

Report on
Market Conduct Examination

of

Unitrin Auto and Home Insurance Company
Dewitt, New York

by Representatives of the
North Carolina Department of Insurance

as of

November 20, 2014

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Raleigh, North Carolina
November 20, 2014

Honorable Benjamin M. Lawskey
Superintendent of Financial Services
Department of Financial Services
State of New York
One State Street
New York, New York 10004

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

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, 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: NC299-M52
Dewitt, New York

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, 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 revealed no concerns were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on June 9, 2014, and covered the period of January 1, 2012, through December 31, 2012, with analyses of certain operations of the Company being conducted through November 20, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of February 18, 2011.

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 underwriting practices and terminations.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for 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; and 10 percent for all other areas reviewed.

Previous Examination Findings

A compliance examination covering the period January 1, 2009, through December 31, 2009, was performed on the Company and a report dated February 18, 2011, was issued. The compliance examination report identified concerns in the areas of underwriting practices and terminations. Specific previous violations relating to these areas are listed within the appropriate sections of the report.

EXECUTIVE SUMMARY

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

Underwriting Practices – Producer not properly appointed and rating errors 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 cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking “INSURANCE DIVISIONS” then “Legislative Services”.

This examination identified various statutory violations, 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 statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

UNDERWRITING PRACTICES

Private Passenger Automobile

The Company’s underwriting 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 Personal Automobile Manual.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of NCGS 58-33-40 as the producers were not properly appointed by the Company for 10.0 percent of the active private passenger automobile files reviewed.

- The Company was deemed to be in 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.

The Company provided a listing of 531 active private passenger automobile policies issued during the period under examination. Fifty policies were randomly selected for review.

The current examination revealed the following:

- The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as the producer was not properly appointed by the Company for one active file reviewed (2.0 percent error ratio).
- The Company was again deemed to be in violation of the provisions of NCGS 58-36-30(a) as seven of the active policies reviewed (14.0 percent error ratio) contained rating errors. The rating errors consisted of the following:
 - Incorrect application of credits on five policies.
 - Incorrect territory on one policy.
 - Incorrect physical damage symbols on one policy.

The rating errors resulted in four premium overcharges and three premium undercharges to the insureds. At the request of the examiners, refunds in the amount of \$1,007.95 were issued by the Company for the overcharges. The remaining premiums charged were deemed correct.

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 violation of the provisions of NCGS 58-36-30(a) as refunds on 14.0 percent of the cancellations reviewed were calculated incorrectly, which resulted in overstatement of refunds.

The Company provided a listing of 4,350 private passenger automobile policies that were cancelled during the period under examination. Fifty policies were randomly selected for review. **The current examination revealed the following:**

- The Company was deemed to be in compliance with the provisions of NCGS 58-36-30(a) as the refunds for all of the cancelled policies reviewed were calculated correctly.

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Company is requested to comply with its existing procedures so that producers who submit applications for insurance to the Company are properly appointed. The Company should stress the importance of accurate data entry with independent producers to ensure the correct application of policy credits, including additional interface training where appropriate.

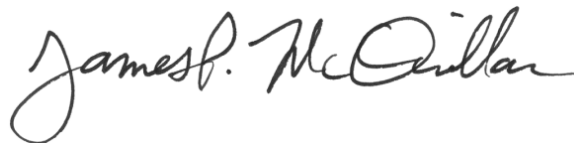
CONCLUSION

An examination has been conducted on the market conduct affairs of Unitrin Auto and Home Insurance Company for the period January 1, 2012, through December 31, 2012, with analyses of certain operations of the Company being conducted through November 20, 2014.

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 areas of underwriting practices and terminations.

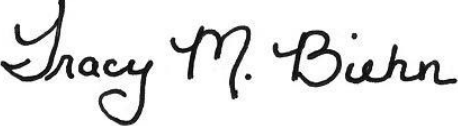
In addition to the undersigned, Gina Abate, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,



James P. McQuillan, CPCU, AIT
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 style with a large, stylized 'T' and 'B'.

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