

MARKET CONDUCT EXAMINATION REPORT

OF

**UNITRIN DIRECT PROPERTY & CASUALTY
COMPANY**

AS OF

AUGUST 31, 2010

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

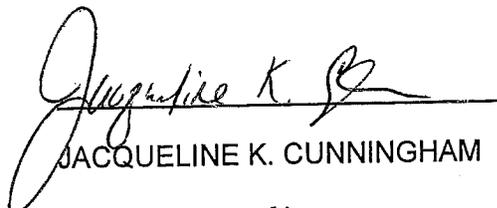


P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of Unitrin Direct Property & Casualty Company as of August 31, 2010, which took place at the Bureau's office in Richmond is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 7th day of December, 2011.


JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

MARKET CONDUCT EXAMINATION REPORT

OF

**UNITRIN DIRECT PROPERTY & CASUALTY
COMPANY**

AS OF

AUGUST 31, 2010

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

TABLE OF CONTENTS

INTRODUCTION	1
COMPANY PROFILE	1
SCOPE OF THE EXAMINATION.....	4
STATISTICAL SUMMARY	5
PART ONE - THE EXAMINERS' OBSERVATIONS.....	6
TERMINATION REVIEW.....	6
Company-Initiated Cancellations – Automobile Policies.....	6
Notice Mailed Prior to the 60 th Day of Coverage.....	6
Notice Mailed After the 59 th Day of Coverage.....	7
All Other Cancellations – Automobile Policies.....	8
Nonpayment of the Premium.....	8
Requested by the Insured	8
Company-Initiated Non-renewals – Automobile Policies	9
PART TWO – CORRECTIVE ACTION PLAN	10
General.....	10
Termination Review	10
PART THREE – EXAMINERS' NOTES	11
Termination.....	11
RECOMMENDATIONS	11
Termination.....	11
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	11
ACKNOWLEDGEMENT	12

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile line of business written by Unitrin Direct Property & Casualty Company in a desk examination at the Office of the State Corporation Commission office in Richmond, Virginia.

The examination commenced February 9, 2011 and concluded on April 6, 2011. Richard L. Howell and Carol B. Burley, examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on October 6, 2010 and was assigned the examination number of VA199-M26. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE

The company was incorporated in Illinois on June 3, 1998 as Kemper Protection Insurance Company and commenced business on June 15, 1998. The name was changed to Kemper Auto and Home Insurance Company on July 22, 1998. The current title was adopted on December 5, 2003. Unitrin Direct Property & Casualty Company (Unitrin) is licensed in 32 states. The company is based in Illinois.*

* Source: The Best's Insurance Reports, Property & Casualty, 2010.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date the company was licensed in Virginia, except as noted in the table.

GROUP CODE: 215	UNITRIN
NAIC Company Number	10915
LICENSED IN VIRGINIA	10/4/1999
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	
Burglary and Theft	X
Commercial Multi-Peril	
Credit	
Farmowners Multi-Peril	
Fidelity	X
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	X
Water Damage	
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2009 for those lines of insurance included in this examination.* This business was developed through captive agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Unitrin Direct Property & Casualty Company		
Private Passenger Automobile Liability	\$6,275,928	0.27%
Private Passenger Automobile Physical Damage	\$3,741,823	0.22%

* Source: The 2009 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's private passenger automobile line of business written in Virginia for the period beginning September 1, 2009 and ending August 31, 2010. This review included policy terminations. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Examiners' Notes. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice. These violations are the basis for any settlement offer that is made by the Bureau of Insurance (Bureau) as a result of this report.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the company's practices that are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize

specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the terminations were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown below.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	<u>Population</u>				
	<u>Sample Requested</u>	<u>FILES</u>	<u>FILES NOT</u>	<u>FILES WITH</u>	<u>ERROR</u>
	<u>Unitrin</u>	<u>REVIEWED</u>	<u>FOUND</u>	<u>ERRORS</u>	<u>RATIO</u>
<u>Private Passenger Auto</u>					
Co-Initiated Cancellations ¹	<u>42</u> 25	25	0	9	36%
All Other Cancellations ²	<u>2730</u> 55	48	0	7	15%
Nonrenewals	<u>168</u> 20	20	0	2	10%

¹ Three files submitted in the area were cancellations after the 59th day and were reviewed as cancellations after the 59th day.

² Insured Requested Cancellations - Requested 25 files, reviewed 18. Seven files were expirations.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated any other Virginia laws applicable to insurers.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau requested ten automobile cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed seven of these files. Three files were reviewed under the Notice Mailed after the 59th Day of Coverage category. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested 15 automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed all of these files. Three additional files were moved from the Notice Mailed Prior to the 60th Day of Coverage category and reviewed. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found seven violations of § 38.2-2212 D of the Code of Virginia.
 - a. In four instances, the company cancelled the policy for a reason not permitted by the Code of Virginia.
 - b. In three instances, the company cancelled the policy due to revocation or suspension of a driver's license that did not occur during the period of time permitted by the Code of Virginia.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia.

The company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

All Other Cancellations – Automobile PoliciesNONPAYMENT OF THE PREMIUM

The Bureau requested 30 automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$15.00.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to send the insured a written notice of cancellation.
 - b. In one instance, the company failed to mail the notice of cancellation to the insured at least 15 days prior to the effective date of cancellation.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another law.

The examiners found two violations of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

REQUESTED BY THE INSURED

The Bureau requested 25 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed 18 of these files. Seven files were expirations and therefore were

not reviewed. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (2) The examiners found three occurrences where the company failed to comply with the provisions of the insurance contract. The company cancelled policies retroactively.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested 20 automobile nonrenewals that were initiated by the company. The examiners reviewed all of these files.

The examiners found two violations of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of its refusal to renew the automobile policy.

PART TWO – CORRECTIVE ACTION PLAN

As stated in the Scope of the Examination, only those violations identified by the examiners as business practices of the company will be considered in the settlement offer. Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. A ten percent (10%) error criterion was applied to all operations of the company. Any error ratio above this threshold indicates a general business practice. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Unitrin Direct Property & Casualty Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to this report.

Termination Review

Unitrin Direct Property & Casualty Insurance Company shall:

- (1) Provide written notice of cancellation or refusal to renew to the insured.
- (2) Cancel private passenger automobile policies for suspension or revocation only during the time period permitted by the Code of Virginia.
- (3) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage, only for those reasons permitted by the Code of Virginia.

PART THREE – EXAMINERS' NOTES

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

Termination

- Failure to send the cancellation notice for nonpayment of premium at least 15 days before the effective date of cancellation.
- Failure to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

RECOMMENDATIONS

We recommend that the company take the following actions:

Termination

- The company should remove the Right to Review language from the cancellation notice when the notice is mailed within the first 59 days of coverage for new private passenger auto policies.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Howell".

Richard L. Howell, AIC
Senior Insurance Market Analyst

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

May 23, 2011

VIA UPS 2nd DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct
502 West Germantown Pike, Ste. 900
Plymouth Meeting, PA 19462

RE: Market Conduct Examination
Unitrin Direct Property & Casualty Company (NAIC #10915)

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of September 1, 2009, through August 31, 2010. The Preliminary Market Conduct Examination Report has been drafted for the company's review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since April 6, 2011. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to closely review the Report. Please provide a written response. If the company disagrees with an item(s) or wishes to further comment on an item(s), please respond to the items in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if it agrees with the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

Secondly, the company should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the action(s) it/they is/are taking to prevent those issues from becoming a business practice.

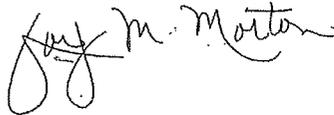
Thirdly, if the company has comments it wishes to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments. Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

The company's response and the spreadsheet mentioned above must be returned to the Bureau by June 21, 2011.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by June 21, 2011.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM/sb
Enclosure

RECEIVED PERMISSION
UNITRIN DIRECT PROPERTY & CASUALTY
11 JUN 17 AM 10:34

June 13, 2011

Ms. Joy Morton
Bureau of Insurance
P&C Market Conduct 5th Floor
1300 E. Main Street
Richmond, VA 23219

RE: Market Conduct Examination
Unitrin Direct Property & Casualty Company (NAIC # 10915)

Dear Ms. Morton:

Unitrin Direct Property & Casualty Company (UDPCC) has reviewed the Preliminary Market Conduct Examination. Our response will be divided into the three segments: Part One – The Examiners' Observations; Part Two – Corrective Action Plan and Part Three – Examiners' Notes.

Part One - The Examiners' Observations

Company-Initiated Cancellations - Automobile Policies

Notice Mailed Prior To The 60th Day Of Coverage:

Bureau Observation: There was one violation of § 38.2-2208 A of the Virginia Code. The company failed to obtain valid proof of mailing the cancellation to the insured.

Company Response: We respectfully disagree. Reference No. TPA007. See attachment 1 which includes a copy of the proof of mailing that was mailed on September 29, 2009.

Notice Mailed After The 59th Day Of Coverage:

Bureau Observation: There were three violations of § 46.2-482 of the Virginia Code. The company failed to file an SR-26 within 15 days after canceling the policy.

Company Response: We respectfully disagree with one of the violations. Reference No. TPA022. The policy was cancelled effective 10/29/2009 and reinstated 10/29/2009 and therefore no notification was required to be provided to the DMV. See attachment 2 which provides documentation showing the cancellation and reinstatement.

All Other Cancellations – Automobile Policies

Non Payment of Premium:

Bureau Observation: There was one violation of § 38.2-1906 D of the Virginia Code. The company failed to use the rules and/or rates on file with the Bureau.

Unitrin Direct

Company Response: We respectfully disagree with the one violation. Reference No. TPA027. The policy cancelled for nonpayment and was not reinstated. The policyholder paid the earned premium that was due up to date the policy remained in effect. A copy of the earned premium bill is provided in attachment 3.

Bureau Observation: There were three violations of § 38.2-2212 E of the Virginia Code. The company failed to send the insured written notice of cancellation in two instances and failed to mail the notice of cancellation to the insured at least 15 days prior to the effective date of cancellation

Company Response: We respectfully disagree with the three violations. Reference No. TPA043: the policy cancelled effective 7/10/2010 as replacement insurance was obtained elsewhere (see attachment 4); TPA045: the policy was not cancelled on 7/31/2009. Attachment 5 contains a transaction history which shows the renewal for 7/31/2009; and TPA055: Attachment 6 includes a copy of the cancellation for nonpayment notice and the proof of mailing.

Requested By The Insured:

Bureau Observation: There were fifteen violations of § 38.2-2212 F of the Virginia Code. The company failed to obtain the insured's written request to cancel their policy midterm.

Company Response: We respectfully disagree with the fifteen violations. Reference No. TPA056, TPA057, TPA059, TPA061, TPA062, TPA063, TPA065, TPA067, TPA068, TPA069, TPA072, TPA075, TPA077, TPA078, and TPA080.

The Bureau cites VA statutes § 38.2-2212 F requiring the company to obtain the insured's written request to cancel their policy midterm. VA statutes § 38.2-2212 F 2 states: "Nothing in this section shall apply: 2. If the named insured ... has notified the insurer or its agent orally, or in writing, if the insurer requires such notification to be in writing, that he wishes the policy to be canceled ..." The company agreed to verbally accept the insured's request for cancellation. The statute does not state that the agreement to verbally cancel policies has to be stated in the policy contract. However the Amendment of Policy Provisions – Virginia PP 01 99 0706 Part F General Provisions Changes 1. states: "This policy contains all the agreements between you and us. Its terms may not be changed or waived except by endorsement issued by us." It does not require the change to be in writing. The company verbally agreed to change the cancellation provision of the policy. We maintain taped conversations of all the verbal requests for midterm cancellation.

Company Initiated Non-Renewals – Automobile Policies

Bureau Observation: There was one violation of § 46.2-482 of the Virginia Code. The company failed to file an SR-26 within 15 days after cancelling the policy as required by the Virginia Motor Vehicle Code.

Company Response: We respectfully disagree with the one violation. Reference No. TPA088. See attachment 7 which includes the transaction history screen showing the policy non-renewal was reversed and that the policy did renew effective 2/16/2010. Therefore, the company was not required to notify the Department of Motor Vehicles of the non-renewal.

Part Two – Corrective Action Plan

Bureau's Requested Corrective Action Plan:

- 1) Correct the errors that caused the undercharges.
- 2) Provide written notice of cancellation or refusal to renew to the insured.
- 3) Obtain advance written notice when the insured requests cancellation of the policy.
- 4) Cancel private passenger automobile policies for suspensions or revocation only during the time permitted by § 38.2-2212 of the Code of Virginia.
- 5) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage, only for those reasons permitted by § 38.2-2212 the Code of Virginia.

Company Response:

- 1) There were no undercharges. See comments noted in our response to Reference No. TPA027.
- 2) We have taken corrective steps to ensure a written notice of cancellation or refusal to renew will be sent to the insured.
- 3) While we disagree with the criticism requiring written request for a midterm cancellation, we have filed and have received approval for an endorsement that changes the policy language to permit verbal request for cancellation. This endorsement will be included on all automobile policies.
- 4) We have taken corrective steps to ensure we only cancel private passenger automobile policies for suspensions or revocation only during the time permitted by § 38.2-2212 of the Code of Virginia.
- 5) We have taken corrective steps to ensure we only cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage, only for those reasons permitted by § 38.2-2212 the Code of Virginia.

Part Three - Examiners' Notes

The company wishes to respond to the following violations noted in the report: Request For Information From the Company.

The information for: Reference No. TPA026, TPA030, TPA045, TPA083 and TPA085 was provided to the examiners (see attachments 8 -12)

The company has implemented all the Bureau's suggested recommendations.

Acknowledgement

Thank you for the opportunity to respond to the preliminary report. If you have any questions, do not hesitate to contact me.

Sincerely,

Donald P Roinestad

Donald Roinestad CPCU, CLU, CIC, CRM, AMIM
Director of Compliance

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/bo>

July 13, 2011

VIA UPS 2ND DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct Property & Casualty Insurance Company
502 West Germantown Pike, Ste. 900
Plymouth Meeting, PA 19462

Re: Market Conduct Examination
Unitrin Direct Property & Casualty Insurance Company (NAIC# 10915)
Examination Period: 09/01/09 - 08/31/10

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has reviewed the Unitrin Direct Property & Casualty Insurance Company's June 13, 2011 response to the Preliminary Market Conduct Report (Report) of the above referenced company. The Bureau has referenced only those items in which the company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE-THE EXAMINERS' OBSERVATIONS

Company-Initiated Cancellations-Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The violation for TPA007 stays in the Report. The company provided a separate page showing the postal receipt from the United States Post Office. There is no way to tie the postal receipt to the mailing list provided. There is nothing connecting the documents.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

OTHER LAW VIOLATIONS

After further review, the violation for TPA022 has been withdrawn from the Report.

All Other Cancellations-Automobile Policies

NONPAYMENT OF THE PREMIUM

- 1 The violation for TPA027 stays in the Report. The documentation provided by the company shows a payment of \$121.78 made on 4/3/10. The company must provide accounting information for the entire policy period. The information provided indicates only one payment (121.78); if prior payments were made the company must provide the accounting information reflecting those payments.
- 2a. After further review the violation for TPA043 has been withdrawn from the Report.
The violation for TPA045 stays in the Report. The data files provided in response to the Data Call Manual included a Nonpay Cancellation of this policy effective July 31, 2010 with a notice date of July 7, 2010. The documentation sent to the Bureau for review shows an accounting transaction on August 2, 2010, terminating the policy on July 31, 2010. The company has not provided any cancel notice or proof of mailing for the July 31, 2010 termination.
- 2b. The violation for TPA055 stays in the Report. Documentation sent to the Bureau for review included a proof of mailing stamped August 10, 2010. This notice applied to a cancellation notice with an August 19, 2010 cancellation effective date (this is less than 15 days notice). The documentation provided in response to the Preliminary Report includes a cancellation notice dated August 2, 2010, with a cancellation effective date of August 19, 2010; however; the proof of mailing is stamped by the USPS on July 30, 2010. The date the USPS shows that the notice was mailed is prior to the date the notice was generated by the company.

REQUESTED BY THE INSURED

After further review the violation for TPA061 has been removed from the report. The documentation provided by the Company shows that this was an expiration and not a midterm cancellation requested by the insured.

The violations for TPA056, TPA057, TPA059, TPA062, TPA063, TPA065, TPA067, TPA068, TPA069, TPA072, TPA075, TPA077, TPA078 and TPA080 stay in the report. The Company's contract used during the examination required that the insured either **return the policy** to the Company **or submit a written request** from the insured requesting cancellation. The files in question did not have evidence that either occurred.

Company-Initiated Non-renewals –Automobile Policies

OTHER LAW VIOLATIONS

After further review, the violation for TPA088 has been withdrawn.

PART THREE – EXAMINER'S NOTES

The company's response of June 13, 2011 refers to the Request for Information review sheets as violations. These review sheets are not violations and all reference to the review sheets has been removed from the technical report.

Enclosed with this letter is a revised version of the Report, technical reports, and any review sheets withdrawn, added or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by August 1, 2011.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, looping initial "J".

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

July 21, 2011

11 JUL 22 AM 10:33

Ms. Joy Morton
Bureau of Insurance
P&C Market Conduct 5th Floor
1300 E. Main Street
Richmond, VA 23219

RE: Market Conduct Examination
Unitrin Direct Property & Casualty Company (NAIC # 10915)

Dear Ms. Morton:

Unitrin Property & Casualty Company (UDPCC) has reviewed the second Preliminary Market Conduct Examination and the Cover Memo. Our response will be divided into the two segments: The Preliminary Report and the Cover Memo.

The Preliminary Report

PART ONE – THE EXAMINERS' OBSERVATIONS

Notice Mailed Prior to the 60th Day

Violation TPA007. The company provided a separate page showing the the postal receipt from the USPS. There is no way to tie the postal receipt to the mailing list provided. There is nothing connecting the documents.

Company response is as follows: The cancellation notice is fully compliant with 32.2-2208. A. *No written notice of cancellation or refusal to renew that is mailed, or delivered electronically if the notice is of a refusal to renew, by an insurer to an insured in accordance with the provisions of a motor vehicle insurance policy shall be effective unless: 1. a. It is sent by registered or certified mail, b. At the time of mailing the insurer obtains a written receipt from the United States Postal Service showing the name and address of the insured stated in the policy, c. At the time of mailing the insurer (i) obtains a written receipt from the United States Postal Service showing the date of mailing and the number of items mailed and (ii) retains a mailing list showing the name and address of the insured stated in the policy, or the last known address, to whom the notices were mailed, together with a signed statement by the insurer that the written receipt from the United States Postal Service corresponds to the mailing list retained by the insurer, or...* Every aspect of this statute was met (see attachment one).

- The notice was sent by certified mail.
- The written postal receipt is clearly has the insureds' name and address on the list.
- The written receipt clearly shows the date of mailing.
- The written receipt is 3 pages long, each item numbered, a total of 26 items mailed.
 - Sheet 1 starts with item 1 and ends with item 13

Unitrin Direct

- o Sheet 2 starts with items 14 through item 26; also has the postal stamp dated 9/29/2010 including the signature certification.
- o Sheet 3 has the date the certification was signed and the postal receipt.

There is clearly no reason to suggest this is not one continuous document.

The company respectfully rejects the notion that this is violation and requests it be removed from the report.

NonPayment of Premium

2b. Violation TPA043. The documentation provided in response to the Preliminary Report includes a cancellation effective date of August 19, 2010; however, the proof of mailing is stamped by the USPS on July 30, 2010. The date the USPS shows that the notice was mailed is prior to the date the notice was generated by the company.

Company response is as follows: This issue was previously raised in the audit. We provided the following response and the objections were removed. Unitrin respectfully disagrees with the Department's position and feel we are in compliance with regulation 38.2-2208 B. 1 which states *"...The registered, certified or regular mail postal receipt and the copy of the notices required by this section shall be retained by the insurer for at least one year from the date of termination."* The postal receipt was retained for a period of one year from the date of termination. A copy of the notice was retained for one year from the date of termination. Although the notice mail date and the postal mail date differ, it does not negate the validity of the notice as there is no regulatory or statutory requirement to include the mailed date on the notice and the notice is not subject to the Department's approval. The fact that the notice was delivered to the post office one day earlier than expected does not invalidate the notice. The insured was given the required days notice and the postal receipt confirms the notice was mailed to the insured in as required by the statute. The purpose of this statute is to require the company to retain a copy of the notice and the postal receipt which the company has done. Again there is no statutory requirement that the date of the notice has to comply with the postal receipt.

The company respectfully requests that this objection be removed from the report.

Requested by the Insured

"The examiners found 14 violations of the Virginia Code §38.2-2212 F "The company failed to obtain the insured's written request to cancel his policy midterm.

Company Response is as follows: The Bureau cites VA statutes §38.2-2212 F requiring the company to obtain the insured's written request to cancel their policy midterm. The statute states: VA statutes §38.2-2212 F 2 states; "Nothing in this section shall apply: 2. If the named insured ... has notified the insurer or its agent orally, or in writing, if the insurer requires such notification to be in writing, that he wishes the policy to be canceled ..." The statute allows an insurer to accept an oral request. Further the policy contract does not restrict requests for cancellation by the named insured just to the two reasons provided in the policy. (See Company's response to the cover memo below.)

Cover Memo dated July 13, 2011

Bureau comment: "The company's contract used during the examination required the insured to **either return the policy** to the company **or submit a written request** from the insured requesting cancellation."

Company's Response: First, the reason provided in the report is different than the reason provided in your cover memo. We do not understand why the cover memo would report a different reason.

Second, we feel the reason provided is flawed.. The language in the the policy states: "...the name insured **may** cancel by: ...giving us advance written notice of the date cancellation is to take effect. "**May**" does not obviate other means of cancellation. If was the intent of the policy was to limit cancellation requests from the named insured to the two reasons cited in the contract the term **may** would have been replaced with **must**.

Third, if we were to follow the letter of the contract as written as the Bureau is suggesting and limit the ways for a named insured to midterm cancel their policy to the reasons cited in the policy, it could create significant problems and duplicate insurance issues for the named insured. The policy states: *This policy may be cancelled during the policy period as follows: 1. The named insured shown in the Declarations, or his duly constituted attorney-in-fact, may cancel by: a. Returning this policy to us; or b. Giving us advance written notice of the date cancellation is to take effect.* For example: the insured replaces their insurance with another carrier, waits until they receive the new policy from their new carrier, they then send us a copy of their new declaration page and requests that we cancel the policy the effective date of the new policy. According to the policy language the named insured has to give us advance notice. Therefore we would be unable to go back to the date that the replacement policy took effect. Further, the named insured would have to send in a new request with an advanced date for us to cancel the policy. The named insured would end up with unnecessary coverage and would have paid unnecessary premium. This would be unacceptable from a business point of view and would not be done nor would the Bureau tolerate such action.

We respectfully request these violations be removed from the report.

Acknowledgement

Thank you for the opportunity to respon to the preliminary report. If you have any questions, do not hesitate to contact me.

Sincerely

Donald Roinestad

Donald Roinestad CPCU, CLU, CIC, CRM, AMIM.
Director of Compliance

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

August 8, 2011

VIA UPS 2ND DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct Property & Casualty Insurance Company
502 West Germantown Pike, Ste. 900
Plymouth Meeting, PA 19462

Re: Market Conduct Examination
Unitrin Direct Property & Casualty Insurance Company (NAIC# 10915)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has concluded its review of the Unitrin Direct Property & Casualty Insurance Company's (Company) July 21, 2011, response to the Revised Market Conduct Report (Report) of the above referenced company. The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings. This response follows the format of the Report.

PART ONE EXAMINERS' OBSERVATIONS

Company Initiated Cancellations – Automobile Policies

Notice Mailed Prior to the 60th Day of Coverage

The violation for TPA007 remains in the Report. The page listing the insured's name and address shows the Pitney Bowes stamp and the total amount of postage paid to mail all 26 items. The written receipt from the USPS required by the statute is shown on a separate page. As previously stated in the Bureau's response of July 13, 2011, it is not possible to tie the postal receipt to the mailing list provided. There is nothing connecting the documents. We have reviewed this postal receipt with our Consumer Services Section. Their position is that it is not a valid proof of mailing and if they received a complaint from a consumer on this type proof of mailing, they would require the company to reinstate the coverage.

All Other Cancellations – Automobile Policies

Nonpayment of Premium

- 2b. There was never a violation of TPA043 in subsection 2b. There was, however, a violation of TPA043 in subsection 2a and this violation was withdrawn from the Report in the July 13, 2011 version of the Report provided to the Company.

REQUESTED BY THE INSURED

The violations in this section remain in the Report. The statute requires a written request from the insured if the insurer requires such notification. The Company has not filed a revision to the Virginia standard automobile form. The standard form requires advance written notice or return of the policy. The Company did not have either. If it is the Company's desire to accept oral requests for cancellation and not require advance notice, the Company should file a revision to the standard form.

Based upon the Bureau's review of the Company's July 21, 2011 letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Unitrin Direct Property & Casualty Insurance Company.

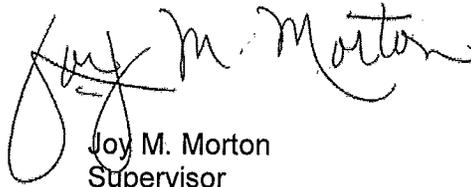
Based on the Bureau's review of the Report and the Company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-1906 D, 38.2-2208 A, 38.2-2212 D, 38.2-2212 E and 38.2-2212 F of the Code of Virginia.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM
Enclosure

UNITRIN[®] direct

auto and home insurance

Elizabeth C. Lupetini
Vice President,
Compliance & Underwriting

September 15, 2011

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

400053



Re: Market Conduct Examination
Unitrin Direct Property & Casualty Company (NAIC# 10915)
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Bannister:

This is in response to your letter dated August 31, 2011, directed to Mr. Donald Roinestad. He has forwarded it to me as the appropriate party to respond.

We have enclosed a signed settlement offer as well as \$1,500 (check number 167880). To confirm that we will comply with the corrected action plan set forth in our earlier June 13, 2011 letter:

- 1) We have taken corrective steps to ensure a written notice of cancellation or refusal to renew to the insured will be sent to the insured.
- 2) While we have filed and have received approval for an endorsement that changes the policy language to permit verbal request for cancellation. This endorsement will be included on all automobile policies.
- 3) We have taken corrective steps to ensure we only cancel private passenger automobile policies for suspensions or revocation only during the time permitted by §38.2-2212 of the Code of Virginia.
- 4) We have taken corrective steps to ensure cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage, only for those reasons permitted by §38.2-2212 the Code of Virginia.
- 5) We have taken corrective steps to ensure all nonpayment of premium notices are sent at least 15 days prior to cancellation.
- 6) We have taken corrective steps to ensure all SR-26's are filed within 15 days of cancelling the policy.
- 7) The right to review language has been removed. We are now using Oden cancellation forms.

We thank you for the timely and efficient examination process. Please let me know if you require any additional information.

Sincerely,

Elizabeth Lupetini
CLU, CPCU, RPLU, AU, ASLI, ARC, ARM, ARe, AIC, API, AINS

Cc: Donald Roinestad

Attachment (2)

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Re: Market Conduct Examination Settlement Offer
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated August 31, 2011 concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-1906 D, 38.2-2212 D, 38.2-2212 E and 38.2-2212 F of the Code of Virginia.

1. We enclose with this letter a check made payable to the Treasurer of Virginia in the amount of \$1,500.
2. We agree to comply with the corrective action plan set forth in the company's letter of August 12, 2011.
3. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive the right if this offer of settlement is accepted by the State Corporation Commission.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Unitrin Direct Property & Casualty Company



(Signed)

Elizabeth C. Lupetini

(Type or Print Name)

Vice President, Compliance & Underwriting

(Title)

09/09/2011

(Date)

Enclosure

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

Unitrin Direct Property & Casualty Company has tendered to the Bureau of Insurance the settlement amount of \$1,500.00 by its check numbered 167880 dated September 12, 2011, a copy of which is located in the Bureau's files.

111120084

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 8, 2011 CLERK'S OFFICE

COMMONWEALTH OF VIRGINIA

2011 NOV -8 P 2: 12

At the relation of the

DOCUMENT CONTROL

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2011-00203

UNITRIN DIRECT PROPERTY & CASUALTY
INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendant, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated §§ 38.2-1906 D, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code of Virginia by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant, and by failing to properly terminate insurance policies.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code of Virginia to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke the Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the Defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter, whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth of Virginia the sum

of One Thousand Five Hundred Dollars (\$1,500), waived its right to a hearing, and agreed to comply with the Corrective Action Plan set forth in its letters to the Bureau of Insurance dated June 13, 2011, and September 15, 2011.¹

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code of Virginia.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendant in settlement of the matter set forth herein be, and it is hereby, accepted; and
- (2) The papers herein be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Donald Roinestad, Director of Compliance, Unitrin Direct Property & Casualty Insurance Company, 502 West Germantown Pike, Suite 900, Plymouth Meeting, Pennsylvania 19462; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Brian P. Gaudiose.

¹ The Settlement Offer signed by the Defendant references an incorrect date of August 12, 2011, with regards to the Corrective Action Plan.