



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

August 3, 2018

Mr. Scott Martin  
President  
Pekin Insurance Company  
Farmers Automobile Insurance Association  
2505 Court Street  
Pekin, IL 61558

**Re: Pekin Insurance Company, NAIC 24228**  
**Farmers Automobile Insurance Association, NAIC 24201**  
***Market Conduct Examination Report Closing Letter***

Dear Mr. Martin:

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

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

Please contact me if you have any questions.

Sincerely,

Erica Weyhenmeyer  
Temporary Assistant Deputy Director - Market Conduct  
Illinois Department of Insurance  
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ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF

PEKIN INSURANCE COMPANY  
AND  
FARMERS AUTOMOBILE INSURANCE ASSOCIATION

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: August 21, 2017 through December 21, 2017

EXAMINATION OF: Pekin Insurance Company  
(NAIC #24228)

Farmers Automobile Insurance Association  
(NAIC #24201)

LOCATION: 2505 Court Street  
Pekin, Illinois 61558

PERIOD COVERED BY EXAMINATION: May 1, 2016 through April 30, 2017  
(Complaints reviewed for the period November 1, 2015 through April 30, 2017.)  
(Workers' Compensation reviewed for the period May 1, 2014 through April 30, 2017.)

EXAMINERS: Timothy R. Nutt, Examiner-in-Charge  
Ben Darnell, Senior Examiner  
Aubrey Powell, Examiner  
Miryam Ramirez, Senior Examiner  
John Watts, Examiner

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## I. SUMMARY

A targeted market conduct examination of Pekin Insurance Company (“PIC or Company”) and Farmers Automobile Insurance Association (“FAIA or Association”) (collectively “the Companies”) 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 VIOLATIONS</b> |                              |  |             |                |                      |            |
|----------------------------|------------------------------|--|-------------|----------------|----------------------|------------|
| Crit #                     | Statute/Rule                 | Description of Violation   | Population  | Files Reviewed | Number of Violations | Error %    |
| 1                          | 215 ILCS<br>5/143.15         | Risk Selection: Homeowners   | 2           | 2              | 1                    | 50%        |
|                            |                              | Cancellations First 60 days—Lien holder notice did not contain a specific reason for the cancellation or no proof of mailing. (PIC and FAIA) | 124         | 77             | 11                   | 14%        |
|                            |                              |  | <u>126</u>  | <u>79</u>      | <u>12</u>            | <u>15%</u> |
| 2                          | 215 ILCS<br>5/143.15         | Risk Selection: Private Passenger Automobile (“Automobile”)  | 30          | 10             | 2                    | 20%        |
|                            |                              | Cancellations First 60 days—Lien holder notice did not contain a specific reason for the cancellation. (PIC and FAIA)                        | 226         | 74             | 20                   | 27%        |
|                            |                              |  | <u>256</u>  | <u>84</u>      | <u>22</u>            | <u>26%</u> |
| 3                          | 215 ILCS<br>5/143.17(e)      | Risk Selection: Automobile   | 30          | 7              | 2                    | 29%        |
|                            |                              | Nonrenewals—Lien holder notice did not contain a specific reason for nonrenewal. (PIC and FAIA)  | 335         | 77             | 28                   | 36%        |
|                            |                              |  | <u>365</u>  | <u>84</u>      | <u>30</u>            | <u>36%</u> |
| 4                          | 215 ILCS<br>5/143.21.1(3)    | Risk Selection: Homeowners   | 279         | 57             | 1                    | 2%         |
|                            |                              | Nonrenewals—Failure to provide timely notice of nonrenewal. (PIC and FAIA)   | 278         | 56             | 1                    | 2%         |
|                            |                              |  | <u>557</u>  | <u>113</u>     | <u>2</u>             | <u>2%</u>  |
| 6                          | 215 ILCS<br>5/143.14(a)      | Risk Selection: Workers’ Compensation Cancellations First 60 Days—Failure to maintain proof of mailing. (PIC)                                | 382         | 84             | 3                    | 4%         |
| 8                          | 215 ILCS<br>5/143.14(a)      | Risk Selection: Workers’ Compensation Cancellations After 60 Days—Failure to maintain proof of mailing. (PIC)                                | 6055        | 116            | 2                    | 2%         |
| 10                         | 215 ILCS<br>5/143.14(a)      | Risk Selection: Homeowners   | 2           | 2              | 0                    | 0%         |
|                            |                              | Cancellations First 60 days—Failure to maintain proof of mailing. (FAIA)   | 124         | 77             | 2                    | 3%         |
|                            |                              |  | <u>126</u>  | <u>79</u>      | <u>2</u>             | <u>3%</u>  |
| 11                         | 215 ILCS<br>5/143.15         | Risk Selection: Automobile Cancellations   | 552         | 12             | 4                    | 33%        |
|                            |                              | After 60 days—Lien holder notice did not contain a specific reason for cancellation or no proof of mailing. (PIC and FAIA)                   | 5029        | 104            | 36                   | 35%        |
|                            |                              |  | <u>5581</u> | <u>116</u>     | <u>40</u>            | <u>34%</u> |
| 12                         | 50 Ill. Adm. Code<br>2902.30 | Underwriting: Workers’ Compensation New Business—Use of unfiled rates. (PIC)   | 8045        | 116            | 11                   | 9%         |

**TABLE OF VIOLATIONS**

| Crit # | Statute/Rule                      | Description of Violation   | Population  | Files Reviewed | Number of Violations | Error %    |
|--------|-----------------------------------|--|-------------|----------------|----------------------|------------|
| 13     | 50 Ill. Adm. Code 919.60(a)       | Claims: Homeowners Paid—Payment indicated final when such was not the case. (PIC)  | 863         | 25             | 1                    | 4%         |
|        |                                   |  | 2949        | 83             | 0                    | 0%         |
|        |                                   |  | <u>3812</u> | <u>108</u>     | <u>1</u>             | <u>1%</u>  |
| 15     | 50 Ill. Adm. Code 919.80(d)(7)(B) | Claims: Homeowners Paid—Failure to provide delay letter or the letter contained inaccurate Notice of Availability of the DOI. (PIC and FAIA) | 863         | 25             | 1                    | 4%         |
|        |                                   |  | 2949        | 83             | 5                    | 6%         |
|        |                                   |  | <u>3812</u> | <u>108</u>     | <u>6</u>             | <u>6%</u>  |
| 16     | 50 Ill. Adm. Code 919.80(b)(3)    | Claims: Automobile Third-Party Paid—Failure to provide written notice of delay. (FAIA)   | 177         | 7              | 0                    | 0%         |
|        |                                   |  | 2532        | 101            | 1                    | 1%         |
|        |                                   |  | <u>2709</u> | <u>108</u>     | <u>1</u>             | <u>1%</u>  |
| 17     | 50 Ill. Adm. Code 919.50(a)       | Claims: Automobile Third-Party Paid—Failure to pay claim timely. (FAIA)  | 177         | 7              | 0                    | 0%         |
|        |                                   |  | 2532        | 101            | 2                    | 2%         |
|        |                                   |  | <u>2709</u> | <u>108</u>     | <u>2</u>             | <u>2%</u>  |
| 18     | 50 Ill. Adm. Code 919.80(c)       | Claims: Automobile Total Losses—Failure to provide Exhibit A information or not provided timely. (PIC and FAIA)                              | 34          | 7              | 4                    | 57%        |
|        |                                   |  | 408         | 76             | 39                   | 51%        |
|        |                                   |  | <u>442</u>  | <u>83</u>      | <u>43</u>            | <u>52%</u> |
| 19     | 50 Ill. Adm. Code 919.80(b)(3)    | Claims: Automobile Third-Party CWP—Failure to provide written notice of delay timely. (FAIA)   | 19          | 9              | 0                    | 0%         |
|        |                                   |  | 142         | 67             | 1                    | 1%         |
|        |                                   |  | <u>161</u>  | <u>76</u>      | <u>1</u>             | <u>1%</u>  |
| 20     | 215 ILCS 5/154.6(a)               | Claims: Homeowners Paid—Failure to settle claim according to policy provisions. (FAIA)   | 863         | 25             | 0                    | 0%         |
|        |                                   |  | 2949        | 83             | 4                    | 5%         |
|        |                                   |  | <u>3812</u> | <u>108</u>     | <u>4</u>             | <u>4%</u>  |
| 21     | 50 Ill. Adm. Code 919.50(a)(1)    | Claims: Homeowners CWP—Failure to send denial letter. (FAIA)   | 116         | 20             | 0                    | 0%         |
|        |                                   |  | 359         | 63             | 1                    | 2%         |
|        |                                   |  | <u>475</u>  | <u>83</u>      | <u>1</u>             | <u>1%</u>  |
| 23     | 215 ILCS 5/1005(B)(4)             | Operations and Management —Use of noncompliant privacy form. (PIC and FAIA)  | 1           | 1              | 1                    | 100%       |
| 25     | 820 ILCS 305/8.2(d)(1)            | Claims: Workers' Compensation Paid—Failure to pay claim timely. (PIC)  | 1482        | 107            | 13                   | 12%        |
| 26     | 820 ILCS 305/8.2(d)(3)            | Claims: Workers' Compensation Paid—Failure to pay required interest. (PIC)   | 1482        | 107            | 13                   | 12%        |

## II. BACKGROUND

Pekin Insurance Company is a subsidiary of The Farmers Automobile Insurance Association. Pekin Insurance Company is a capital stock insurance company organized under the laws of the State of Illinois on May 22, 1961. The Company sells insurance through independent agents and is currently writing business in Arizona, Illinois, Indiana, Iowa, Ohio and Wisconsin. Insurance products primarily include private passenger automobile (“automobile”), commercial automobile, homeowner multi-peril, commercial multi-peril, fire, allied lines, workers’ compensation and inland marine.

The Farmers Automobile Insurance Association is a reciprocal exchange organized under the laws of the State of Illinois on April 1, 1921. The Association sells insurance through independent agents and is currently writing business in Arizona, Illinois, Indiana, Iowa and Wisconsin. Insurance products primarily include private passenger automobile, commercial automobile, homeowner multi-peril, fire, allied lines and inland marine.

The Companies’ corporate offices are located at 2505 Court Street, Pekin, Illinois 61558.

Pekin 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                             | 528,093                | 518,499               | 669,066            | 226,758                |
| Allied Lines                     | 907,751                | 860,829               | 118,193            | 88,118                 |
| Homeowners Multiple Peril        | 11,979,291             | 12,876,834            | 7,504,877          | 8,037,773              |
| CMP Non-Liability                | 26,506,553             | 26,349,461            | 13,903,354         | 13,079,116             |
| CMP Liability                    | 35,567,512             | 35,035,694            | 10,509,893         | 22,854,946             |
| Inland Marine                    | 1,539,638              | 1,614,238             | 196,965            | 251,841                |
| Workers’ Compensation            | 60,919,168             | 60,093,904            | 25,456,129         | 26,986,553             |
| Other Liability - Occurrence     | 10,029,048             | 9,752,039             | 4,391,716          | 8,091,421              |
| Products Liability               | 652,974                | 644,184               | 117,997            | (91,975)               |
| Other Automobile (PPA) Liability | 3,484,730              | 3,468,102             | 2,549,356          | 3,358,062              |
| Other Comm. Auto Liability       | 22,986,055             | 22,742,001            | 16,717,268         | 23,305,492             |
| PPA Physical Damage              | 2,666,702              | 2,636,035             | 1,329,671          | 877,962                |
| Comm. Auto Physical Damage       | 11,543,867             | 11,319,060            | 6,657,856          | 6,593,839              |
| Fidelity                         | 267,134                | 278,554               | (10,942)           | (17,793)               |
| Surety                           | 470,357                | 501,670               | 3,361              | 88,732                 |
| Burglary and Theft               | 7,748                  | 7,675                 | 0                  | (182)                  |
| <b>TOTALS</b>                    | <b>190,056,622</b>     | <b>188,698,778</b>    | <b>90,114,759</b>  | <b>113,730,664</b>     |

Farmers Automobile Insurance Association'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                       | 2,668,347              | 2,685,850             | 1,632,675          | 1,285,482              |
| Allied Lines               | 4,373,668              | 4,415,245             | 2,294,511          | 1,929,461              |
| Homeowners Multiple Peril  | 40,521,229             | 40,211,375            | 24,632,126         | 26,900,952             |
| CMP Non-Liability          | 0                      | 0                     | 0                  | 84                     |
| Inland Marine              | 1,485,827              | 1,481,880             | 365,779            | 268,232                |
| Other PPA Liability        | 38,022,942             | 37,655,691            | 28,676,030         | 31,324,434             |
| Other Comm. Auto Liability | 195,327                | 206,122               | 56,028             | (56,625)               |
| PPA Physical Damage        | 36,143,539             | 36,358,123            | 23,663,534         | 23,660,362             |
| Comm. Auto Physical Damage | 765,430                | 763,207               | 546,348            | 573,470                |
| <b>TOTALS</b>              | <b>124,176,307</b>     | <b>123,777,492</b>    | <b>81,867,032</b>  | <b>85,885,852</b>      |



### **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 May 1, 2016 through April 30, 2017, with the exception of November 1, 2015 through April 30, 2017, for complaints and May 1, 2014 through April 30, 2017, for workers' compensation. The following categories were the general areas examined:

- A. Operations and Management
- B. Complaint Handling
- C. Producer Review
- D. Risk Selection
- E. Underwriting and Rating
- F. Claims
- G. Workers' Compensation Unit Statistical Reporting

The review of these categories was accomplished through examination of individual policy and claim files, the Companies' procedures, written interrogatories, and interviews with the Companies' 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 Companies 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 Companies for retrieval.

#### Operations and Management

The review of the Companies' Operations and Management is designed to determine how the Companies operate. Examiners reviewed both publicly available documents, such as prior market conduct examinations and annual statements, as well as internal documents such as internal audit reports.

#### Complaint Handling

Department of Insurance and Consumer Complaints for the period November 1, 2015 through April 30, 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. Each 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. Each 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.

#### Producer Review

The Producer Review is designed to evaluate each company’s compliance with statutory producer licensing and terminations requirements. Samples were selected based on transactions occurring during the examination period.

#### Risk Selection

The Risk Selection portion of the examination is designed to evaluate each 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.

#### Underwriting and Rating

The Underwriting and Rating portion of the examination consisted of reviewing new and renewal business, as well as each company’s filed rates and forms. 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 underwriting guidelines.

#### 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”).

#### Workers’ Compensation Unit Statistical Reporting

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

## SELECTION OF SAMPLES

### All Companies

|                               | <u>Total</u> | <u>Number</u> | <u>Percentage</u> |
|-------------------------------|--------------|---------------|-------------------|
| <b><u>Producer Review</u></b> |              |               |                   |
| Producer Licensing            | 3561         | 115           | 3%                |
| Producer Terminations         | 378          | 84            | 22%               |

### Pekin Insurance Company

|   | <u>Total</u> | <u>Number</u> | <u>Percentage</u> |
|---|--------------|---------------|-------------------|
| <b><u>Complaint Handling</u></b>                  |              |               |                   |
| DOI Complaints                                    | 40           | 40            | 100%              |
| Consumer Complaints                               | 9            | 9             | 100%              |
| <b><u>Risk Selection</u></b>                      |              |               |                   |
| Automobile Cancellations First 60 Days            | 30           | 10            | 33%               |
| Automobile Cancellations After 60 Days            | 552          | 12            | 2%                |
| Automobile Nonrenewals                            | 30           | 7             | 23%               |
| Automobile Rescissions                            | 0            | 0             | N/A               |
| Homeowners Cancellations First 60 Days            | 2            | 2             | 100%              |
| Homeowners Cancellations After 60 Days            | 1909         | 40            | 2%                |
| Homeowners Nonrenewals                            | 279          | 57            | 20%               |
| Homeowners Rescissions                            | 0            | 0             | N/A               |
| Workers' Compensation Cancellations First 60 Days | 382          | 84            | 22%               |
| Workers' Compensation Cancellations After 60 Days | 6055         | 116           | 2%                |
| Workers' Compensation Nonrenewals                 | 613          | 113           | 18%               |
| Workers' Compensation Rescissions                 | 2            | 2             | 100%              |
| <b><u>Underwriting and Rating</u></b>             |              |               |                   |
| Automobile New Business                           | 824          | 15            | 2%                |
| Homeowners New Business                           | 107          | 3             | 3%                |
| Workers' Compensation New Business                | 8045         | 116           | 1%                |
| Workers' Compensation Renewals                    | 469          | 86            | 18%               |
| <b><u>Claims</u></b>                              |              |               |                   |
| Automobile First-Party Paid                       | 448          | 6             | 1%                |
| Automobile First-Party CWP                        | 34           | 6             | 18%               |
| Automobile First-Party Total Losses               | 34           | 7             | 21%               |
| Automobile Third-Party Paid                       | 177          | 7             | 4%                |
| Automobile Third-Party CWP                        | 19           | 9             | 47%               |
| Automobile Subrogation                            | 21           | 4             | 19%               |
| Homeowners Paid                                   | 863          | 25            | 3%                |
| Homeowners CWP                                    | 116          | 20            | 17%               |
| Workers' Compensation Paid                        | 1482         | 107           | 7%                |
| Workers' Compensation CWP                         | 136          | 76            | 56%               |
| Workers' Compensation Unit Statistical Reporting  | 1482         | 107           | 7%                |

## Farmers Automobile Insurance Association

|  | <u>Total</u> | <u>Number</u> | <u>Percentage</u> |
|--|--------------|---------------|-------------------|
| <b><u>Complaint Handling</u></b>       |              |               |                   |
| DOI Complaints                         | 52           | 52            | 100%              |
| Consumer Complaints                    | 13           | 13            | 100%              |
| <b><u>Risk Selection</u></b>           |              |               |                   |
| Automobile Cancellations First 60 Days | 226          | 74            | 33%               |
| Automobile Cancellations After 60 Days | 5029         | 104           | 2%                |
| Automobile Nonrenewals                 | 335          | 77            | 23%               |
| Automobile Rescissions                 | 1            | 1             | 100%              |
| Homeowners Cancellations First 60 Days | 124          | 77            | 62%               |
| Homeowners Cancellations After 60 Days | 3578         | 76            | 2%                |
| Homeowners Nonrenewals                 | 278          | 56            | 20%               |
| Homeowners Rescissions                 | 0            | 0             | N/A               |
| <b><u>Underwriting and Rating</u></b>  |              |               |                   |
| Automobile New Business                | 5512         | 101           | 2%                |
| Homeowners New Business                | 5312         | 113           | 2%                |
| <b><u>Claims</u></b>                   |              |               |                   |
| Automobile First-Party Paid            | 8287         | 103           | 1%                |
| Automobile First-Party CWP             | 445          | 77            | 17%               |
| Automobile First-Party Total Loss      | 408          | 76            | 19%               |
| Automobile Third-Party Paid            | 2532         | 101           | 4%                |
| Automobile Third-Party CWP             | 142          | 67            | 47%               |
| Automobile Subrogation                 | 373          | 78            | 21%               |
| Homeowners Paid                        | 2949         | 83            | 3%                |
| Homeowners CWP                         | 359          | 63            | 18%               |

#### IV. FINDINGS

##### A. Operations and Management

Privacy form LS-230, "Important Notice About Privacy," does not contain a description of the rights established under Sections 1009 ("Access to Recorded Personal Information") and 1010 ("Correction, Amendment or Deletion of Recorded Personal Information") as required by 215 ILCS 5/1005(B)(4). (PIC and FAIA) Crit 23.

##### B. Complaint Handling

###### 1. Department of Insurance Complaints

No violations were noted.

###### 2. Consumer Complaints

No violations were noted.

##### C. Producer Review

###### 1. Producer Licensing

No violations were noted.

###### 2. Producer Terminations

No violations were noted.

##### D. Risk Selection

###### 1. Automobile Cancellations First 60 Days

In 22 cancellations, the Companies failed to provide the reason for the cancellation to the lien holder as required by 215 ILCS 5/143.15. (PIC 2, FAIA 20) Crit 2.

###### 2. Automobile Cancellations After 60 Days

In 40 cancellations, the Companies failed to provide the reason for the cancellation to the lien holder or did not send the notice as required by 215 ILCS 5/143.15. (PIC 4, FAIA 36) Crit 11.

###### 3. Homeowners Cancellations First 60 Days

In 12 cancellations, the Companies failed to provide the reason for the cancellation to the lien holder or did not send the notice as required by 215 ILCS 5/143.15. (PIC 1, FAIA 11) Crit 1.

In two (2) cancellations, the Association failed to maintain proof of mailing as required by 215 ILCS 5/143.14(a). (FAIA) Crit 10.

4. Homeowners Cancellations After 60 Days

No violations were noted.

5. Workers' Compensation Cancellations First 60 Days

In three (3) cancellations, the Company failed to maintain proof of mailing as required by 215 ILCS 5/143.14(a). (PIC) Crit 6.

6. Workers' Compensation Cancellations After 60 Days

In two (2) cancellations, the Company failed to maintain proof of mailing as required by 215 ILCS 5/143.14(a). (PIC) Crit 8.

7. Automobile Nonrenewals

For 30 nonrenewals, the Companies failed to provide the reason for nonrenewal to the lien holder as required by 215 ILCS 5/143.17(e). (PIC 2, FAIA 28) Crit 3.

8. Homeowners Nonrenewals

For two (2) nonrenewals, the Companies failed to provide timely notice as required by 215 ILCS 5/143.21.1(3). (PIC 1, FAIA 1) Crit 4.

9. Workers' Compensation Nonrenewals

No violations were noted.

10. Workers' Compensation Rescissions

No violations were noted.

E. Underwriting and Rating

1. Automobile New Business

No violations were noted.

2. Homeowners New Business

No violations were noted.

### 3. Workers' Compensation New Business

For 11 policies, the Company used unfiled forms in violation of 50 IL Adm. Code 2902.30. (PIC) Crit 12.

## F. Claims

### 1. Automobile First-Party Paid

No violations were noted.

### 2. Automobile First-Party Closed Without Payment

No violations were noted.

### 3. Automobile Third-Party Paid

In one (1) claim, the Association failed to provide a written explanation of delay for a claim pending over 60 days as required by 50 Ill. Adm. Code 919.80(b)(3). (FAIA) Crit 16.

In two (2) claims, the Association failed to pay the claim within 30 days after affirmation of liability as required by 50 Ill. Adm. Code 919.50(a). (FAIA) Crit 17.

### 4. Automobile Third-Party Closed Without Payment

In one (1) claim, the Association failed to provide a written explanation for delay for a claim pending over 60 days as required by 50 Ill. Adm. Code 919.80(b)(3). (FAIA) Crit 19.

### 5. Automobile Total Loss

In 43 claims, the Companies failed to send a letter with the information required by Exhibit A of 50 Ill. Adm. Code 919.80(c). (PIC 4, FAIA 39) Crit 18.

### 6. Automobile Subrogation

No violations were noted.

#### 7. Homeowners Paid

In one (1) claim, the Company indicated on the check that the payment was "final" when the policy limit had not been paid and there was no bona fide dispute which is a violation of 50 Ill. Adm. Code 919.60(a). (PIC) Crit 13.

In six (6) claims, the Companies were in violation of 50 Ill. Adm. Code 919.80(d)(7)(B) regarding delay letters. Three (3) claims included letters which had the incorrect address for the Notice of Availability of the Department of Insurance; one (1) letter did not contain the Notice of Availability; one (1) claim file did not contain a letter; and one (1) claim file contained a letter that was not sent timely. (PIC 1, FAIA 5) Crit 15.

In four (4) claims, the Association was in violation of 215 ILCS 5/154.6(a). The Association's procedure is to make payment of actual cash value after repairs are complete. The Company was criticized for not settling according to policy provisions. (FAIA) Crit 20.

#### 8. Homeowners Closed Without Payments

In one (1) claim, the Association failed to provide written explanation of delay as required by 50 Ill. Adm. Code 919.50(a)(1). (FAIA) Crit 21.

#### 9. Workers' Compensation Paid

In 13 claims, the Company failed to pay within 30 days of receipt as required by 820 ILCS 305/8.2(d)(1). (PIC) Crit 25.

In 13 claims, the Company failed to pay interest on claims experiencing late payments as required by 820 ILCS 305/8.2(d)(3). (PIC) Crit 26.

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

No violations were noted.

#### G. Workers' Compensation Unit Statistical Reporting

No violations were noted.

### V. **INTERRELATED FINDING**

During the examination, two (2) unlicensed producers were detected and the issue was referred to the Producer Regulatory Unit of the Illinois Department of Insurance.



STATE OF MICHIGAN

SS

COUNTY OF INGHAM

Timothy R. Nutt, being first duly sworn upon his oath, deposes and states:

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 Pekin Insurance Company, NAIC #24228 and Farmers Automobile Insurance Association, NAIC #24201 (collectively as the "Companies");

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

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Companies nor any of the Companies' affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment Company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

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

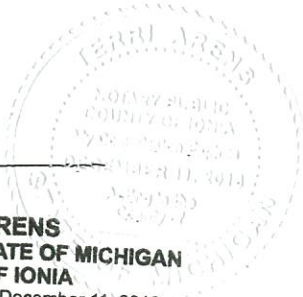
That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Companies for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Companies.

  
Examiner-In-Charge

Subscribed and sworn to before me  
this 29th day of January, 2018.

  
Notary Public

  
**TERRI ARENS**  
NOTARY PUBLIC - STATE OF MICHIGAN  
COUNTY OF IONIA  
My Commission Expires December 11, 2018  
Acting in the County of Eaton

STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**PEKIN INSURANCE COMPANY  
FARMERS AUTOMOBILE INSURANCE ASSOCIATION  
2505 COURT STREET  
PEKIN, IL 61558**

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, Pekin Insurance Company (“PIC”), NAIC 24228, and Farmers Automobile Insurance Association (“FAIA”), NAIC 24201, 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 PIC and FAIA 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 PIC and FAIA shall ensure the Notice of Insurance Information describes the rights established under Sections 1009 ("Access to Recorded Personal Information") and 1010 ("Correction, Amendment or Deletion of Recorded Personal Information") and the manner in which such rights may be exercised as required by 215 ILCS 5/1005(B)(4).
3. Institute and maintain policies and procedures whereby PIC 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).
4. Institute and maintain policies and procedures whereby PIC 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).
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 \$12,250.00 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 PEKIN INSURANCE COMPANY and  
FARMERS AUTOMOBILE INSURANCE ASSOCIATION

*Scott A. Martin*

Signature

**Scott A. Martin**

Name

**Chairman of the Board, President & CEO**

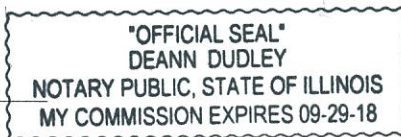
Title

Subscribed and sworn to before me this

6th day of July 2018.

*Deann Dudley*

Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE

7/9/18

*Jennifer Hammer*

Jennifer Hammer  
Director

