

REPORT ON
MARKET CONDUCT EXAMINATION

of the

UNITRIN AUTO AND HOME INSURANCE COMPANY
Jacksonville, Florida

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 18, 2011

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Raleigh, North Carolina
February 18, 2011

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable James J. Wrynn
Superintendent of Insurance
New York State Insurance Department
25 Beaver Street
New York, New York 10004-2319

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a compliance examination has been made of the market conduct activities of

**UNITRIN AUTO AND HOME INSURANCE COMPANY
(NAIC # 16063)**

NAIC Exam Tracking System Exam Number: NC170-M67
Jacksonville, Florida

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of Unitrin Auto and Home Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on June 14 , 2010 and covered the period of January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through February 15, 2011. This action was taken due to previous examination findings referenced in the Market Conduct Report of September 3, 2008.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of marketing, underwriting and rating, and terminations.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints, sales and advertising, producers who were not appointed and/or licensed, and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

Previous Examination Findings

A general examination covering the period January 1, 2004 through December 31, 2006 was performed on the Company and a report dated September 3, 2008 was issued. The general examination report identified concerns in the areas of marketing, underwriting and

rating and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company, may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

Underwriting and Rating – rating errors, producers not properly appointed for private passenger automobile.

Terminations – incorrect refund calculation method on certain insured requested cancellations for private passenger automobile.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking "NCDOI DIVISIONS" then "Legislative Services".

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North

Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and ensure consumer protection.

MARKETING

Producer Licensing

The Company's procedures for termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-56(d) as it did not mail a copy of the notification of termination to the producer at the producer's last known address within 15 days of termination for 100 percent of the terminated producer files reviewed.

The Company provided a listing of 118 producers terminated during the period under examination. Fifty terminated producer files were randomly selected and received for review.

The current examination revealed the following:

- The Company was deemed to be in compliance of NCGS 58-33-56(d) as it mailed a copy of the notification of termination to the producer at the producer's last known address within 15 days of termination for all terminated producer files reviewed.

UNDERWRITING AND RATING

Private Passenger Automobile

The Company's underwriting and rating practices and procedures for active private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable rules of the North Carolina Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as 33.0 percent of the private passenger automobile applications reviewed were accepted from a producer not appointed by the Company.

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-37-40(f) and Section 4 – Rule 10 of the North Carolina Reinsurance Manual as the recoupment surcharge for 85.0 percent of the active private passenger automobile policies reviewed was calculated prior to the application of the airbag discount to medical payments coverage.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 16.0 percent of the active private passenger automobile policies were rated incorrectly.

The Company provided a listing of 439 active private passenger automobile policies issued during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 5 active files reviewed (10.0 percent error ratio).
- The Company was deemed to be in compliance with the provisions of NCGS 58-37-40(f) and Section 4 – Rule 10 of the North Carolina Reinsurance Manual as the recoupment surcharge was calculated after the application of the airbag discount to medical payments coverage.
- The Company was reminded of the provisions of NCGS 58-63-15(1) as 1 declaration page indicated credits not applicable to the policy (2.0 percent error ratio).
- The Company was again deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 18 policies contained rating errors (36.0 percent error ratio) resulting in 15 premium undercharges and 3 premium overcharges. Errors referenced:
 - Incorrect edition of rates. (1)
 - Incorrect territory. (1)
 - Policy not rated in accordance with filed deviations. (14)
 - Incorrect application of credits. (2)
 - Incorrect collision price level factor. (1)

At the request of the examiners, refunds totaling \$107.11 were reimbursed to the insureds prior to the conclusion of the examination. As a result of the application of incorrect edition of rates and filed deviations, the examiners requested the Company to conduct a self audit. The Company identified an additional 936 policies resulting in overcharges totaling \$10,649.88. The Company issued refunds prior to the conclusion of the examination.

TERMINATIONS

Private Passenger Automobile Cancellations

The Company's cancellation procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the lienholders.

The Company provided a listing of 7,346 private passenger automobile policies that were cancelled during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it properly maintained termination notices sent to lienholders.
- The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as refunds on 14 monoline insured requested cancellations (14.0 percent error ratio) were calculated pro rate in lieu of short rate which resulted in overstatement of refunds.

Homeowners Cancellations

The Company's cancellation procedures for homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the mortgagees.

The Company provided a listing of 5,942 homeowners policies that were cancelled during the period under examination. One hundred policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it maintained termination notices sent to mortgagees.

Dwelling Fire Cancellations

The Company's cancellation procedures for dwelling fire policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the mortgagees.

The Company provided a listing of 242 dwelling fire policies that were cancelled during the period under examination. Fifty policies were randomly selected and received for review.

The current examination revealed the following:

- The Company was deemed to be in compliance with the provisions 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it maintained termination notices sent to mortgagees.

Private Passenger Automobile Nonrenewals

The Company's nonrenewal procedures for private passenger automobile policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the lienholders.

The Company provided a listing of 121 private passenger automobile policies that were nonrenewed during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it maintained termination notices sent to lienholders.
- The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as it was unable to provide the nonrenewal notice to the insured for 1 file reviewed (2.0 percent error ratio).

Homeowners Nonrenewals

The Company's nonrenewal procedures for homeowners policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the mortgagees.

The Company provided a listing of 684 homeowners policies that were nonrenewed during the period under examination. Fifty policies were randomly selected and received for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it maintained notices sent to mortgagees.
- The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as it was unable to provide the nonrenewal notice to the insured for 1 file reviewed (2.0 percent error ratio).

Dwelling Fire Nonrenewals

The Company's nonrenewal procedures for dwelling fire policies were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules, policy provisions and the applicable policy manual rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4) as it failed to maintain termination notices sent to the mortgagees.

The current examination revealed the following: The Company indicated it did not nonrenew any dwelling fire policies during the period under examination.

SUMMARY

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of September 3, 2008. The current examination revealed the following:

1. Underwriting and Rating

- a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-33-40 as the producers for 10.0 percent of the private passenger automobile active files reviewed were not properly appointed by the Company.
- b. The Company was reminded of the provisions of NCGS 58-63-15(1) as the declaration page for 2.0 percent of the active private passenger automobile policies reviewed indicated credits not applicable to the policy.
- c. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as 36.0 percent of the active private passenger automobile policies reviewed contained rating errors.

2. Terminations

- a. The Company was deemed to be in apparent violation of the provisions of NCGS 58-36-30(a) as the refund for 14.0 percent of the private passenger automobile cancellations reviewed were calculated incorrectly.
- b. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as it was unable to provide 2.0 percent of the private passenger automobile nonrenewal notices selected for review.
- c. The Company was reminded of the provisions of 11 NCAC 19.0102(a), 19.0104 and 19.0106(a)(4)(g) as it was unable to provide 2.0 percent of the homeowners nonrenewal notices selected for review.

TABLE OF STATUTES AND RULES

<u>Statute/Rule</u>	<u>Title</u>
NCGS 58-2-131	Examinations to be made; authority, scope, scheduling, and conduct of examinations.
NCGS 58-33-40	Appointment of agents.
NCGS 58-33-56	Notification to Commissioner of termination.
NCGS 58-36-30	Deviations.
NCGS 58-37-40	Plan of operation.
NCGS 58-63-15	Unfair methods of competition and unfair or deceptive acts or practices defined.
11 NCAC 19.0102	Maintenance of Records.
11 NCAC 19.0104	Policy Records.
11 NCAC 19.0106	Records Required for Examination.

CONCLUSION

A compliance examination has been conducted on the market conduct affairs of Unitrin Auto & Home Insurance Company for the period January 1, 2009 through December 31, 2009 with analyses of certain operations of the Company being conducted through February 15, 2011. The Company's response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures including analyses of Company operations in the area of marketing, underwriting and rating, and terminations.

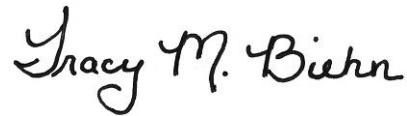
In addition to the undersigned, Gary Jones, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Bill George". The signature is written in a cursive, flowing style.

Bill George, AIS
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive, flowing style.

Tracy Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina