the Company had no obligation or right to renew the terminated agent's policies without permission, as the Agency Agreement was terminated due to a change in ownership.
- v. The Company has nevertheless contended its actions were compelled by § 141.01 of the Illinois Insurance Code. This is incorrect. Section 141.01 states that a carrier cannot "refuse to renew any policy on the ground that the company's contract with the agent through whom such policy was obtained has been terminated." 215 ILCS 5/141.01 (emphasis added). The use of the phrase "refuse to renew" means that the insured must make a request for renewal, which the carrier cannot refuse on the ground that the agency agreement has been terminated. *Com-Co Ins. Agency, Inc. v. West Bend Mutual Ins. Co.*, 666 F. Supp. 1126 (N.D. Ill. 1987). There is no indication in the sample files reviewed by the examiner that any of the terminated agent's insureds made a request for renewal.

EXAMINATION DRAFT REPORT SUBMISSION

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged and appreciated.

Linda Miller, Examiner
June Coleman, Examiner
Lucinda Woods, Examiner-in-Charge
Shelly Schuman, Supervisory Insurance Examiner

Respectfully submitted,

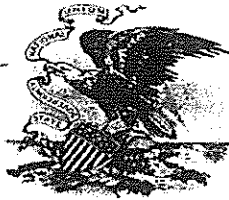
Lucinda Woods

LUCINDA WOODS
EXAMINER-IN-CHARGE



SHELLY SCHUMAN
SUPERVISING EXAMINER

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

ERIE INSURANCE COMPANY
100 ERIE INS. 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, Erie Insurance Property & Casualty Company, NAIC 26830, and Erie Insurance Exchange, NAIC 26271, ("the Company"), 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 covering the examination period of July 1, 2017 to July 13, 2020, which is an official document of the Department; and

WHEREAS, the Market Conduct Examination Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands their various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407, and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, they waive any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and Department Regulations; and
2. The Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain policies and procedures whereby the Company shall include in their notice of non-renewal to the Insured, of their right of Eligibility to the Illinois Automobile Insurance Plan - 215 ILCS 5/143.20.
2. Institute and maintain policies and procedures whereby the Company shall not use a terminated agent's expirations to solicit the renewal of or to renew personal lines and commercial lines policies unless required or permitted to do so by law - 215 ILCS 5/500-77. The company also shall not send a cancellation notice to a policyholder that includes an inaccurate reason for the cancellation - 215 ILCS 5/149.
3. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above two (2) orders within 30 days of execution of this Order.
4. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$80,000.00 to be paid within 10 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, ERIE INSURANCE PROPERTY & CASUALTY COMPANY, and ERIE INSURANCE EXCHANGE.

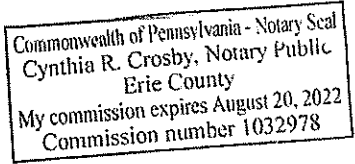
Brian W. Bolash
Signature

BRIAN W. BOLASH
Name

SVP, GENERAL COUNSEL
Title

Subscribed and sworn to before me this
28 day of July 2021.

Cynthia R. Crosby
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE August 4, 2021

Dana Popish Severinghaus SW
Dana Popish Severinghaus
Acting Director

