

**MARKET CONDUCT
EXAMINATION REPORT**

OF

UNITRIN AUTO AND HOME INSURANCE 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



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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 Auto and Home Insurance Company as of August 31, 2010, which took place at the offices of the State Corporation Commission in Richmond, Virginia 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 23rd day of March, 2012.

A handwritten signature in cursive script, reading 'Jacqueline K. Cunningham', written over a horizontal line.

JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

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**Property and Casualty Division
Market Conduct Section**

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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 and homeowner lines of business written by Unitrin Auto and Home Insurance Company in a desk examination at the office of the State Corporation Commission in Richmond, Virginia.

The examination commenced February 7, 2011 and concluded August 17, 2011. Karen S. Gerber, Richard L. Howell, and Gloria V. Warriner, 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-M27. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE

Unitrin Auto and Home Insurance Company was incorporated on October 15, 1996 under the name General Security Insurance Company of New York under the laws of New York. The company was to serve as the vehicle for redomestication of the company from Maryland to New York. Effective December 31, 1996, this company merged with its operational predecessor, General Security Insurance Company, Rockville, Maryland. Concurrent with the 1996 merger, the surviving entity became known as General Security Insurance Company. The current title was adopted on February 18, 2003.*

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

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 except as noted in the table.

| | |
|----------------------------|--------------|
| Group Code: 215 | UAHIC |
| NAIC Company Number | 16063 |
| LICENSED IN VIRGINIA | 01/28/1982 |
| LINES OF INSURANCE | |
| Accident and Sickness | 07/02/1997 |
| Aircraft Liability | X |
| Aircraft Physical Damage | X |
| Animal | |
| Automobile Liability | X |
| Automobile Physical Damage | X |
| Boiler and Machinery | X |
| Burglary and Theft | X |
| Commercial Multi-Peril | X |
| Credit | 07/02/1997 |
| Farmowners Multi-Peril | |
| Fidelity | X |
| Fire | X |
| General Liability | X |
| Glass | X |
| Homeowner Multi-Peril | X |
| Inland Marine | X |
| Miscellaneous Property | X |
| Ocean Marine | X |
| Surety | X |
| Water Damage | |
| Workers' Compensation | X |

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.*

| COMPANY AND LINE | PREMIUM VOLUME | MARKET SHARE |
|--|-----------------------|---------------------|
| Unitrin Auto and Home Insurance Company | | |
| Private Automobile Liability | \$4,045,062 | .17% |
| Private Automobile Physical Damage | \$2,616,295 | .15% |
| Homeowner | \$4,395,875 | .28% |

* 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 and homeowner lines 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 – Recommendations. 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 include 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 review of the termination processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

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.

Population
Sample Requested

| AREA | <u>Unitrin</u> <u>Auto &</u> <u>Home</u> | <u>TOTAL</u> | <u>FILES</u> <u>REVIEWED</u> | <u>FILES</u> <u>NOT</u> <u>FOUND</u> | <u>FILES</u> <u>WITH</u> <u>ERRORS</u> | <u>ERROR</u> <u>RATIO</u> |
|---|--|------------------|---------------------------------|--|--|------------------------------|
| <u>Private Passenger Auto</u> | | | | | | |
| Co-Initiated Cancellations ¹ | <u>5</u> 5 | <u>5</u> 5 | 4 | 0 | 3 | 75% |
| All Other Cancellations ¹ | <u>878</u> 20 | <u>878</u> 20 | 20 | 0 | 4 | 20% |
| Nonrenewals ² | <u>52</u> 10 | <u>52</u> 10 | 9 | 0 | 0 | 0% |
| <u>Homeowners</u> | | | | | | |
| Co-Initiated Cancellations ¹ | <u>34</u> 34 | <u>34</u> 34 | 5 | 0 | 3 | 60% |
| All Other Cancellations ^{1,3} | <u>519</u> 20 | <u>519</u> 20 | 31 | 0 | 0 | 0% |
| Nonrenewals | <u>34</u> 5 | <u>34</u> 5 | 5 | 0 | 0 | 0% |

Footnote¹ The populations included inaccurate termination types in each of these categories.

Footnote² One file was an expiration and was not reviewed.

Footnote³ Four files were tenant and condominium policies and were not reviewed.

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 two 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 one of these files. One file was reviewed under the Nonpayment of Premium category. The examiners reviewed one additional file that the company incorrectly provided as a cancellation requested by the insured. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to mail the notice of cancellation at least ten days prior to the effective date of cancellation.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested three 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 one of these files. Two files were reviewed under the Nonpayment of Premium category. The examiners reviewed one additional file that the company incorrectly provided as a cancellation requested by the insured. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the policy for a reason not 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 one violation of § 46.2-482 of the Code of Virginia. The company failed to file an FR-46 within 15 days after canceling the policy as required by the Virginia Motor Vehicle Code.

All Other Cancellations - Automobile PoliciesNONPAYMENT OF PREMIUM

The Bureau requested ten automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed all ten of these files. The examiners reviewed three additional files. One file was incorrectly provided as a cancellation mailed prior to the 60th day of coverage. Two were incorrectly

provided as cancellations mailed after the 60th day of coverage. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

In addition, the Bureau requested ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed seven of these files. One file was reviewed as a cancellation mailed prior to the 60th day of coverage and one as a cancellation mailed after the 60th day of coverage. One file was reviewed under the nonrenewal category. As a result of this review, the examiners found no overcharges and undercharges totaling \$384.85.

- (1) The examiners found four violations 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 occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain advance written notice of cancellation from the insured.

Company-Initiated Nonrenewals – Automobile Policies

The Bureau requested ten automobile nonrenewals that were initiated by the company. The examiners reviewed nine of these files. One file included in the company's data population was an expiration and was not applicable to this category.

The examiners found no violations in this area.

Company-Initiated Cancellations – Homeowner PoliciesNOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau requested 19 homeowner cancellations that were initiated by the company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. The examiners reviewed six of these files. Four files in the company's data population for this category were tenant or condominium policies and three files were cancelled flat and therefore not reviewed. Four files were reviewed under the cancellation requested by the insured category. One file was reviewed under the Nonpayment of Premium category and one file was reviewed as a cancellation mailed after the 90th day of coverage. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide at least ten days' notice to the insured when the company cancelled the policy prior to the 90th day.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau requested 15 homeowner cancellations that were initiated by the company where the company mailed the notices on or after the 90th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed two of these files. Two files in the company's data population for this category were condominium policies and therefore not reviewed. Seven files were reviewed under the cancellation requested by the insured category and four files were reviewed in the Nonpayment of Premium category. One additional file was moved from notices mailed prior to the 90th day of coverage and reviewed. The examiners found no overcharges and no undercharges during the review of these files.

(1) The examiners found two violations of § 38.2-2114 A of the Code of Virginia.

The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.

- (2) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to mail the notice of cancellation to the insured at least 30 days prior to the effective date of cancellation.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance policy. The company failed to mail the notice of cancellation to the lienholder at least ten days prior to the effective date of cancellation.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested ten homeowner cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed six of these files. Four files in the company's data population for this category were tenant or condominium policies. The examiners reviewed five additional files that the company incorrectly provided as a cancellations mailed prior to the 90th day and cancellations mailed after the 89th day. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

The Bureau requested ten homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all ten of these files. The examiners reviewed ten additional files that the company incorrectly provided as a cancellations mailed prior to the 90th day of

coverage and cancellations mailed after the 89th day of coverage. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found no violations in this area.

Company-Initiated Nonrenewals – Homeowner Policies

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

The examiners found no violations in this area.

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. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the company. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Unitrin Auto and Home Insurance Company shall:

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

Termination Review

Unitrin Auto and Home Insurance Company shall:

- (1) Provide written notice of cancellation or non-renewal to the insured.
- (2) Obtain advance written notice when the insured requests cancellation of the policy.
- (3) Give adequate days notice as required by the Code of Virginia for company initiated cancellations.
- (4) 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.
- (5) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by the Code of Virginia.

PART THREE – RECOMMENDATIONS

RECOMMENDATIONS

We recommend that the company take the following actions:

Termination

- The company should file an FR-46 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.
- The company should discontinue the practice of issuing a notice of cancellation or non-renewal along with an adverse underwriting decision notice to the insured when the insured requests cancellation of a private passenger automobile policy or a policy insuring an owner-occupied dwelling.
- The company should thoroughly review the requested information in the data call in order to provide the correct documentation for each category of the exam.

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". The signature is written in a cursive style with a large initial "R".

Richard L. Howell, AIC
Senior Insurance Market Analyst

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
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October 6, 2011

VIA UPS 2nd DAY DELIVERY

Paul J. Testa, CPCU, CIC
Underwriting Compliance
Manager
Unitrin Auto & Home Insurance Company
12926 Gran Bay Parkway W.
Jacksonville, FL 32258

Re: Market Conduct Examination
Unitrin Auto & Home Insurance Company (NAIC # 16063)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Testa:

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). 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 item(s) in Part I of the Report using the format of the Report. The company must refrain from including personal or privileged information in its response. 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 actions it is taking to prevent those issues from becoming a business practice.

Thirdly, if the company has comments it wishes to make regarding the Recommendations in Part III of the Report, please use the same headings and numbering for the comments.

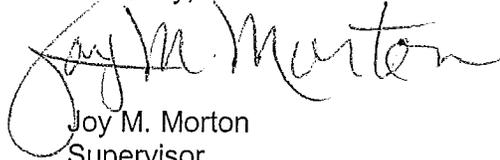
Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

The company's response must be returned to the Bureau by November 10, 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 November 10, 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 & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM
Enclosure

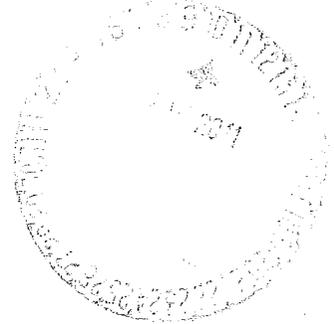


Paul J. Testa, CPCU, CIC, ARP, MSIM
Underwriting Compliance Manager

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12926 Gran Bay Pkwy W.
Jacksonville, FL 32258
kemperpreferred.com

November 8, 2011

Joy M. Morton
Supervisor, Market Conduct Section
Property & Casualty Division
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218



Re: Market Conduct Examination
Unitrin Auto and Home Insurance Company (NAIC # 16063)
Examination Period: September 1, 2009 – August 31, 2010

Ms. Morton:

We are in receipt of the Preliminary Market Conduct Examination Report from the Bureau of Insurance. Unitrin Auto and Home Insurance Company's (UAH) response to your findings is enclosed herewith.

Part I – The Examiners' Observations

Company-Initiated Cancellations – Automobile Policies

Notice Mailed Prior to the 60th Day of Coverage

The one policy that is cited as a violation under this category (Policy # HB 880755, Review Sheet # 487149916) was cancelled by UAH's independent agent simply as a means to consolidate two automobile insurance policies into one. The policy in question covered one vehicle (a 1993 Toyota) which was added to the policyholder's primary auto policy (HB 880754), which allowed the policy covering this vehicle to be cancelled. The agent assured that coverage on this vehicle was continuous without a lapse and maintained the same level and limits of coverage during the transfer from one policy to the next.

The policy covering this vehicle – HB 880754 – remains in force, as premium payments from the policyholder have kept it active. UAH waived the policyholder's obligation to provide written notice of cancellation under policy HB 880755 since this same coverage is being provided under HB 880754. Nothing in the policy prohibits such waiver.

Please review the enclosed supporting documents that illustrate this transaction.

Notice Mailed After the 59th Day of Coverage

Under this category, there is one policy (HB 822259) that was cited for two separate violations; accordingly there were two separate review sheets – 426073302 and 1626131310. This policy, too, was

cancelled by UAH's independent agent in an effort to consolidate two separate automobile policies into one. The policy in question covered one vehicle (a 2007 Ford) which was added to the policyholder's primary auto policy (HB 802285), which allowed the policy covering this vehicle to be cancelled. The agent assured that coverage on this vehicle was continuous without a lapse and maintained the same level and limits of coverage during the transfer from one policy to the next.

The policy covering this vehicle – HB 802285 – remains in force, as premium payments from the policyholder have kept it active. UAH waived the policyholder's obligation to provide written notice of cancellation under policy HB 822259 since this same coverage is being provided under HB 802285. Nothing in the policy prohibits such waiver.

Please review the enclosed supporting documents that illustrate this transaction.

All Other Cancellations – Automobile Policies

Requested by the Insured

UAH policy provisions grant a policyholder the absolute right to cancel a policy by giving UAH advance notice of the date cancellation is to take effect. Specifically, the policy indicates that a policyholder MAY cancel the policy in this fashion. The policy does not say, however that the insured MAY NOT cancel the policy in any other fashion if agreed to by the insurer. If a policyholder requests cancellation of his policy in writing but asks for the cancellation to occur retroactively rather than prospectively, nothing in the policy prohibits UAH from honoring this request. Generally, when a policyholder requests a retroactive cancellation, it is because the policyholder has obtained coverage elsewhere and simply does not need the coverage.

Company-Initiated Nonrenewals – Automobile Policies

The policy found to be in violation (policy # HB 877900, Review Sheet # 1456729704) is a mono-line automobile policy that was cancelled based on the request of the insured, because automobile coverage under the policyholder's package policy (RC 998890) was reinstated. The package had been non-renewed for underwriting reasons related to the insured's home. A mono-line automobile policy was accordingly issued. Once the homeowner underwriting concerns were addressed, the package policy was reinstated, and subsequently, the mono-line automobile policy was cancelled.

As a result, the policyholder's automobile coverage continued without a lapse. UAH waived the policyholder's obligation to provide written notice of cancellation under the mono-line automobile policy since this same coverage is being provided under the package policy. Nothing in the policy prohibits such waiver.

Please review the enclosed supporting documents that illustrate this transaction.

Company-Initiated Cancellations – Homeowners Policies

Notice Mailed Prior to the 90th Day of Coverage

In both of the policies cited as violations under this category, coverage had already been placed with UAH under a separate policy:

- For policy UB 431649, coverage for the property was already secured under UB 431903.
- For policy UB 431984, coverage for the property was already secured under DF 035099.

Accordingly, in order to avoid maintaining and billing these erroneous policy issuances, UAH's independent agent requested cancellation of the above cited policies.

Please review the enclosed supporting documents that illustrate this transaction.

Part II – Corrective Action Plan of UAH

See attached Corrective Action Plan of UAH

Part III – Recommendations

1. *FR-46 Filing*

UAH has developed written procedures for the issuance of an FR-46 filing in the event that a policy for which an FR-44 filing was issued is either cancelled or non-renewed.

2. *Insured Requested Cancellation Notices*

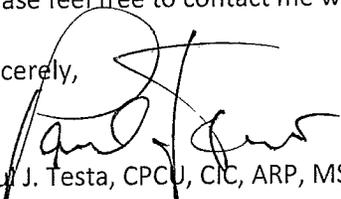
UAH has revised the language on its insured requested cancellation notices such that references to the "right to review by the Commissioner" and to the Adverse Underwriting Decision (AUD) language have been removed.

3. *Requested Information*

UAH has provided all necessary information and documentation requested by the Virginia Bureau of Insurance throughout the course of the market conduct examination. Future requests for such information will be provided with the same level of accuracy and thoroughness.

Please feel free to contact me with any questions.

Sincerely,



Paul J. Testa, CPCU, CIC, ARP, MSIM
Underwriting Compliance Manager

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Exhibit A Corrective Action Plan of UAH

1. *Notice Timing & Reason*

As many of the terminations that have been cited as violations resulted from a request from the policyholder (e.g. cancel/re-write, etc.), and pursuant to the Virginia Bureau of Insurance's desires, UAH will request its independent agency plant to procure and retain a signed policy release or other documentation from the policyholders validating their intent to terminate their policy.

2. *Cancellation/Non-renewal for Occupancy*

UAH will review section 38.2-2114(A.) (5). and will assure its compliance with its provisions.

3. *Insured Requested Cancellation – Advance Notice*

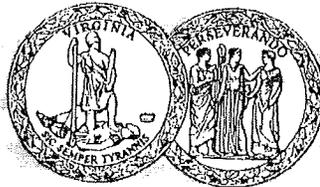
UAH has received an approval from the Virginia Bureau of Insurance for a modification of the Virginia Auto Amendatory Endorsement – AU 960 (09 11). The modification removes the requirement for "advance" written notice from the policyholder in the event of an insured requested cancellation. The revised form will be in production for policies effective 01/01/2012. The SERFF tracking number for this filing is KEMP-127636819.

4. *Insured Requested Cancellation – Short-Rate Calculation*

UAH has received an approval from the Virginia Bureau of Insurance for a modification of the Virginia Auto Amendatory Endorsement – AU 960 (09 11). The modification removes the requirement for calculating the insured's return premium on a short-rate basis in the event of an insured requested cancellation; instead, such a cancellation shall be calculated on a straight pro-rata basis. The revised form will be in production for policies effective 01/01/2012. The SERFF tracking number for this filing is KEMP-127636819.

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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<http://www.scc.virginia.gov/division/b>

December 8, 2011

VIA UPS 2nd DAY DELIVERY

Paul J. Testa, CPCU, CIC
Unitrin Auto & Home Insurance Company
Underwriting Compliance Manager
12926 Gran Bay Parkway W.
Jacksonville, FL 32258

Re: Market Conduct Examination
Unitrin Auto & Home Insurance Company (NAIC # 16063)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Testa:

The Bureau of Insurance (Bureau) has reviewed the Unitrin Auto & Home Insurance Company's November 8, 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 TPA024 stays in the report. The company issued two separate policies with different policy numbers. The reason given by the company for the cancellation of policy HB 880755 was that the company was replacing the policy with an identical policy written in a different company. The cancellation notice was issued without giving the insured at least 10 days notice in advance of the cancellation effective date. At the effective date and time of the cancellation, the vehicle was added to a policy in the same company and not a different company as stated in the notice of cancellation. Documentation was not provided to support the company's contention that the policy was canceled at the request of the insured rather than a cancellation within the first 60 days of coverage.

Notice Mailed After the 59th Day of Coverage

1. The violation for TPA019 stays in the report. The reason given for the cancellation of policy HB 822259 was that coverage was written in a different company. The company can only cancel the insured's policy for the reasons permitted by the statute. Documentation was not provided to support the company's contention that the policy was canceled at the request of the insured rather than a cancellation after the 59th day of coverage as originally confirmed by the company's response to the data call.
2. The violation for TPA019 stays in the report. Documentation sent to the Bureau included a proof of mailing dated May 24, 2010. The cancellation effect date was May 19, 2010. This is less than the 45 days notice required by the statute when the policy is cancelled after the 59th day of coverage. Documentation was not provided to support the company's contention that the policy was canceled at the request of the insured rather than a cancellation after the 59th day as originally confirmed by the company's response to the data call.

All Other Cancellations-Automobile Policies

REQUESTED BY THE INSURED

The violations for TPA018 and TPA020 stay in the report. The Company's contract used during the examination period 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 NONRENEWALS-AUTOMOBILE POLICIES

After further review, the violation for TPA023 has been withdrawn.

COMPANY-INITIATED CANCELLATIONS-HOMEOWNERS POLICIES

Notice Mailed Prior to the 89th Day of Coverage

The violations THO012 and THO014 remain in the report. In each instance, the company failed to issue a cancellation notice when duplicate coverage was in effect with different effective dates. Documentation was not provided to support the company's contention that the policy was canceled at the request of the insured rather than a cancellation after the 89th day as originally confirmed by the company's response to the data call.

PART TWO – CORRECTIVE ACTION PLAN

Termination

1. It is not merely the desires of the Bureau that the Company procure and retain evidence of the insureds' written request to cancel the policy, it is the conditions of the contract on file during the examination period.

PART THREE – RECOMMENDATIONS

3. The Data Call Manual sent to the Company outlines the importance of providing accurate information that the Bureau needs for the upcoming market conduct exam. As noted in the Statistical Summary of the Report, populations for several of the termination categories included inaccurate termination types. The Company should review the termination requirements in the Code of Virginia and amend the statistical reporting to correspond with the various termination types required.

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 December 27, 2011.

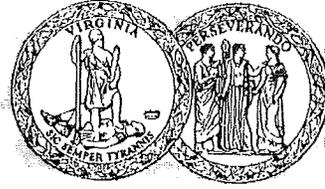
Sincerely,



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

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

COMMONWEALTH OF VIRGINIA



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

January 19, 2012

VIA UPS 2nd DAY DELIVERY

Paul J. Testa, CPCU, CIC
Unitrin Auto & Home Insurance Company
Underwriting Compliance
Manager
12926 Gran Bay Parkway W
Jacksonville, FL 32258

Re: Market Conduct Examination
Unitrin Auto & Home Insurance Company (NAIC # 16063)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Testa

The Bureau of Insurance (Bureau) has concluded its review of the company's response of December 20, 2011. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination.

The violations for TPA 018, TPA 019, TPA 020 and TPA 024 all remain in the Report. The company has referenced the Automatic Termination provision in Policy Form PP 00 01 (01 05), the Automatic Termination provision in the Personal Automobile policy is superseded by the provisions of the Virginia Amendatory endorsement PP 01 99 (07 06). The Virginia Amendatory endorsement amends the cancellation provisions by deleting item C Automatic Termination of Part F General Provisions.

Enclosed are the final Report and the technical reports.

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 38-1906 D; 38.2-2114 A; 38.2-2114 C; 38.2-2212 D and 38.2-2212 E; 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 business of insurance in Virginia.

Mr. Testa
January 19, 2012
Page 2 of 2

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) 371-9740
joy.morton@scc.virginia.gov

JMM



Paul J. Testa, CPCU, CIC, ARP, MSIA
Underwriting Compliance Manager

Kemper Preferred
12926 Gran Bay Pkwy W.
Jacksonville, FL 32258
kemperpreferred.com

December 22, 2011

Joy M. Morton
Supervisor, Market Conduct Section
Property & Casualty Division
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Re: Market Conduct Examination
Unitrin Auto and Home Insurance Company (NAIC # 16063)
Examination Period: September 1, 2009 – August 31, 2010

Ms. Morton:

We are in receipt of your letter, dated December 8, 2011, which provided the revised Market Conduct Examination Report from the Bureau of Insurance. Unitrin Auto and Home Insurance Company's (UAH) response to your findings is enclosed herewith.

Part I – The Examiners' Observations

Company-Initiated Cancellations – Automobile Policies

Notice Mailed Prior to the 60th Day of Coverage

Policy HB 880755 was cancelled because coverage for the vehicle this policy provided was replaced by an identical policy providing identical coverage. Under the policy contract, specifically PP 00 01 (01 05), pages 12 and 13, when other insurance is obtained for a covered vehicle, any similar insurance provided by the original policy will terminate as to that auto on the effective date of the other insurance. Since coverage was provided by another policy, HB 880754, the previous policy automatically terminated. The insured was already on notice of this provision having received his policy documents at inception. UAH simply waived the policyholder's obligation to provide written notice of cancellation under policy HB 880755 since the new coverage was already in place. In this situation, requiring the policyholder to provide written notice of cancellation places an unnecessary burden on the insured since the policy already automatically terminated. The end result was the same and the policyholder was not harmed in any way. As a result, we respectfully request the violation for TPA024 be withdrawn from the report.

A sample of the policy contract – PP 00 01 (01 05) – is enclosed herewith.

Notice Mailed After the 59th Day of Coverage

The company respectfully disagrees with the violation for TPA019 and asks for the violation to be withdrawn from the report. In this instance, the company did cancel the insured's policy for reasons

permitted in the contract. Documentation is not required to support the company's contention that the policy was canceled at the request of the insured. Again, the Automatic Termination provision in Policy Form PP 00 01 (01 05) comes into play. Once the insured purchases the same or even similar coverage for the auto in question, the original insurance policy automatically terminates, as is the case with this policy. UAH simply waived the policyholder's obligation to provide written notice of cancellation under policy HB 822259 to reduce the burden on the insured. Coverage for the vehicle was continuous and maintained the same level of limits, thus no harm came to the insured.

All Other Cancellations – Automobile Policies

Requested by the Insured

The violations for TPA018 and TPA020 are believed to be unfounded by the Company. In both instances, the policyholders canceled policies because other insurance had already been obtained. Not only does the previously discussed automatic termination provision come into play, but if the Company had required the policyholder to provide written notice of cancellation, the policyholder would have been caused harm. Since the policyholders wanted to cancel retroactively, most likely because they obtained new insurance, we refunded premium retroactively. In doing so, the insured was not required to pay for two policies at the same time. Had we required the policyholder to cancel in writing with a future effective date, we could not have returned the premium due to the policyholder. As a result, we respectfully request the violations for TPA 018 and TPA 020 be withdrawn.

Part II – Corrective Action Plan of UAH

See attached the revised Corrective Action Plan of UAH, specifically a modification to item 1.

Part III – Recommendations

3. Requested Information

UAH has undertaken necessary modifications to its workflows to assure that policy terminations are coded properly, such that they reflect accurate termination categories and types.

Please feel free to contact me with any questions.

Sincerely,



Paul J. Testa, CPCU, CIC, ARP, MSIM
Underwriting Compliance Manager

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12926 Gran Bay Pkwy W.
Jacksonville, FL 32258
904.245.6055 o
904.245.5601 f
ptesta@Kemper.com

Exhibit A Corrective Action Plan of UAH

1. *Notice Timing & Reason*

As many of the terminations that have been cited as violations resulted from a request from the policyholder (e.g. cancel/re-write, etc.), UAH will request its independent agency plant to procure and retain a signed policy release or other documentation from the policyholders validating their intent to terminate their policy.

2. *Cancellation/Non-renewal for Occupancy*

UAH will review section 38.2-2114(A.) (5). and will assure its compliance with its provisions.

3. *Insured Requested Cancellation – Advance Notice*

UAH has received an approval from the Virginia Bureau of Insurance for a modification of the Virginia Auto Amendatory Endorsement – AU 960 (09 11). The modification removes the requirement for “advance” written notice from the policyholder in the event of an insured requested cancellation. The revised form will be in production for policies effective 01/01/2012. The SERFF tracking number for this filing is KEMP-127636819.

4. *Insured Requested Cancellation – Short-Rate Calculation*

UAH has received an approval from the Virginia Bureau of Insurance for a modification of the Virginia Auto Amendatory Endorsement – AU 960 (09 11). The modification removes the requirement for calculating the insured’s return premium on a short-rate basis in the event of an insured requested cancellation; instead, such a cancellation shall be calculated on a straight pro-rata basis. The revised form will be in production for policies effective 01/01/2012. The SERFF tracking number for this filing is KEMP-127636819.



Paul J. Testa, CPCU, CIC, ARP, MSII
Underwriting Compliance Manager

Kemper Preferred
12926 Gran Bay Pkwy W.
Jacksonville, FL 32258
kemper.com

February 16, 2011

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

400062

Re: Market Conduct Examination Settlement Offer

Ms. Bannister:

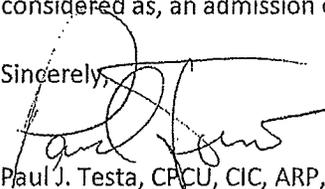
This will acknowledge receipt of the Bureau of Insurance's letter, dated January 26, 2012, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-1906 D; 38.2-2114 A; 38.2-2114 C; 38.2-2212 D; 38.2-2212 E of the Code of Virginia.

1. We enclose with this letter a check 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 letters of November 8, 2011 and December 22, 2011.
3. We further acknowledge the company's right to a hearing before the State Corporate Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

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

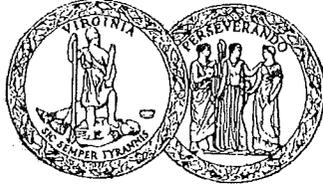
Sincerely,


Paul J. Testa, CPCU, CIC, ARP, MSIM
Underwriting Compliance Manager

Unitrin Auto and Home Insurance Company
12926 Gran Bay Pkwy W
Jacksonville, FL 32258
904.245.6055
ptesta@kemper.com

COMMONWEALTH OF VIRGINIA

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



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Unitrin Auto and Home Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$1500.00 by its check numbered 178801 dated February 14, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

120310447

AT RICHMOND, MARCH 12, 2012 CLERK'S OFFICE

COMMONWEALTH OF VIRGINIA, *ex rel.*

2012 MAR 12 P 3:58

STATE CORPORATION COMMISSION

DOCUMENT CONTROL

v.

CASE NO. INS-2012-00028

UNITRIN AUTO AND HOME
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 of the Code of Virginia ("Code") 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 violated §§ 38.2-2114 A, 38.2-2114 C, 38.2-2212 D, and 38.2-2212 E of the Code 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 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 November 8, 2011, and December 22, 2011.

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.

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.

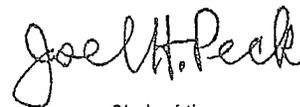
Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted; and

(2) The papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Paula J. Testa, Manager, Underwriting Compliance, Unitrin Auto and Home Insurance Company, 12926 Gran Bay Parkway W., Jacksonville, Florida 32258; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.

A True Copy
Teste:



Clerk of the
State Corporation Commission