

STATE OF ILLINOIS



Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF
THE EXAMINATION OF

INTERSTATE BANKERS CASUALTY COMPANY
8501 WEST HIGGINS ROAD
CHICAGO, ILLINOIS 60631

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 5/131.21, 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Bernie Sullivan, Examiner-In-Charge and associates as the proper persons to examine the insurance business and affairs of Interstate Bankers Casualty Company of Chicago, Illinois, and to make a full and true report to me of the examination made by them of Interstate Bankers Casualty Company with a full statement of the condition and operation of the business and affairs of Interstate Bankers Casualty Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of Interstate Bankers Casualty Company.

IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.
Done at the City of Springfield, this 15th day of May, 2009.

Michael T. McRaith

Michael T. McRaith

Director

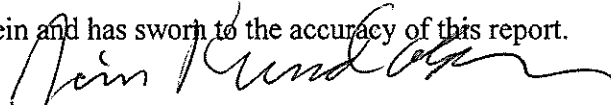


This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/401, 5/402, 5/403 and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion, or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.



Jim Rundblom
Staff Attorney
Illinois Department of Insurance

Interstate Bankers Casualty Company

MARKET CONDUCT RE-EXAMINATION REPORT

DATE OF RE-EXAMINATION: June 22, 2009, through July 31, 2009

EXAMINATION OF: Interstate Bankers Casualty Company
(P & C Domestic)

LOCATION: 8501 West Higgins Rd, Suite 701
Chicago, IL 60631

PERIOD COVERED BY
RE-EXAMINATION: March 1, 2008, through February 28, 2009

EXAMINERS: Bernie Sullivan Jr. LUTCF
Examiner-in-Charge

INDEX

	<u>Page #</u>
I. COMPLIANCE	1
II. SUMMARY	2
III. BACKGROUND	3
IV. METHODOLOGY	4
V. FINDINGS	5-7
A. Underwriting	
1. Automobile New Business	
B. Claims	
1. First Party Paid & Median Claims	
2. First Party Closed without Payment	
3. Total Loss Claims	
VI. INTERRELATED FINDINGS	8
VII. TECHNICAL APPENDICES	9

I. COMPLIANCE:

The Company was previously the subject of a Market Conduct Examination completed on May 13, 2005. Based on the findings of that exam report, Filing Orders were issued. The following is a summary of the current examination findings. Listed below are the Orders as originally issued followed by a statement about whether the Company as a whole was found to be in substantial compliance with such Orders.

ORDER #1: Institute and maintain procedures whereby the first party paid claims receive a 40 day delay letter when the claim remains unresolved more than 40 calendar days from the date of report to the Company as required by Section 919.80(b)(2) of the Illinois Administrative Code (50 Ill. Adm. Code 919.80(b)(2)).

The Company is substantially complying with this Order.

ORDER #2: Institute and maintain procedures whereby all total loss advance charge deductions and towing charge deductions are itemized and maintained in the total loss file in sufficient detail to reconstruct the basis of the deduction as required by Section 919.80(d)(3) of the Illinois Administrative Code (50 Ill Adm. Code 919.80(d)(3)).

The Company is substantially complying with this Order.

ORDER #3: Institute and maintain procedures whereby all rates are filed with the Division of Insurance as required by Section 754.40 of the Illinois Administrative Code (50 Ill. Adm. Code 754.40).

The Company is substantially complying with this Order.

ORDER #4: Reopen all underwriting files issued between February 1, 2004 and the date when the rate was officially filed with the Division of Insurance and return all overcharges and discount overcharges that occurred during this period.

The Company has complied with this Order.

ORDER #5: Provide a written report to the Division of Insurance with the complete list of policies and amount of refund in connection with item #4 above.

The Company has complied with this Order.

II. SUMMARY

1. The Company was criticized under 50 Ill. Adm. Code 919.80(d)(4)(A)(iii) for deducting prior damage in one (1) total loss settlement without first completing a prior damage estimate and maintaining a copy in the file resulting in an underpayment of \$250.00. A refund was processed during the examination.
2. The Company was criticized under 50 Ill. Adm. Code 919.80(c)(3)(A)(i) for failing to reimburse the insured the applicable sales tax and transfer and title fees in three (3) total loss settlements resulting in underpayments totaling \$410.94. All underpayment amounts due were paid by the Company during the examination process.
3. The Company was criticized under 50 Ill. Adm. Code 919.80(c)(3)(B) for taking deductions for reconditioning, detailing and cleanup in six (6) total loss settlements resulting in underpayments totaling \$2,073.17. All underpayment amounts due were paid by the Company during the examination process.
4. The Company was criticized under 50 Ill. Adm. Code 919.80(c)(1)(C) for paying five (5) claims based on the replacement vehicle value and failing to maintain proof that the insured had rejected the replacement vehicle (4 files) or settling the claim based on the replacement value after the insured had already replaced the vehicle prior to the offer being made (1 file) resulting in underpayments totaling \$5,600.00. All underpayment amounts due were paid by the Company during the examination process.
5. The Company was criticized under 50 Ill. Adm. Code 919.80(d)(3) for improperly taking advance charge deductions in 61 claims. The deductions were improper because there was no evidence or documentation in the file that any action or inaction on the part of the insured caused any resulting excessive storage or towing charges. The examiner-in-charge determined that the Company's miscalculations resulted in underpayments of totaling \$16,583.88. General trend criticisms were issued in both the first party paid and total loss surveys. All underpayment amounts due were paid by the Company during the examination process.

III. BACKGROUND:

Interstate Bankers Casualty Company

Interstate Bankers Casualty Company (the "Company") was organized as an Illinois mutual insurance company in 1959. During 1995, the Company converted from a mutual insurance to a stock insurance company and became a wholly owned subsidiary of Interstate Financial Corporation. Prior to 2007, the Company only offered private passenger automobile insurance for physical damage. In 2007, the Company began offering both physical damage insurance as well as liability coverage. The Company only operates in the State of Illinois and competes in the non-standard insurance market. The Company moved from its original location in Maywood, Illinois to its present location in Chicago, Illinois in 1972.

IV. METHODOLOGY:

The Market Conduct Examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants.

The following categories are the general areas examined:

1. Underwriting
2. Claims

The review of these categories is accomplished through examination of individual underwriting and claim files, 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.

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated with the insurer, but not cited in the report if not indicative of a general trend, except to the extent that there were underpayments and/or overpayments.

The following method was used to obtain the required samples and to assure a methodical selection. Surveys were developed from Company generated Excel spreadsheets. Random statistical printout reports were generated by the examiners and presented to the Company for retrieval.

Claims were requested based on the settlement occurring within the period under examination.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 et seq.) and Part 919 (50 Ill. Adm. Code 919).

Selection of Samples

<u>Survey</u>	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
Underwriting:			
Automobile New Business	26683	80	.002%
Claims:			
First Party Paid & Median	830	116	13.970%
First Party Closed Without Payment	727	85	11.690%
Total Losses	177	91	51.412%

V. FINDINGS:

A. Underwriting:

1. Automobile New Business

There were no criticisms in this survey

B. Claims

1. First Party Paid & Median

The median payment period was 29 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	65	56.03%
31-60	35	30.17%
61-90	10	8.62%
91-180	4	3.45%
181-365	2	1.72%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	116	100.00%

In five (5) first party paid claims (4.31% of the 116 files reviewed) the Company failed to provide the insureds with a reasonable written explanation of delay when the claim remained unresolved for more than 40 days from the date of report to the date of final payment or rendering of the repaired vehicle as required by 50 Ill. Adm. Code 919.80(b)(2).

In 14 first party paid claims (12.06% of the 116 files reviewed) the Company was found to have been improperly taking advance charge deductions. The deductions were improper because there was no evidence or documentation in the file that any action or inaction on the part of the insured caused any resulting excessive storage or towing charges in violation of 50 Ill. Adm. Code 919.80(d)(3). This resulted in underpayments totaling \$3,332.00. A general trend criticism was issued. All underpayment amounts due were paid by the Company during the examination process.

2. First Party Closed without Payment

In three (3) first party closed without payment claims (3.52% of the 85 files reviewed) the Company failed to provide the insureds with a reasonable written explanation of delay when the claim remained unresolved for more than 40 days from the date of report to the date of final payment or rendering of the repaired vehicle as required by 50 Ill. Adm. Code 919.80(b)(2).

3. Total Losses

In one (1) total loss paid claim (1.09% of the 91 files reviewed) the Company deducted prior damage from the settlement without first completing a prior damage estimate and maintaining a copy in the file as required by 50 Ill. Adm. Code 919.80(d)(4)(A)(iii). This resulted in an underpayment of \$250.00. A refund was processed during the examination.

In two (2) total loss paid claims (2.19% of the 91 files reviewed) the Company either failed to provide the right of recourse letter within seven (7) days of determination of the total loss (1 file) or failing to provide the insured with the Right of Recourse letter (1 file) as required by 50 Ill. Adm. Code 919.80(c).

In two (2) total loss paid claims (2.19% of the 91 files reviewed) the Company included the wording "full and final" on the payment draft in violation of 50 Ill. Adm. Code 919.60(a).

In three (3) total loss paid claims (3.29% of the 91 files reviewed) the Company failed to reimburse the insured the applicable sales tax and transfer and title fees resulting in underpayments totaling \$410.94 in violation of 50 Ill. Adm. Code 919.80(c)(3)(A)(i). All underpayment amounts due were paid by the Company during the examination process.

In four (4) total loss paid claims (4.39% of the 91 files reviewed) the Company failed to provide the insureds with a reasonable written explanation of delay when the claim remained unresolved for more than 40 days from the date of report to the date of final payment or rendering of the repaired vehicle as required by 50 Ill. Adm. Code 919.80(b)(2).

In six (6) total loss paid claims (6.59% of the 91 files reviewed) the Company made deductions for reconditioning, detailing and cleanup in violation of 50 Ill. Adm. Code 919.80(c)(3)(B) resulting in underpayments totaling \$2,073.17. The Company disagreed with this criticism due to its interpretation of the wording, "reconditioning" and "detailing". All underpayment amounts due were paid by the Company during the examination process.

In five (5) total loss paid claims (5.49% of the 91 files reviewed) the Company paid the claims based on the replacement vehicle value and failed to maintain proof that the insured had rejected the replacement vehicle as required by 50 Ill. Adm. Code 919.80(c)(1)(C) resulting in underpayments totaling \$5,600.00. All underpayment amounts due were paid by the Company during the examination process.

In 47 total loss paid claims (51.64% of the 91 files reviewed) the Company was found to have been improperly taking advance charge deductions. The deductions were improper because there was no evidence or documentation in the file that any action or inaction on the part of the insured caused any resulting excessive storage or towing charges deductions for towing and storage in violation of 50 Ill. Adm. Code 919.80(d)(3). A general trend criticism was issued. The Company refunded \$13,251.88 during the examination.

VI. INTERRELATED FINDINGS

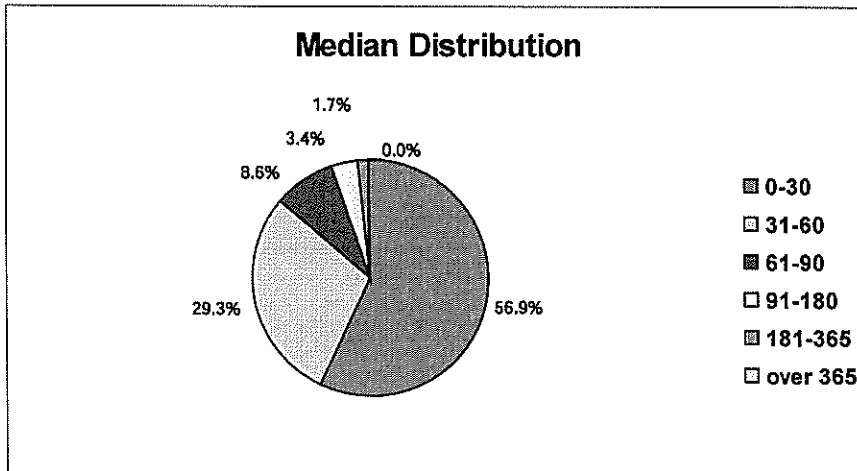
During the claims review process the examiner noted that when being subrogated against Interstate Bankers while agreeing to pay for the damages, was making the claim check out not to just the other carrier but rather was making the claim check out to the other carrier and the person insured by the other carrier. The Department discussed the issue with company staff and Interstate Bankers voluntarily agreed to modify its practice and advised the IDOI that it will refrain from issuing two party checks on all future subrogation claims settlements.

After completion of the onsite examination but prior to the issuance of this report Interstate Bankers voluntarily agreed to take no further deductions for excessive towing and storage unless caused by the negligence of the insured and that the file is properly documented as required. Additionally, the company agreed to re-open and adjust all first party paid and total loss claims occurring between March 1,2008 and June 22,2009, the start of the examination, to determine if any underpayments had resulted. Based on the company's own examination into these claims an additional \$19,888.15 was returned to insured's.

VII. TECHNICAL APPENDICES:

FIRST PARTY PAID & MEDIAN

MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	66	56.90%
31-60	34	29.31%
61-90	10	8.62%
91-180	4	3.45%
181-365	2	1.72%
over 365	0	0.00%
Total	116	100.00%



STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Bernie Sullivan, 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 Interstate Bankers Casualty Company (the "Company") of Chicago, Illinois,

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.

Bernie Sullivan Jr

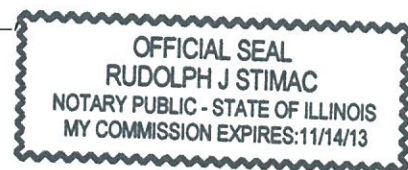
Examiner-In-Charge

Subscribed and sworn to before me

This 4TH day of DECEMBER
A. D. 2012 .

Rudolph J. Stimac

Notary Public



STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

INTERSTATE BANKERS CASUALTY COMPANY
8501 WEST HIGGINS ROAD
CHICAGO, ILLINOIS 60631

STIPULATION AND CONSENT ORDER

WHEREAS, the Director (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, Interstate Bankers Casualty Company, NAIC # 28126, (Company) is authorized under the insurance laws of this State and by the Director as a domestic stock company, to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by duly qualified examiners of the Department pursuant to Sections 131.21, 132, 401, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425); and

WHEREAS, the Department examiners have filed an examination report as an official document of the Department as a result of the Market Conduct Examination; and

WHEREAS, said 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 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.

WHEREAS, the Company is aware of and understands its 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, it waives 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. That the Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and/or Department Regulations; and
2. That 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/or Department Regulations.

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

1. Institute and maintain procedures whereby a prior damage estimate is completed and maintained in the file on all total loss claims as required by 50 Ill Adm. Code 919.80(d)(4)(A)(iii).
2. Institute and maintain procedures whereby claimants are provided right of recourse letters as required by 50 Ill. Adm. Code 919.80(c).
3. Institute and maintain procedures whereby the correct sales tax, transfer and title fees are reimbursed to the insured in total loss settlements when the insured purchases a replacement vehicle as required by 50 Ill. Adm. Code 919.80(c)(3)(A)(i).
4. Institute and maintain procedures whereby deductions for reconditioning, detailing and cleanup are not made from total loss settlements as required by 50 Ill. Adm. Code 919.80(c)(3)(B).
5. Institute and maintain procedures whereby proof that the insured had rejected the replacement vehicle is maintained in the file on all total loss claims as mandated by 50 Ill. Adm. Code 919.80(c)(1)(C).
6. Institute and maintain procedures whereby any deductions for towing and advance charges in any first party paid and total loss claims are made in accordance with the provisions of Title 50 Illinois Administrative Code 919.80(d)(3). Specifically, the company shall provide reasonable notice to an insured prior to termination of payment for automobile storage charges and document such notice in the claim file. Each deduction must be

itemized with the dollar amount of, and the reason for, the deduction must be documented in the claim file. For deductions to be considered proper there must be evidence or documentation in the claim file describing the action or inaction on the part of the insured which resulted in the deduction.

7. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above six (6) Orders within 30 days of receipt of these Orders.
8. Reopen all first party paid and total loss claims between March 1, 2008 and the start of the examination and determine if underpayments resulted from advance charge deductions, maintain a listing of the claims and refund the underpayments.
9. Submit a written report to the Department of Insurance with a complete list of all claim files and amounts of refunds in connection with Order number seven (7) above.
10. Submit to the Director of Insurance, State of Illinois, a civil forfeiture of twenty thousand dollars (\$20,000) within 30 days of receipt of these Orders.

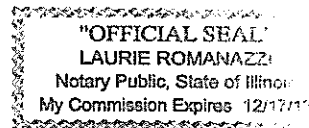
NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of Interstate Bankers Casualty Company:

Will Chiaro
Signature
William Chiaro
Name
Pres
Title

Subscribed and sworn to before me this
14 day of Feb. 2013.

Laurie Romanazzi
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE March 6, 2013

Andrew Boron
Andrew Boron
Director



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

August 26, 2013

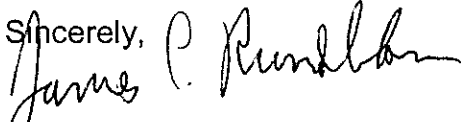
William C. Chiaro
President
Interstate Bankers Casualty Company
8501 W. Higgins Road, Suite 710
Chicago, Illinois 60631

Re: Proof of Compliance
Market Conduct Examination of Interstate Bankers Casualty Company

Dear Mr. Chiaro:

Thank you for your email of August 22, 2013, where you provided Interstate Bankers Casualty Company's revised storage and notice letter as proof of compliance for Order # 6 of the Stipulation and Consent Order signed by the Director on March 6, 2013. The Department finds this form letter to be acceptable.

The Department is accordingly 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. We appreciate your assistance in resolving this matter.

Sincerely,

James C. Rundblom
Deputy General Counsel