

STATE OF ILLINOIS



Department of Insurance

IN THE MATTER OF
THE EXAMINATION OF:

MERCURY INSURANCE COMPANY OF ILLINOIS
560 E BUNKER COURT
VERNON HILLS, ILLINOIS 60061

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 Mercury Insurance Company of Illinois of Vernon Hills, Illinois, and to make a full and true report to me of the examination made by them of Mercury Insurance Company of Illinois with a full statement of the condition and operation of the business and affairs of Mercury Insurance Company of Illinois 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 Mercury Insurance Company of Illinois.

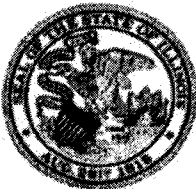
IN TESTIMONY WHEREOF,

I hereto set my hand and cause to be affixed the Seal of my office.

Done at the City of Springfield, this 7th day of September, 2010


Michael T. McRaith

Director



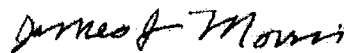
This Market Conduct Examination was conducted pursuant to Sections 5/132, 5/402 and 5/425 of the Illinois Insurance Code (215 ILCS 5/132, 5/402 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department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

James J. Morris



Assistant Deputy Director
Market Conduct and Analysis Section

Mercury Insurance Company of Illinois

MARKET CONDUCT RE-EXAMINATION REPORT

DATE OF RE-EXAMINATION: October 25, 2010, through December 17, 2010

EXAMINATION OF: Mercury Insurance Company of Illinois
(P & C Domestic Stock)
NAIC # 34444

LOCATION: 560 E. Bunker Ct
Vernon Hills, IL 60061

PERIOD COVERED BY
RE-EXAMINATION: July 1, 2009, through June 30, 2010

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

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I. COMPLIANCE:

The Company was previously the subject of a Market Conduct Examination completed June 27, 2008, covering the period January 1, 2007, through December 31, 2007.

Based upon the findings of that examination, seventeen Orders were issued.

ORDER #1: Institute and maintain procedures whereby an insured whose private passenger automobile policy is being canceled is provided a specific explanation of the reason or reasons for cancellation and provided at least thirty (30) days advance notice as required by Section 5/143.15 of the Illinois Insurance Code. (See 215 ILCS 5/143.15)

The Company is complying with this Order

ORDER #2: Institute and maintain procedures whereby an insured private passenger automobile policy is being nonrenewed is provided a specific explanation of the nonrenewal and provided at least thirty (30) days advance notice as mandated in Section 5/143.17 of the Illinois Insurance Code. (See 215 ILCS 5/143.17)

The Company is complying with this Order

ORDER #3: Institute and maintain procedures whereby an insured whose homeowner policy is being canceled due to a need to repair defects in the property is provided a notice of need to repair as outlined in Section 5/143.27 of the Illinois Insurance Code. (See 215 ILCS 5/143.27)

The Company is complying with this Order

ORDER #4: Institute and maintain procedures whereby an insured whose homeowner policy is being canceled is provided at least thirty (30) days advance notice as required by Section 5/143.15 of the Illinois Insurance Code. (See 215 ILCS 5/143.15)

The Company is complying with this Order

ORDER #5: Institute and maintain procedures whereby an insured homeowner policy is being nonrenewed due to a need to repair defects in the property is provided a notice of need to repair as outlined in Section 5/143.27 of the Illinois Insurance Code. (See 215 ILCS 5/143.27)

The Company is complying with this Order

ORDER #6: Institute and maintain procedures whereby an insured whose homeowner policy is being nonrenewed is provided a specific explanation of the reason for nonrenewal as required by Section 5/143.17 of the Illinois Insurance Code. (See 215 ILCS 5/143.17)

The Company is complying with this Order

ORDER #7: Institute and maintain procedures whereby insureds who receive collision payments from the Company are provided delay letters when required and outlined in Section 919.80(b)(2) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(b)(2))

The Company is complying with this Order

ORDER #8: Institute and maintain procedures whereby insureds whose collision claim is closed without payment receive delay letters when required and outlined in Section 919.80(b)(2) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(b)(2))

The Company is complying with this Order

ORDER #9: Institute and maintain procedures whereby third party claimants who receive property damage payments from the Company are provided delay letters when required and outlined in Section 919.80(b)(3) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(b)(3))

The Company is complying with this Order

ORDER #10: Institute and maintain procedures whereby third party claimants whose property damage claim has been closed without payment receive delay letters when required and outlined in Section 919.80(b)(3) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(b)(3))

The Company is complying with this Order

ORDER #11: Institute and maintain procedures whereby the market value of the insured totaled vehicle is determined by one (1) of the sources described in Section 919.80(c)(2) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(c)(2))

The Company is complying with this Order

ORDER #12: Institute and maintain procedures whereby insureds who have experienced a total loss of his/her vehicle are provided delay letters when required and outlined in Section 919.80(b)(2) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(b)(2))

The Company is complying with this Order

ORDER #13: Institute and maintain procedures whereby policyholders who have experienced a total loss to his/her vehicle are provided the information contained in Exhibit A and provided that information within seven (7) days of the vehicle being determined a total loss as outlined in Section 919.80(c) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(c))

The Company is complying with this Order

ORDER #14: Institute and maintain procedures whereby the documentation of how the market value of the insured's totaled vehicle was determined is in the claim file as mandated by Section 919.80(c)(2)(E) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(c)(2)(E))

The Company is complying with this Order

ORDER #15: Institute and maintain procedures whereby complaints received directly from the consumer are maintained in the same manner as complaints received from the Division of Insurance as mandated by Section 926.50 of the Illinois Administrative Code. (See 50 Ill. Adm. Code 926.50)

The Company is complying with this Order

ORDER #16: Institute and maintain procedures to inform insured's, prior to the first renewal of his/her automobile policy, of the availability of higher collision and comprehensive deductibles and that a premium savings could result if the higher deductibles were purchased as is required by Section 5/143.25a of the Illinois Insurance Code. (See 215 ILCS 5/143.25a)

The Company is complying with this Order

ORDER #17: Institute and maintain procedures whereby dealer quotes are used in determining the market value of the insured's totaled vehicle only when the vehicle is not quoted in one of the sources described in Section 919.80(c)(2) of the Illinois Administrative Code. The use of dealer quotes is described in Section 919.80(c)(2)(D) of the Illinois Administrative Code. (See 50 Ill. Adm. Code 919.80(c)(2) and 919.80(c)(2)(D))

The Company is complying with this Order

II. SUMMARY

1. The Company was criticized under 50 Ill. Adm. Code 919.80(c)(3)(A)(i) for failing to reimburse the correct amount of tax, title and transfer fees to the insured resulting in a \$76.00 underpayment. A refund was processed during the examination.
2. The Company was criticized under 50 Ill. Adm. Code 919.80(d)(3) for deducting excess storage charges of \$390.00 from the total loss settlement when only \$260.00 was allowed resulting in a \$130.00 underpayment. A refund was processed during the examination.

III. BACKGROUND:

Mercury Insurance Company of Illinois

The Company was incorporated under the laws of the State of Illinois on August 9, 1989, and commenced business on March 5, 1990. It is a wholly owned subsidiary of Mercury General Corporation, a California based insurance holding company. The Company offers private passenger automobile and homeowner insurance. Automobile insurance has been offered since inception of the corporation and homeowners insurance became available through the company in 2001. The Company's 2009 and 2010 NAIC Annual Statements "Page 19" reflect the following in Illinois:

2009

Line	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid	Direct Defense and Cost Containment Expense Incurred	Commissions and Brokerage Expenses	Taxes, Licenses and Fees
Homeowners multiple peril	3,267,494	3,241,089	2,811,404	2,435,789	752,493	309,193	530,734	70,314
Other liability - occurrence	163,020	173,050	0	-10,500	75,000	19,044	35,804	2,857
Other private passenger auto liability	12,981,900	12,930,919	7,166,257	7,478,296	9,285,568	1,292,340	2,247,983	258,064
Private passenger auto physical damage	8,931,691	8,880,032	5,131,453	4,798,436	-472,824	-24,685	1,654,734	182,014
Totals	25,344,105	25,225,090	15,109,114	14,702,021	9,640,237	1,595,892	4,469,255	513,249

2010

Line	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid	Direct Defense and Cost Containment Expense Incurred	Commissions and Brokerage Expenses	Taxes, Licenses and Fees
Homeowners multiple peril	3,174,834	3,239,143	3,513,163	3,742,764	982,095	252,285	515,146	75,953
Other liability - occurrence	127,399	147,290	0	25,000	100,000	5,160	29,084	2,495
Other private passenger auto liability	13,222,631	13,210,271	8,855,369	9,955,391	10,385,589	2,632,822	3,018,134	259,466
Private passenger auto physical	8,734,581	8,928,087	5,007,960	4,772,325	-708,459	2,761	594,736	175,833

damage								
Totals	25,259,445	25,524,791	17,376,493	18,495,480	10,759,225	2,893,028	4,157,100	513,747

The following affiliates of the Company are licensed in Illinois. Mercury Casualty Company is not authorized to write direct insurance in Illinois. Mercury National Insurance Company NAIC Annual Statement "Page 19" indicate that it had no direct written premium in Illinois. Neither affiliate was examined in the prior exam. Neither affiliate was subject to the 2008 Orders. Neither affiliate's business was included in this examination:

Name	NAIC Number	Domicile	Remarks
Mercury Casualty Company	11908	California	Licensed to write reinsurance in Illinois
Mercury National Insurance Company	27988	Illinois	

V. 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. Risk Selection
2. Underwriting
3. Claims
4. Complaints

The review of these categories is accomplished through examination of individual 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>
Risk Selection:			
PP Automobile Cancellations	44	44	100.000%
PP Automobile Nonrenewals	189	71	37.566%
Homeowner Cancellations	11	11	100.000%
Homeowner Nonrenewals	103	103	100.000%
Underwriting:			
Automobile New Business Renewals	25808	60	0.002%
Claims:			
First Party Paid & Median	1598	108	6.758%
First Party Closed without Payment	361	107	29.639%
Third Party Paid & Median	1127	110	9.760%
Third Party Closed without Payment	241	109	45.228%
Total Losses	216	103	47.685%
Complaints:			
Consumer Complaints	3	3	100.000%

V. FINDINGS:

A. Risk Selections:

1. Automobile Cancellations

There were no criticisms in this survey.

2. Automobile Nonrenewals

There were no trends or areas of concern.

3. Homeowner Cancellations

There were no criticisms in this survey.

4. Homeowner Nonrenewals

There were no trends or areas of concern.

B. Underwriting

1. Automobile New Business Renewals

There were no criticisms in this survey.

C. Claims

1. First Party Paid & Median

The median payment period was 16 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	78	72.22%
31-60	18	16.67%
61-90	4	3.70%
91-180	7	6.48%
181-365	1	0.93%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	108	100.00%

Two (2) first party paid claims (1.85% of the 108 files reviewed) were criticized for failing 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).

2. First Party Closed without Payment

Two (2) first party closed without payment claims (1.86% of the 107 files reviewed) were criticized for failing 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. Third Party Paid & Median

The median payment period was 14 days without subrogation files included. The median payment period with subrogation files included was 22 days distributed as follows:

<u>Days</u>	<u>Number</u>	<u>Percentage</u>
0-30	66	60.00%
31-60	20	18.18%
61-90	11	10.00%
91-180	9	8.18%
181-365	4	3.64%
<u>Over 365</u>	<u>0</u>	<u>0.00%</u>
Total	110	100.00%

There were no criticisms in this survey.

4. Third Party Closed without Payment

There were no trends or areas of concern.

5. Total Losses

The median payment period for the total losses was 14 days.

One (1) total loss paid claim (.97% of the 103 files reviewed) was criticized for failing to reimburse the correct amount of tax, title and transfer fees to the insured as mandated by 50 Ill. Adm. Code 919.80(c)(3)(A)(i) resulting in a \$76.00 underpayment. A refund was processed during the examination.

One (1) total loss paid claim (.97% of the 103 files reviewed) deducted excess storage charges of \$390.00 from the total loss settlement when only \$260.00 was allowed as mandated by 50 Ill. Adm. Code 919.80(d)(3) resulting in a \$130.00 underpayment. A refund was processed during the examination.

D. Complaints

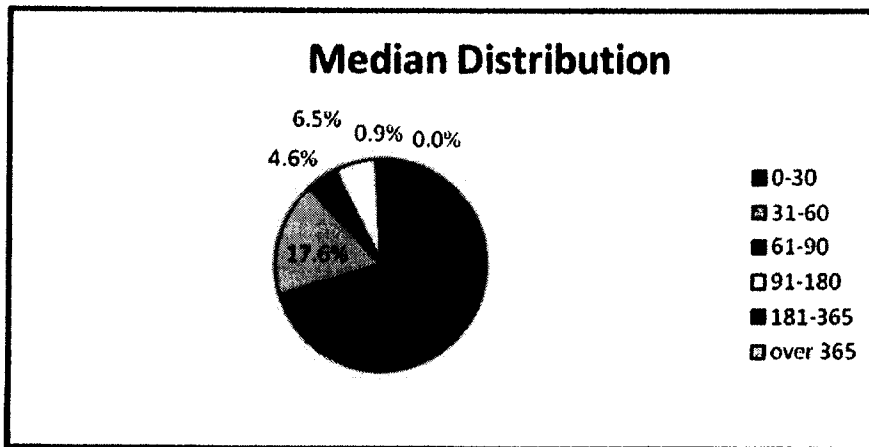
1. Consumer Complaints

There were no criticisms in this survey.

VI. TECHNICAL APPENDICES:

FIRST PARTY PAID & MEDIAN

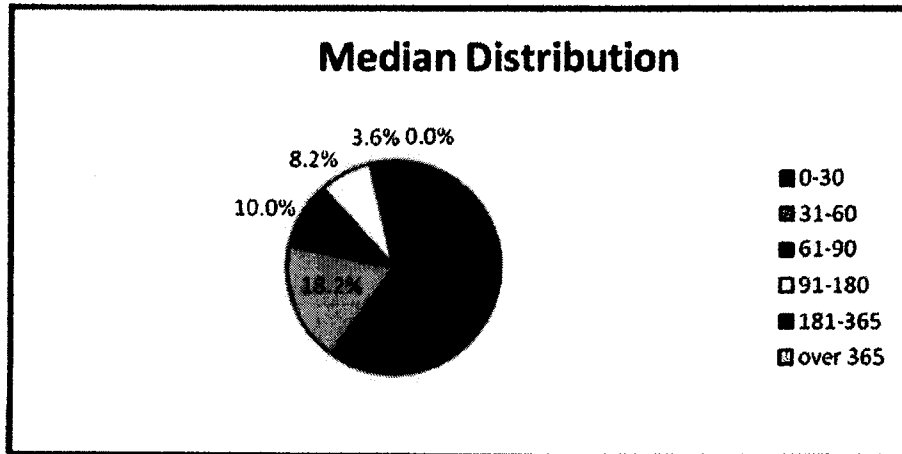
MEDIAN DISTRIBUTION		
No. Days Category	Number	Percent
0-30	76	70.37%
31-60	19	17.59%
61-90	5	4.63%
91-180	7	6.48%
181-365	1	0.93%
over 365	0	0.00%
Total	108	100.00%



VI. TECHNICAL APPENDICES continued:

THIRD PARTY PAID & MEDIAN

No. Days Category	MEDIAN DISTRIBUTION	
	Number	Percent
0-30	66	60.00%
31-60	20	18.18%
61-90	11	10.00%
91-180	9	8.18%
181-365	4	3.64%
over 365	0	0.00%
Total	110	100.00%



VI. TECHNICAL APPENDICES continued:

TOTAL LOSS PAID

	MEDIAN DISTRIBUTION	
No. Days Category	Number	Percent
0-30	85	87.63%
31-60	9	9.28%
61-90	1	1.03%
91-180	2	2.08%
181-365	0	0.00%
over 365	0	0.00%
Total	97	100.00%

STATE OF INDIANA)
) ss
COUNTY OF MARION)

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 Mercury Insurance Company (the "Company") of Vernon Hills, 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;

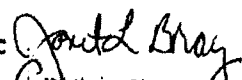
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

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.


Examiner-In-Charge

Subscribed and sworn to before me
This 15th day of May
A. D. 2012

Notary Public 
Commission Expires: 4/1/17



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

May 16, 2012

Thomas Robert Stalick
President
Mercury Insurance Company of Illinois
NAIC # 34444
560 East Bunker Court
Vernon Hills, IL 60061

**sent via USPS certified mail
return receipt requested**

Dear Mr. Stalick:

A Market Conduct Examination of your company was conducted by authorized examiners designated by the Director of Insurance pursuant to Illinois Insurance Code Sections 132, 401, 402, 403 and 425 of the Illinois Insurance Code. The examination covered the period 07-01-09 through 06-30-10.

As required by Illinois Insurance Code Section 132, please find attached a copy of the verified examination report. This Department is providing your company an opportunity to make a written submission or rebuttal with respect to any matters in the attached report. Please provide any such written submission or rebuttals to the undersigned by close of business, Friday, June 15, 2012.

Illinois Insurance Code Section 132 provides that the Director of Insurance must afford your company an opportunity to demand a hearing with reference to the facts and other evidence contained in this report. Section 132 further provides that your company may request a Hearing within ten (10) days after receipt of the above Report by giving the Director of Insurance written notice of such request together with a statement of your objections. The deadline to request a hearing is hereby extended until June 15, 2012.

Please contact me if you have any questions.

Yours Truly,

James J. Morris
Assistant Deputy Director
Market Conduct and Analysis
Illinois Department of Insurance
320 West Washington Street
Springfield IL 62767
312-833-5582 mobile
217-557-8463 fax
james.j.morris@illinois.gov



560 E. Bunker Ct.
Vernon Hills, IL 60061
(847) 816-4300

June 21, 2012

James J. Morris
Assistant Deputy Director
Market Conduct and Analysis
Illinois Department of Insurance
320 West Washington Street
Springfield, IL 62767

Dear Mr. Morris:

Mercury Insurance Company of Illinois is in receipt of the examination report issued on May 16, 2012 by the Illinois Department of Insurance for the Market Conduct Compliance Examination that covered the period from 07/01/2009 through 06/30/2010.

We appreciate the opportunity to review the report details prior to your office finalizing and publishing the exam findings. Please let this letter serve as notice that Mercury Insurance Company of Illinois does not plan to submit a rebuttal of any information contained in the report. Therefore, your department may proceed with closing out the examination.

Please contact me if you need any additional information.

Sincerely,

A handwritten signature in cursive script that reads "Michael A. Burk".

Michael A. Burk
Director, Underwriting
Mercury Insurance Company of Illinois
Phone # 800-503-3724 ext. 44307
Fax # 888-513-2684



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

June 26, 2012

Thomas Robert Stalick
President
Mercury Insurance Company of Illinois
NAIC # 34444
560 East Bunker Court
Vernon Hills, IL 60061

**sent via USPS certified mail
return receipt requested**

Re: **Mercury Insurance Company of Illinois, NAIC # 34444
Market Conduct Report on Examination**

Dear Mr. Stalick:

This Department is in receipt of Mr. Burk's letter dated June 21, 2012. In that letter, Mr. Burk indicates that Mercury Insurance Company of Illinois has received this Department's Report on Examination dated May 16, 2012. Mr. Burk states that Mercury Insurance Company of Illinois does not plan to submit a rebuttal of any information in the Report.

Please be advised that this Department is closing its file on this examination. Please be further advised that I intend to request that the Director make this Report on Examination available for public inspection as authorized by 215 ILCS 5/132.

Please contact me if you have any questions.

Yours Truly,

James J. Morris
Assistant Deputy Director
Market Conduct and Analysis
312-833-5582 mobile
217-557-8463 fax
james.j.morris@illinois.gov

cc: Michael Burk
Director, Underwriting
Mercury Insurance Company of Illinois