

MARKET CONDUCT EXAMINATION REPORT

OF

HORACE MANN INSURANCE COMPANY

**HORACE MANN PROPERTY & CASUALTY
INSURANCE COMPANY**

TEACHERS INSURANCE COMPANY

AS OF

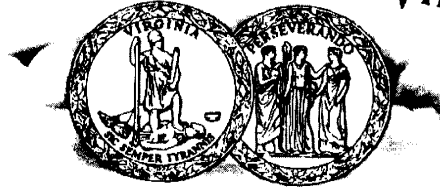
DECEMBER 31, 2009

**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
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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 Horace Mann Insurance Company, Horace Mann Property & Casualty and Teachers Insurance Company as of December 31, 2009, which took place at the company's offices in Springfield, Illinois 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 15th day of June, 2011.

JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a re-examination has been made of the private passenger automobile and homeowners lines of business written by Horace Mann Insurance Company, Horace Mann Property and Casualty Insurance Company, and Teachers Insurance Company at their office in Springfield, Illinois.

The examination commenced May 3, 2010 and concluded August 10, 2010. Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Richard L. Howell, Edwin N. Millan, Gloria V. Warriner and Roushawn V. White-Simmons, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on December 1, 2009 and was assigned the examination number of VA199-M12. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES

Horace Mann Insurance Company (HMIC) is incorporated under the laws of Illinois. The company was initially incorporated as Swiss National Insurance Company, U.S.A., under the laws of Florida on September 23, 1963 and commenced business on December 23, 1963. The present name was adopted on November 2, 1967. On December 23, 1988, the company was redomiciled to the state of Illinois. Horace Mann Insurance Company is licensed in 48 states, the District of Columbia and Puerto Rico.

Horace Mann Property and Casualty Insurance Company (HMPCIC) was incorporated on March 25, 1965, under the laws of California to become successor to the Public Services Employees Insurance Association, a reciprocal organized in 1961.

Conversion from the reciprocal to a capital stock company was completed on January 2, 1966. The name Allegiance Insurance Company was adopted on December 31, 1985. The company was acquired by Horace Mann Educators Corporation (HMEC), a Delaware Corporation, on January 14, 1994, and the current name was adopted on March 19, 2001. Horace Mann Property and Casualty Insurance Company is licensed in 46 states and the District of Columbia.

Teachers Insurance Company (TIC) is incorporated under the laws of Illinois. The operations of the company have been under the Horace Mann Group since 1976. It was dormant until 1976, when sponsors activated the company to serve as a corporate vehicle for the change in domicile from Los Angeles, California to Wilmington, Delaware. The predecessor company was incorporated on September 8, 1964, under the laws of California to become the successor to the Teachers Insurance Association, a reciprocal organized on February 8, 1957. Conversion from the reciprocal plan of operation to a capital stock operation was completed on July 1, 1965. Effective December 23, 1988, Teachers Insurance Company was redomiciled from Delaware to Illinois. Teachers Insurance Company is licensed in 47 states and the District of Columbia.

All companies are based in Springfield, Illinois.*

* Source: Best's Insurance Reports, Property & Casualty, 2009 Edition.

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

GROUP CODE: 0300	HMIC	HMPCIC	TIC
NAIC Company Number	22578	22756	22683
LICENSED IN VIRGINIA	02/03/1964	03/30/1999	04/03/1991
LINES OF INSURANCE			
Accident and Sickness			
Aircraft Liability	X		
Aircraft Physical Damage	X		
Animal			
Automobile Liability	X	X	X
Automobile Physical Damage	X	X	X
Boiler and Machinery	X		
Burglary and Theft	X	X	
Commercial Multi-Peril			
Credit			
Farmowners Multi-Peril	X		
Fidelity			
Fire	X	X	X
General Liability	X	X	X
Glass	X	X	
Homeowners Multi-Peril	X	X	X
Inland Marine	X	X	X
Miscellaneous Property	X	X	X
Ocean Marine	X		
Surety			
Water Damage	X		
Workers' Compensation			

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

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Horace Mann Insurance Company		
Homeowners	\$2,995,336	0.19%
Private Automobile Liability	\$896,268	0.04%
Private Automobile Physical Damage	\$662,675	0.04%
Horace Mann Property & Casualty Insurance Company		
Homeowners	\$1,144,065	0.07%
Private Automobile Liability	\$2,124,217	0.09%
Private Automobile Physical Damage	\$1,645,127	0.10%
Teachers Insurance Company		
Private Automobile Liability	\$2,104,856	0.09%
Private Automobile Physical Damage	\$1,599,545	0.09%

* 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 companies' private passenger automobile and homeowners lines of business written in Virginia for the period beginning January 1, 2009 and ending December 31, 2009. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with the 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 companies 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.

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

* Policies reviewed under this category reflected the companies' current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies 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 rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

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	Population				<u>FILES</u>	<u>FILES NOT</u>	<u>FILES WITH</u>	<u>ERROR</u>
	Sample Requested							
	<u>HMIC</u>	<u>HMPCIC</u>	<u>TIC</u>	<u>TOTAL</u>				
<u>Private Passenger Auto</u>								
New Business	<u>99</u>	<u>929</u>	<u>303</u>	<u>1331</u>	24	0	9	38%
	7	10	7	24				
	<u>4135</u>	<u>12723</u>	<u>10884</u>	<u>27742</u>	38	0	16	42%
Renewal Business ⁴	10	15	15	40				
Co-Initiated Cancellations ¹	<u>4</u>	<u>7</u>	<u>2</u>	<u>13</u>	13	0	2	15%
	4	7	2	13				
	<u>327</u>	<u>803</u>	<u>808</u>	<u>1938</u>	59	0	4	7%
All Other Cancellations ¹	14	21	24	59				
	<u>49</u>	<u>8</u>	<u>20</u>	<u>77</u>	12	0	2	17%
Nonrenewals ¹	5	2	4	11				
<u>Homeowners</u>								
New Business ³	<u>54</u>	<u>179</u>	<u>0</u>	<u>233</u>	19	0	15	79%
	5	15	0	20				
Renewal Business	<u>3891</u>	<u>1786</u>	<u>0</u>	<u>5677</u>	26	0	9	35%
	15	11	0	26				
Co-Initiated Cancellations ^{1, 3}	<u>11</u>	<u>14</u>	<u>0</u>	<u>25</u>	17	0	15	88%
	11	6	0	17				
	<u>159</u>	<u>111</u>	<u>0</u>	<u>270</u>	22	0	1	5%
All Other Cancellations ¹	10	12	0	22				
	<u>14</u>	<u>4</u>	<u>0</u>	<u>18</u>	6	0	0	0%
Nonrenewals ¹	2	4	0	6				
<u>Claims</u>								
Auto	<u>229</u>	<u>890</u>	<u>762</u>	<u>1881</u>	103	0	44	43%
	23	45	37	105				
Property ²	<u>282</u>	<u>112</u>	<u>0</u>	<u>394</u>	34	0	19	56%
	23	12	0	35				

Footnote¹ The companies were unable to provide cancellation files that accurately reflected all of the cancellations applicable in the examination period.

Footnote² The companies incorrectly provided condominium and tenant policies in the population when they should have been excluded.

Footnote³ One file was moved from New Business Rating to Cancellations Before the 89th Day.

Footnote⁴ Two files were state transfers and not applicable.

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau requested 24 new business policy files for review. The examiners reviewed all of these files. The examiners found overcharges totaling \$70.70 and undercharges totaling \$150.40 during the review of these files. The net amount that should be refunded to insureds is \$70.70 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-304 of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.
- (2) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy. The company listed endorsements on the declarations page that did not apply to the policy.
- (3) The examiners found one violation of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (4) The examiners found eight 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.

- a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct symbol.
 - c. In two instances, the company failed to use the correct territory.
 - d. In one instance, the company failed to use the correct tier eligibility criteria.
 - e. In two instances, the company failed to use the filed base and/or final rates.
 - f. In one instance, the company failed to follow its filed rules by obtaining the insured's credit score more than once in a 36 month period.
- (5) The examiners found two violations of § 38.2-2234 A of the Code of Virginia. The company failed to inform the insured of the primary factors used as the basis for the adverse action.
- (6) The examiners found one violation of § 38.2-2234 B of the Code of Virginia. The company failed to properly rate the policy as required by the statute from the insured's credit information.

Automobile Renewal Business Policies

The Bureau requested 40 renewal business policy files for review. The examiners reviewed 38 of these files. Two files were not Virginia renewal business. The examiners found overcharges totaling \$163.30 and undercharges totaling \$76.00 during the review of these files. The net amount that should be refunded to insureds is \$163.30 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy.

- a. In one instance, the company failed to include all applicable information on the declarations page.
 - b. In one instance, the company listed endorsements on the declarations page that were not applicable to the policy.
- (2) The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy.
- (3) The examiners found 13 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.
- a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In five instances, the company failed to use the correct tier eligibility criteria.
 - c. In two instances, the company failed to use the correct driver classification factor.
 - d. In two instances, the company failed to use the correct base and/or final rates.
 - e. In three instances, the company failed to follow its filed rules by obtaining the insured's credit score that was not used in pricing the coverage.
- (4) The examiners found two violations of § 38.2-2234 B of the Code of Virginia. The company failed to properly rate the policy as required by the statute from the insured's credit information.

Homeowners New Business Policies

The Bureau requested 20 new business policy files for review. The examiners reviewed 19 of these files. One policy was moved to cancellations in the first 89 days of coverage. The examiners found overcharges totaling \$413.00 and undercharges totaling \$208.00 during the review of these files. The net amount that should be refunded to insureds is \$413.00 plus six percent (6%) simple interest.

- (1) The examiners found eight violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written notice of an adverse underwriting decision (AUD).
 - a. In one instance, the company declined the limits of insurance requested by the insured.
 - b. In seven instances, the company issued the policy based upon information different than that which the insured furnished on his application.
- (2) The examiners found 17 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.
 - a. In 13 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct construction type.
 - c. In three instances, the company failed to use the correct public protection class.
- (3) The examiners found one violation of § 38.2-2112 A of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.

Homeowners Renewal Business Policies

The Bureau requested 26 renewal business policy files for review. The examiners reviewed all of these files. The examiners found no overcharges and undercharges totaling \$19.00 during the review of these files.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy.
- (2) 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 use the correct public protection class.
- (3) The examiners found seven violations of § 38.2-2126 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three year period.

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 eight automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed all of these files. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested five automobile cancellations that were initiated by the companies where the companies 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 three of these files. Two policies were insured requested cancellations. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company used an AUD notice that was not substantially similar to the prototype notice set forth in Administrative Letter 1981-16.
- (2) The examiners found one violation of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy for a reason not permitted by the statute.
- (3) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the insured written notice of cancellation.

All Other Cancellations – Automobile PoliciesNONPAYMENT OF THE PREMIUM

The Bureau requested 20 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. The examiners reviewed 19 of these files. One file was an insured requested cancellation. The examiners found no overcharges and no undercharges during the review of these files.

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 follow its filed rules for the installment payment plan.

REQUESTED BY THE INSURED

In addition, the Bureau requested 38 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed 41 files. Three files were moved to this category from other termination categories. The examiners found no overcharges and undercharges totaling \$118.73.

The examiners found three 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.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested 12 automobile nonrenewals that were initiated by the companies. The examiners reviewed all of these files.

The examiners found two violations of § 38.2-610 A of the Code of Virginia. The company used an AUD notice that was not substantially similar to the prototype found in Administrative Letter 1981-16.

Homeowners Policies

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 – Homeowners Policies**NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE**

The Bureau requested 14 homeowners cancellations that were initiated by the companies where the companies mailed the notices prior to the 90th day of coverage in the initial policy period. The examiners reviewed all of these files. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written notice of an AUD.
- (2) 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 calculated the return premium incorrectly.
- (3) The examiners found ten violations of § 38.2-2112 A of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.
- (4) The examiners found four occurrences where the company failed to comply with the provisions of the insurance contract. The company failed to provide the insured written notice of cancellation of an owner occupied dwelling.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

In addition, the Bureau requested three homeowners cancellations that were initiated by the companies where the companies 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 all of these files. The examiners found no overcharges and no undercharges during the review of these files.

- (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 properly calculate the return premium.
- (2) The examiners found one violation of § 38.2-2112 A of the Code of Virginia. The company used a binder for longer than 60 days after the effective date of coverage.
- (3) The examiners found three violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner occupied dwelling for a reason not permitted by the statute.
- (4) The examiners found one violation of § 38.2-2114 C of the Code of Virginia. The company failed to advise the insured of his right to a review by the Commissioner of Insurance.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested ten homeowners cancellations that were initiated by the companies for nonpayment of the policy premium. The examiners reviewed all of these files. 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 12 homeowners cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. The examiners found overcharges totaling \$74.00 and no undercharges during the review of these files. The net amount that should be refunded to insureds is \$74.00 plus six percent (6%) simple interest.

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.

Company-Initiated Non-renewals – Homeowners Policies

The Bureau requested six homeowners nonrenewals that were initiated by the companies. The examiners reviewed all of these files.

The examiners found no violations in this area.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 103 automobile claims for the period of January 1, 2009 through December 31, 2009. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found overpayments totaling \$749.93 and underpayments totaling \$26,189.79 during the review of these files. The net amount that should be paid to claimants is \$26,160.21 plus six percent (6%) simple interest.

- (1) The examiners found one violation of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found seven violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
 - a. In one instance, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.

- b. In two instances, the company failed to accurately inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
 - c. In three instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).
 - d. In one instance, the company failed to accurately inform an insured of his Income Loss Benefits coverage when the file indicated the coverage was applicable to the loss.
- (3) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (4) The examiners found 22 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.
- a. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Uninsured Motorist coverage.
 - b. In six instances, the company failed to pay the proper sales and use tax, title fee, and license fee on first party total loss settlements.
 - c. In 13 instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.

- d. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expense coverage.
- e. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Other Than Collision (OTC) or Collision coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (5) The examiners found seven violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
 - a. In five instances, the company failed to provide a copy of the repair estimate to the insured.
 - b. In two instances, the company failed to provide a copy of the repair estimate to the claimant.
- (6) The examiners found four violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
 - a. In three instances, the company failed to properly convey to the insured the company's obligation concerning payment of the claim.
 - b. In one instance, the company failed to properly convey to the claimant the company's obligation concerning payment of the claim.
- (7) The examiners found two violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

- (8) The examiners found four violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair, and equitable settlement of a claim in which liability was reasonably clear. The company failed to promptly reimburse the insured's Medical Expense Benefits claim.
- (9) The examiners found three violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.
- (10) The examiners found four violations of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of a compromise settlement.
- (11) The examiners found one violation of § 38.2-510 C of the Code of Virginia. The company failed to disclose the required aftermarket parts notice to the vehicle owner on the estimate of repairs or in a separate document.
- (12) The examiners found 12 violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured to make payments directly to the medical provider.

These findings occurred with such frequency as to indicate a general business practice.

- (13) The examiners found 20 occurrences where the company failed to comply with the provisions of the insurance contract.
- a. In three instances, the company failed to include the lienholder on the check.

- b. In seven instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
- c. In one instance, the company failed to include the insured on a check issued to the repairing garage.
- d. In five instances, the company failed to properly pay an Uninsured Motorist claim.
- e. In four instances, the company issued payments under the incorrect coverages.

Other Law Violations

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

The examiners found six violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

Homeowners Claims

The examiners reviewed 34 homeowners claims for the period of January 1, 2009 through December 31, 2009. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found no overpayments and underpayments totaling \$1,525.00 during the review of these files. The net amount that should be paid to claimants is \$1,525.00 plus six percent (6%) simple interest.

- (1) The examiners found six violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found seven violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.

a. In two instances, the company failed to inform the insured of the Additional Living Expense coverage of the policy.

b. In two instances, the company failed to inform the insured of the Replacement Cost Benefits under the Dwelling coverage of the policy.

c. In two instances, the company failed to inform the insured of the Replacement Cost Benefits under the Personal Property coverage of the policy.

d. In one instance, the company failed to inform the insured of the benefits under the Incidental coverages of the policy.

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found four violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.

These findings occurred with such frequency as to indicate a general business practice.

- (4) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or a part of a claim, in writing and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (6) The examiners found two violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim.
 - a. In one instance, the company failed to properly pay the claim under the insured's Replacement Cost Dwelling coverage.
 - b. In one instance, the company failed to properly pay the claim under the Damage to Property of Others coverage.
- (7) The examiners found eight violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the last actual cash payment to assert a claim for replacement cost on the damaged property.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found ten violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

These findings occurred with such frequency as to indicate a general business practice.

- (9) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair and equitable settlement of a claim in which liability was reasonably clear.
- (10) The examiners found one violation of § 38.2-510 A 14 of the Code of Virginia. The company failed to provide a reasonable explanation of the basis in the insurance policy or applicable law for the denial of a claim or offer of a compromise settlement.
- (11) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company required the insured to obtain a police report as a condition for settlement of the claim.

Other Law Violations

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

The examiners found two violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies

from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

OTHER FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no additional forms to review.

Homeowners Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no violations in this area.

OTHER FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners

verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The companies provided nine new business policies mailed on February 19, 24, March 5, 10, 15, and 24, 2010. In addition, the companies provided nine renewal business policies mailed on February 23, 2010.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

- (1) The examiners found four violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by this statute.
- (2) The examiners found three violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Notice of Financial Information Collection and Disclosure Practices as required by this statute.

Homeowners Policies

The companies provided six new business policies mailed on January 29, February 20, 23, April 1, and 7, 2010. In addition, the companies provided six renewal business policies mailed on February 24, 2010.

NEW BUSINESS POLICIES

- (1) The examiners found one violation of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost Coverage notice as required by the Code of Virginia.
- (3) The examiners found one violation of § 38.2-2126 A 2 of the Code of Virginia. The company failed to provide the Credit Adverse Action notice as required by the Code of Virginia.

RENEWAL BUSINESS POLICIES

The examiners found six violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the Important Information Regarding Your Insurance notice as required by the Code of Virginia.

REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies for the lines examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

The examiners found no violations in this area.

Statutory Vehicle Notices

The examiners found three violations of § 38.2-2210 A of the Code of Virginia. The companies' notice warning the insured that his policy could be cancelled within the first sixty days does not comply with the requirements of the statute.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2124 of the Code of Virginia. The companies' offer of Ordinance or Law coverage does not comply with the requirements of the statute.
- (2) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The companies' notice advising the insured that Flood Coverage is excluded does not comply with the requirements of this statute.

Other Notices Used by the Company

The examiners found six violations of § 38.2-517 A of the Code of Virginia. The companies' glass claim procedure did not properly disclose the use of a Third Party Administrator.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile and homeowners policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found no violations in this area.

Agency

The examiners found one violation of § 38.2-1812 of the Code of Virginia. The company paid commission to an agency that was not an appointed agency of the company within 30 days of the insurance transaction.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information. A review was made of this program to verify compliance with § 38.2-613.2 of the Code of Virginia.

The company provided its information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

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 companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Horace Mann Insurance Company,
Horace Mann Property & Casualty Insurance Company, and
Teachers Insurance Company shall:

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

Rating and Underwriting Review

Horace Mann Insurance Company,
Horace Mann Property & Casualty Insurance Company, and
Teachers Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the

companies acknowledge that it has refunded or credited the overcharges listed in the file.

- (4) Include accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.
- (5) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, tier eligibility, driver classification, territory and public protection class.
- (6) Use credit information in accordance with the requirements of the filed rules and statutes.
- (7) Inform the insured of the primary factors used as a basis for the credit adverse action.
- (8) Provide AUD notices when the policy is issued with information that is different than that provided by the insured on the application.
- (9) Update the insureds' credit information at least once every three years.

Termination Review

Horace Mann Insurance Company,
Horace Mann Property & Casualty Insurance Company, and
Teachers Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to

the Bureau, the companies acknowledge that it has refunded or credited the overcharges listed in the file.

- (4) Calculate return premiums in accordance with filed rules and rates.
- (5) Cancel owner occupied dwelling policies after the 89th day of coverage only for reasons permitted by the statute.
- (6) Use binders no longer than the 60 day limitation allowed by the statute.
- (7) Amend the Adverse Underwriting Decision Notice verbiage to comply with § 38.2-610 of the Code of Virginia.

Claims Review

Horace Mann Insurance Company,
Horace Mann Property & Casualty Insurance Company, and
Teachers Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured.

- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (7) Adopt and implement standards for prompt investigation of claims.
- (8) Obtain a written authorization from an insured prior to making payments directly to the medical provider.
- (9) Acknowledge correspondence that reasonably suggests a reply is expected within 10 business days.
- (10) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

Review of Policy Issuance Process

Horace Mann Insurance Company,
Horace Mann Property & Casualty Insurance Company, and
Teachers Insurance Company shall:

- (1) Provide the insured the Notice of Information Collection and Disclosure Practices with all renewal policies as required by § 38.2-604 of the Code of Virginia.
- (2) Provide the insured the Notice of Financial Collection and Disclosure Practices with all renewal policies as required by § 38.2-604.1 of the Code of Virginia.
- (3) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.
- (4) Provide the insured the Replacement Cost coverage notice with all new policies of fire and fire in combination with other insurance coverages.

Review of Statutory Notices

Horace Mann Insurance Company,
Horace Mann Property and Casualty Insurance Company, and
Teachers Insurance Company shall:

- (1) Amend the 60 day cancellation warning to comply with § 38.2-2210 A of the

Code of Virginia.

- (2) Amend the Ordinance or Law notice to comply with § 38.2-2124 of the Code of Virginia.
- (3) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (4) Amend the Glass Script wording to comply with § 38.2-517 of the Code of Virginia.

Licensing and Appointment Review

Horace Mann Insurance Company,
Horace Mann Property and Casualty Insurance Company, and
Teachers Insurance Company shall:

Appoint agents within 30 days of the application.

PART THREE – EXAMINERS’ NOTES

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies 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:

Claims

- Failure to make all claim denials in writing and keep a copy in the claim file.
- Failure to make an appropriate reply within ten working days to communications reasonably suggesting a response was expected.
- Failure to provide copies of repair estimates prepared by or on behalf of the companies.
- Failure to include a correct statement of coverage under which payments are made with all claim payments to insureds.
- Failure to provide a reasonable explanation of the basis in the applicable law for the denial of a claim or offer of a compromise settlement.
- Failure to comply with the provisions of the insurance contract.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should include the Transportation Expenses premium in the Policy Premium amount on the declarations page instead of adding it into the Premium Change amount.
- The companies should stop including the installment fee in the Premium Change or Policy Premium amount on the private passenger automobile declarations page.
- The companies should include in their Adverse Action Credit notice all of

the adverse actions applicable to the insured.

- The companies should amend the homeowners manual premium determination rule to include the application of the Rowhouse/Townhouse surcharge factor.
- The companies must show accurate Adverse Action Credit identifiers (form numbers) in the “Forms Mailed” section of the homeowners declarations page.

Termination

- The correct address for the Virginia Property Insurance Association should appear on the companies’ Termination Notice.
- The companies should amend the Annual Renewal Notice and Installment Billing letters to indicate the correct date to which the installment will extend the policy instead of showing the policy expiration date.
- The companies should not include an AUD notice in its nonpayment of premium cancellation notices since it is not required.
- The companies should not provide the Right to Review by the Commissioner language in their notices mailed within the first 59 days of a new business private passenger automobile policy since such right is not provided by the Code.
- The companies should amend the Miscellaneous Cancellation rule to state the company will pro-rate an insured-requested cancellation if the insured continues to carry insurance on a vehicle with us in the private passenger automobile manual.

Claims

- The companies should use the term “Other Than Collision” coverage on the check instead of the term “Comprehensive.”
- The companies should use the term “Medical Expense Benefits” coverage on the check instead of the term “Medical Payment/PIP.”
- The companies should implement a consistent claim practice to determine when to use the UM letter.

- The companies should implement a consistent claim practice to determine when to apply the appropriate transfer fees.
- The companies should implement a consistent claim practice to determine when to apply the replacement cost settlement procedure.
- The companies should implement a consistent claim practice to determine when to request the lightning claim form.
- The companies should revise the replacement cost letter to state “within the six months after the last ACV payment” and delete “Virginia” from the sentence.
- The companies should indicate the correct coverage in the “In Payment Of” field on the third party check.

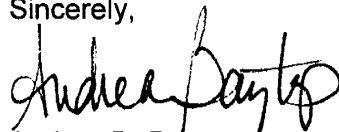
SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted a prior market conduct examination of the private passenger automobile and homeowners lines of business of Horace Mann Insurance Company, Horace Mann Property and Casualty Insurance Company and Teachers Insurance Company as of July 31, 2006. During the examination, the companies violated §§ 38.2-304, 38.2-305, 38.2-317, 38.2-502, 38.2-510 A 1, 38.2-510 A 10, 38.2-512, 38.2-1318, 38.2-1906 D, 38.2-2113, 38.2-2114, 38.2-2124, 38.2-2126, 38.2-2208, 38.2-2212, 38.2-2220, and 38.2-2234 of the Code of Virginia, as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D.

ACKNOWLEDGEMENT

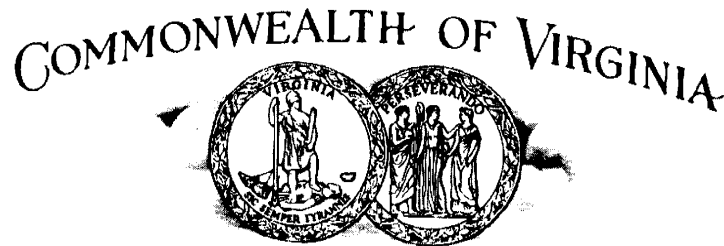
The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea D. Baytop". The signature is fluid and cursive, with the first name "Andrea" being the most prominent part.

Andrea D. Baytop
Senior Insurance Market Examiner

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

September 3, 2010

VIA UPS 2nd DAY DELIVERY

Kay Summers-Orr
P&C Auditor
The Horace Mann Companies
#1 Horace Mann Plaza
Springfield, IL 62715

RE: Market Conduct Examination
Horace Mann Insurance Company (NAIC# 22578)
Horace Mann Property & Casualty Insurance Company (NAIC# 22756)
Teachers Insurance Company (NAIC# 22683)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Summers-Orr:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of January 1, 2009 through December 31, 2009. The Preliminary Market Conduct Examination Report has been drafted for the companies' 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 August 10, 2010. 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 companies, I would urge you to closely review the Report. Please provide a written response. If the companies disagree with an item(s) or wish 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 companies do 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 companies provide written documentation to support their position. If the companies use the same format (headings and numbering) as found in the Report, it is much easier to follow the companies' points.

Secondly, the companies 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 companies should outline the actions they are taking to prevent those issues from becoming a business practice.

Thirdly, if the companies have comments they wish 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 companies wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

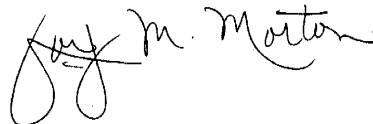
Finally, we have enclosed a CD containing an Excel spreadsheet that the companies must complete and return to the Bureau with the companies' response. This spreadsheet lists the files in which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by October 6, 2010.

After the Bureau has received and reviewed the companies' 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 October 6, 2010.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" being particularly prominent.

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9731
joy.morton@scc.virginia.gov

JMM/rvw
Enclosure

Sent via Email and Federal Express

October 20, 2010

Virginia Bureau of Insurance
Market Conduct Section
Property and Casualty Division
1300 East Main Street
Richmond, VA 23219

Attention: Joy M. Morton
Supervisor

Regarding: Market Conduct Examination
Horace Mann Insurance Company, NAIC 22578
Teachers Insurance Company, NAIC 22683
Horace Mann Property and Casualty Insurance Company, NAIC 22756

Dear Ms. Morton,

Enclosed with this letter is a copy of our responses to the Preliminary Market Conduct Examination Report (Report). Also enclosed are copies of the overcharges (rating and terminations) and the underpayments (claims) spreadsheets.

In responding to Part One of the Report, the Company used the same format (headings and numbering) as found in the Report. In addition, the Company provided written responses for all items listed in Part One of the Report.


Secondly, the Company responded to the corrective action plan (CAP) outlined in Part Two of the Report. Please note, items with which the Company continues to disagree have been identified and refer back to the details of the disagreement in Part One of the Report.

Thirdly, the Company commented on the Examiners' Notes in Part Three of the Report. All responses have been provided using the same format (headings and numbering) as found in the Report.

Lastly, the Company has completed the Excel spreadsheets provided by the Virginia Bureau of Insurance. The spreadsheets contain the files in which the examiners identified overcharges (rating and terminations) and underpayments (claims). Please note, items with which the Company continues to disagree have been identified and refer back to the details of the disagreement in Part One of the Report.

The Company would like to thank the Virginia Bureau of Insurance for granting the requested extension of the due date for our response to the Preliminary Market Conduct Examination Report. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,



Stephanie Fuller, CIA, AIC, AIS
Director of Compliance
The Horace Mann Companies
1 Horace Mann Plaza
Springfield, IL 62715
217-788-5321

Enclosures

PART ONE – THE EXAMINERS’ OBSERVATIONS

Rating And Underwriting Review

Automobile New Business Policies

- 1) We agree with this finding. In May of 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 2) We disagree with this finding. However, on August 17, 2010, the Company revised its procedures to print the Transportation Expenses Coverage-Virginia endorsement only when the coverage applies to the policy. We continue to disagree because the endorsement states that the Transportation Expenses Provision is added to Part D only "If a specific premium charge is shown in the Schedule or in the Declarations for "your covered auto"." The Declarations did not show a specific premium charge for this coverage. See Exhibit 1.
- 3) We agree with this finding. In the fourth quarter of 2010, the Company will review the process for new business application record retention.

- 4)
 - a. We agree with this finding. By the first quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.
 - b. We agree with this finding. On September 27, 2010, the Company reinforced with staff to follow the symbol assignment procedure.
 - c. We agree with this finding. On September 24, 2010, the Company reinforced with staff to follow the territory assignment procedure.
 - d. We agree with the finding for reference number RPA006. On September 27, 2010, the Company reinforced with staff to use the most recent score when issuing an application.

We disagree with the finding for reference number RPA011. The Company used the correct tier eligibility criteria. The correct tier, tier G, was pulled on March 23, 2009 and was applied when the new business application was submitted on May 13, 2009. Attached is the policy activity log, which displays that tier G was received on March 23, 2009. See Exhibit 2.

We disagree with the finding for reference number RPA002. The spouse of the named insured was listed as a second named insured on another policy with us. See Exhibit 3. Therefore, we used the correct tier according to our filed rules.

- e. We agree with the finding for reference number RPA006. On September 24, 2010, the Company reinforced with staff to follow standard operating procedures.

We agree with the finding for reference RPA017. In the fourth quarter of 2010, the Company will revise our business practice.

- f. We agree with this finding. On May 2, 2010, this system error was corrected.

- 5)
 - a. We agree with this finding. On May 9, 2010, this system error was corrected.
 - b. We disagree with this finding. On May 18, 2010, this finding was withdrawn. See Exhibit 4.
- 6) We agree with this finding. On September 27, 2010, the Company reinforced with staff to follow the tier ordering procedures.

Automobile Renewal Business Policies

- 1)
 - a. We agree with this finding. On August 2, 2010, the Company reinforced with staff to follow standard operating procedures to attach the Joint Ownership Coverage-Virginia endorsement when required.
 - b. We disagree with this finding. However, on August 17, 2010, the Company revised its procedures to print the Transportation Expenses Coverage-Virginia endorsement only when the coverage applies to the policy. We continue to disagree because the endorsement states that the Transportation Expenses Provision is added to Part D only "If a specific premium charge is shown in the Schedule or in the Declarations for "your covered auto". The Declarations does not show a specific premium charge for this coverage. See Exhibit 5.
- 2) We agree with the finding for reference number RPA047. On May 14, 2010, the Company issued a reminder to staff emphasizing the criticality of communicating coverage correctly with customers.

We agree with the finding for reference number RPA050. On May 27, 2010, the Company revised its Policy Change Notice to display the old underwriting company and the new underwriting company when an underwriting company change occurs.

- 3)
 - a. We agree with the finding for reference number RPA049. The Company corrected the policy and made the proper premium adjustment.

We disagree with the finding for reference number RPA026. The company used the correct discounts and/or surcharges. The auto policy was transferred to Virginia effective December 29, 2008. On that date, the insured's home (located in North Carolina) was insured by Teachers Insurance Company. Our Multi-Line rule states "A rating factor will be applied to the Bodily Injury and Property Damage Liability, Medical Expense, Other than Collision, Collision, Uninsured Motorist, Transportation Expense, and Towing & Labor coverage premiums to a private passenger vehicle if the named insured has at least one policy with us in one of the following lines: Homeowner (including Mobile Homeowner, Tenant and Condominium), Life (not including "Group Life"), and Annuity." Therefore, the Multi-Line discount was correctly applied at the time of the auto renewal, as required by our rules. The insured's homeowner coverage cancelled effective February 16, 2009, when the property was sold. This discount was discontinued with the August 13, 2009 renewal. See Exhibit 6.

- b. We disagree with the findings for reference numbers RPA026, RPA031, RPA032, RPA042 and RPA053. The Company used the correct tier eligibility criteria. The Company reorders insurance scores on first and second named insureds of the household. Our rule states "The rating tier will be ordered every 36 months after the time of application and will be based on the score of the first or second named insured at the time of renewal." This reorder is done to ensure the scores are never older than 36 months. As our rule states, at the time of renewal, the most recent and best score of the first or second named insured in the household is used to rate the policy. Because this policy renewed before the better score was ordered, we could not have used that better score on this policy.
- c. We agree with the finding for reference numbers RPA041 and RPA050. The Company reinforced with staff to follow the classification procedure.

We disagree with the finding for reference number RPA029. The Company used the correct driver classification factor when the renewal premium was calculated and billed. As described in our filed rules, only changes that affect the coverage require the issuance of a new policy Declarations. The driver classification factor would have been updated upon the calculation and billing of the next renewal.

- d. We agree with the finding for reference number RPA043. By the first quarter of 2011, the Company will submit a filing with the corrected table.

We disagree with the finding for reference number RPA025. The Company used the correct tier eligibility criteria. The same policy number was used when the insured reactivated their coverage with us. Our filed rules around reactivating coverage states: "When coverage is reactivated within 10 months of the lapse date, the point(s) will be the same as if there had been no lapse in coverage. When coverage is reactivated after the 10 months from the lapse date, the policy will be written as new business."

Therefore, we will not reactivate a policy if it has been cancelled more than 10 months. A new policy number would be designated and the policy underwritten to meet company guidelines. Also, the policy age would begin with the original date of the new policy number.

This policy, although it was out of force 4 months (less than 10 months as stated in our rules), was effective in 1976 and therefore, the policy age is nine (9) years or greater as defined in our rules.

- e. We agree with the finding for reference number RPA035. The Company's business practice will be revised to ensure we are obtaining credit scores every 36 months when the policy term or payment method changes.

We disagree with the finding for reference number RPA054. The Company followed our filed rules for obtaining credit scores. The Company reorders insurance scores on first and second named insureds of the household. Our rule states "The rating tier will be ordered every 36 months after the time of application and will be based on the score of the first or second named insured at the time of renewal." This reorder is done to ensure the scores are never older than 36 months. As our rule states, at the time of renewal, the most recent and best score of the first or second named insured in the household is used to rate the policy.

We disagree with the finding for reference number RPA056. The Company followed our filed rules for obtaining credit scores. The Company reorders insurance scores on first and second named insureds of the household. Our rule states "The rating tier will be ordered every 36 months after the time of application and will be based on the score of the first or second named insured at the time of renewal." This reorder is done to ensure the scores are never older than 36 months. As our rule states, at the time of renewal, the most recent and best score of the first and second named insured in the household is used to rate the policy. The policy had different reorder dates for the first and second named insured as we did not begin using the best score of first or second named insureds until March 1, 2008. Thus, the second named insured's credit score was not received until April 29, 2008.

- 4) We agree with the finding for reference number RPA025. The Company's business practice will be revised to ensure we are obtaining credit scores every 36 months when the policy terms change.

We disagree with the finding for reference number RPA026. We have identified the prior insurance score to demonstrate the correct tier was applied. See Exhibit 7.

Homeowners New Business Policies

- 1)
- a. We agree with the finding for reference number RHO006. In May of 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.
 - b. We agree with the findings for reference numbers RHO005, RHO007, RHO013, RHO014, RHO017, RHO019 and RHO020. In May of 2010 and on June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.
- 2)
- a. We agree with the finding for reference numbers RHO001. By the first quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.

We agree with the findings for reference numbers RHO002, RHO005, RHO007, RHO008, RHO010, RHO011, RHO013 and RHO018. In May 2010, the Company reinforced with staff to follow the application review procedure.
 - b. We agree with the finding. In September 2010, the Company reinforced with staff to follow the rating procedure.
 - c. We agree with the finding. On September 27, 2010, the Company reinforced with staff to follow the public protection class procedure.
- 3) We agree with the finding. In May 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.

Homeowners Renewal Business Policies

- 1) We agree with the finding for reference number RHO040. By the first quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.
- 2)
 - a. We disagree with the finding for reference number RHO041. The Company used the correct discounts and/or surcharges. With further research, we discovered the insured had a policy, effective July 14, 2000 and cancelled effective April 28, 2005. The insured's new policy was issued effective April 28, 2005 and cancelled effective June 14, 2005. The insured's current policy was effective June 13, 2005 to current date. Therefore, the claim record/persistency credit is correct. See Exhibit 8.

We disagree with the finding for reference number RHO038. The second named insured had a prior policy, originally effective April 1, 1999, which cancelled as of August 13, 2001. Therefore, the Company applied the correct persistency factor of 7%. See Exhibit 9.
 - b. We agree with this finding. The Company has revised our procedures to validate the public protection classes at renewal.
- 3) We agree with this finding. We are working to change our system with a tentative implementation date by first quarter of 2011.

Termination Review

Company Initiated Cancellations – Automobile Policies

Notice Mailed Prior to the 60th Day of Coverage

The examiners found no violations in this area.

Notice Mailed After the 59th Day of Coverage

- 1) We agree with the finding for reference number TPA049. On July 2, 2010, the Company's Adverse Underwriting Decision notice was corrected.
- 2) We agree with the finding for reference number TPA047. In May of 2010, the Company reinforced with staff to follow the cancellation procedures.
- 3) We agree with the finding of reference number TPA049. On August 2, 2010, the Company revised our coding procedures.

All Other Cancellations – Automobile Policies

Nonpayment of the Premium

- 1)
 - a. We disagree with the finding for reference number TPA053. The Company provided the policy premium information in the original file to the examiners. See Exhibit 10.

We disagree with the finding for reference number TPA068. The Company calculated the return premium correctly. Billing fees are not included in the calculation of pro-rata or short rate earned and unearned premium amounts. While a billing fee may have been charged during the policy period, when a policy cancels the only unearned portion that is billed to the client is the premium. Fees, regardless of origin or amount, are not considered for the final billed amount for a cancelled policy. As a result of this, we billed the correct amount to the insured. The alleged \$10.10 undercharge is explained as follows:

The \$0.10 is due to rounding in the calculation of the earned premium amount. The Company applied the 47% unearned premium percentage to the premium for each coverage individually, rounded after each individual calculation and summed the products before subtracting from the total premium.

The \$10.00 is the second late fee. However, it is not our practice to include late fees when we request payment of premium due on cancellation. Our rules do not require us to do so. Had the insured paid the premium to continue the policy, we would have charged the \$10.00 late payment fee; however the insured did not pay the premium. Therefore, the \$10.00 late fee was not charged.

We disagree with the finding for TPA055, TPA056 and TPA071. This was a new business policy, an add car, so it did not require premium. Our guidelines are to bill for an add car. Coverage is bound and we do offer coverage for a certain period in accordance with our practice for non-pay cancellations. We do not observe a conflict between this practice and our rules and/or rates on file with the Bureau. While we did follow what we believe to be appropriate practice, we do see the value in the approach recommended by the Bureau. We intend to review our current practice in consideration of the Bureau's recommendation.

We disagree with the finding for reference number TPA070. The Company issued a New Business policy for this state transfer, which did not require premium. The six month premium due on this policy when issued in the state of Virginia was \$2,514.20. Since the term date was from September 14, 2009 to December 24, 2009, the pro-rated premium due was \$1,433.10. Since the prior policy had been cancelled mid-term, premium was transferred to this policy, therefore, the remaining premium due for the Virginia policy, when issued, was \$1,099.60. Therefore, money had been received on the policy and policy was allowed to follow our normal cancellation process.

- b. We agree with this finding. The Company will reinforce with staff to follow the cancellation procedure.
- 2)
- a. We disagree with the finding for reference number TPA070. We update our system annually with all Holidays observed by the U.S. Postal Service. When we produce cancel notices on one of the days coded, we advance date the notices to the next day the mail is accepted. We have identified the system table was coded incorrectly to reflect November 10 as Veteran's Day, rather than November 11. The cancel notice was printed on the 10th and mailed on the 10th as reflected on the Proof of Mail (POM), but dated the 11th as a result of the incorrect date coded in the table. Management has reinforced with the staff who code the table as well as those who verify, the criticality of accurately coding these

dates. We have reminded the mailing department that these are to be mailed on the date indicated on the POM. See Exhibit 11.

- b. We disagree with the finding for reference number TPA070. We update our system annually with all Holidays observed by the U.S. Postal Service. When we produce cancel notices on one of the days coded, we advance date the notices to the next day the mail is accepted. We have identified the system table was coded incorrectly to reflect November 10 as Veteran's Day, rather than November 11. The cancel notice was printed on the 10th and mailed on the 10th as reflected on the Proof of Mail (POM), but dated the 11th as a result of the incorrect date coded in the table. Management has reinforced with the staff who code the table as well as those who verify, the criticality of accurately coding these dates. We have reminded the mailing department that these are to be mailed on the date indicated on the POM. See Exhibit 12.

Requested by the Insured

- 1) We agree with the finding for reference number TPA022. On March 15, 2010, this system error was corrected.

We agree with the findings for reference numbers TPA026 and TPA030. In the fourth quarter of 2010, the Company will submit a rule filing to ensure our procedures are aligned with our rules.

We disagree with the finding for reference numbers TPA060. On August 10, 2009, the insured contacted us to cancel the policy, since he had joined the army. Because the policy was paid through bank draft & money was already collected for the next renewal, the transaction to cancel required internal manual processes that were not complete before the customer called back on August 20, 2009. The first step, removing the policy from bank draft, was complete. On August 20, 2009 the customer requested we not effect the cancellation (which was not yet completed) because his deployment date was changed. Subsequently, the customer sent payment of \$75.62, received on September 8, 2009 which provided coverage to November 21, 2009. No further premium was received and a cancellation notice for non-payment was generated and mailed to the insured on October 22, 2009. Subsequently, no payment was received, and the policy cancelled on December 1, 2009, effective November 21, 2009. This should be viewed as a non-payment cancel.

- 2) We disagree with this finding. Our 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 notice of the date cancellation is to take effect." "Us" is defined as "...the Company providing this insurance." Our policy does not require the Company to obtain a written request for cancellation from the insured.

The Company has a process in place to appropriately capture and document the necessary details of these transactions. Such change requests are only taken by agents or trained staff in accordance with specific protocols for documenting and processing the policy change including only taking the request for cancellation from a named insured. The Company's process for documenting the request for cancellation is the submission of the Change Policy Request.

The Company further documents the request for cancellation by issuing a post-change

acknowledgement of cancellation request to the insured. This confirms the request for cancellation and the cancellation effective date. This gives the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request.

For reference number TPA003, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective September 2, 2009. See Exhibit 13, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA006, the Customer Service representative completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective February 11, 2009. See Exhibit 14, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment and note screen notation on the policy. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA007, the Customer Care Center representative completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective March 20, 2009. See Exhibit 15, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment and note screen notation. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA009, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective June 4, 2009. See Exhibit 16, which includes the Change Policy Request along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA010, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective September 11, 2009. See Exhibit 17, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA013, the Customer Care Center representative completed a Change Policy Request to document the insured's notice to the Company that the car

was sold, stolen or destroyed and that coverage was to be cancelled to be effective November 29, 2009. See Exhibit 18, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment and note screen notation. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process. For reference number TPA015, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective September 1, 2009. See Exhibit 19, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA016, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective March 22, 2009. See Exhibit 20, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA018, the home office representative completed a Change Policy Request to document the insured's notice to the Company that the insured had moved to a different state and that coverage was to be cancelled effective July 23, 2009 in the state of Virginia. See Exhibit 21, which includes the Change Policy Request along with the note screen and documentation from the agent. These documents provide evidence that the insured requested cancellation of the Virginia policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA019, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective July 2, 2009. See Exhibit 22, which includes the Change Policy Request along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA021, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective August 17, 2009. See Exhibit 23, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA023, the Customer Care Center representative completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective November 9, 2009. See Exhibit 24, which includes the Change Policy Request along

with the Cancellation Letter acknowledgment and note screen notation. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA025, the Customer Care Center representative completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective May 27, 2009. See Exhibit 25, which includes the Change Policy Request along with the Cancellation Letter acknowledgment and note screen notation. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA026, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective July 24, 2009. See Exhibit 26, which includes the Change Policy Request along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA029, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective November 15, 2009. See Exhibit 27, which includes the Change Policy Request along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA030, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective July 14, 2009. See Exhibit 28, which includes the Change Policy Request along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA031, the Customer Care Center representative completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled effective April 15, 2009. See Exhibit 29, which includes the Change Policy Request along with the Cancellation Letter acknowledgment and note screen notation. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA032, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that coverage was to be cancelled effective September 21, 2009. See Exhibit 30, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgement. The insured's business was moved to Progressive,

because the premium was lower for like coverage and limits. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA034, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective August 13, 2009. See Exhibit 31, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number TPA037, the insured's agent completed a Change Policy Request to document the insured's notice to the Company that the car was sold, stolen or destroyed and that coverage was to be cancelled to be effective July 11, 2009. See Exhibit 32, which is the auto Change Policy Request form along with the Cancellation Letter acknowledgment. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

Company-Initiated Non-renewals – Automobile Policies

- 1) We agree with this finding. On July 2, 2010, the Company corrected the AUD notice language.
- 2)
 - a. We disagree with this finding. Page nine does contain a partial postal stamp. However, we have attached the entire mailing for March 6, 2009 that shows complete postal stamps on the other pages. In addition, the first page has a complete meter stamp showing 86 items sent including the policy in question. Therefore, we believe we have provided valid proof of mailing of the nonrenewal notice to the insured. See Exhibit 33.
 - b. We disagree with this finding. After further research, we were able to locate the proof of mailing. See Exhibit 34.
- 3) We disagree with this finding. The Company mailed the nonrenewal notice to the correct name and address. Attached is the Declarations for the expiring policy period. See Exhibit 35.

Homeowners Policies

Company-Initiated Cancellations – Homeowners Policies

Notice Mailed Prior to the 90th Day of Coverage

- 1) We agree with this finding. On June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.
- 2) We agree with this finding. In the fourth quarter of 2010, the Company will implement a procedure to void applications which have been transmitted but the signed application and premium have not been received.

- 3) We agree with this finding. In May of 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 4) We agree with this finding. On June 1, 2010, this system error was corrected.

Notice Mailed After the 89th Day of Coverage

- 1) We agree with this finding. In the fourth quarter of 2010, the Company will implement a procedure to void applications that have been transmitted but the signed application and premium have not been received.
- 2) We agree with this finding. In May 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 3) We agree with this finding. In April of 2010 and in May of 2010, the Company reinforced with staff to follow the cancellation procedures.
- 4) We agree with this finding. On September 27, 2010, the Company corrected the notice.

All Other Cancellations – Homeowners Policies

Nonpayment of the Premium

The examiners found no violations in this area.

Requested by the Insured

- 1) We agree with this finding. The Company corrected the policy and adjusted the premium. The Company reinforced with staff to follow the cancellation procedures.
- 2) We disagree with this finding. The Company has provided evidence that the insured requested cancellation of the policy. Our policy states: “You may cancel this policy by returning the policy to us or by giving us notice and stating at what date coverage is to stop.” “You” is defined as “...the person or person named on the declarations and your spouse if a resident of your household.” “Us” is defined as “...the company providing this insurance.”

The Company has a process in place to appropriately capture and document the necessary details of these transactions. Such change requests are only taken by agents or trained staff in accordance with specific protocols for documenting and processing the policy change including only taking the request for cancellation from a named insured. The Company’s process for documenting the request for cancellation is the submission of the Change Policy Request.

The Company further documents the request for cancellation by issuing a post-change acknowledgement of cancellation request to the insured. This confirms the request for cancellation and the cancellation effective date. This gives the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured’s request.

For reference number THO006, the Customer Care Center representative completed a property Change Policy Request (CPR) to document the insured's notice to the Company that the insured had obtained coverage with another company and that coverage through Horace Mann was to be cancelled to be effective July 23, 2009. The named insured was subsequently sent an Acknowledge Cancellation Request. See Exhibit 36. This confirmed the cancellation and cancellation effective date and gave the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number THO007, the insured's agent completed an electronic property Change Policy Request (CPR) to document the insured's notice to the Company that the property was sold and that coverage was to be cancelled to be effective October 28, 2009. The named insured was subsequently sent an Acknowledge Cancellation Request. See Exhibit 37. This confirmed the cancellation and cancellation effective date and gave the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number THO008, the insured's agent completed an electronic property Change Policy Request (CPR) to document the insured's notice to the Company that the property was sold and that coverage was to be cancelled to be effective June 8, 2009. The named insured was subsequently sent an Acknowledge Cancellation Request. See Exhibit 38. This confirmed the cancellation and cancellation effective date and gave the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number THO010, the Customer Care Center representative completed a property Change Policy Request (CPR) to document the insured's notice to the Company that the property was sold and that coverage was to be cancelled to be effective August 7, 2009. The named insured was subsequently sent an Acknowledge Cancellation Request. See Exhibit 39. This confirmed the cancellation and cancellation effective date and gave the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

For reference number THO012, the Customer Care Center representative completed a Change Policy Request (CPR) to document the insured's notice to the Company that the insured went with another company and that coverage was to be cancelled to be effective October 28, 2009. The named insured was subsequently sent an Acknowledge Cancellation Request. See Exhibit 40. This confirmed the cancellation and cancellation effective date and gave the insured notice and an opportunity to dispute the cancellation if the action was not consistent with the insured's request. These documents provide evidence that the insured requested cancellation of the policy was handled in accordance with policy provisions and the Company's process.

Company-Initiated Non-renewals – Homeowners Policies

The examiners found no violations in this area.

Claims Review

Private Passenger Automobile Claims

- 1) We agree with this finding. On July 14, 2010, the Company reinforced with staff to follow file documentation procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 2)
 - a. We agree with this finding. On March 26, 2010, the Company reinforced procedures with our claims counselors to ensure correct forms are sent at the time of the claim. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - b. We agree with this finding. On July 14, 2010 the Company reinforced procedures with our claims counselors to ensure that insureds are informed of their Transportation Expense coverage when the coverage is applicable. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - c. We agree with this finding. On July 14, 2010 the Company reinforced procedures with our claims counselors to ensure that insureds are informed of their rental benefits under Uninsured Motorists Property Damage coverage. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - d. We agree with this finding. On May 26, 2010, the Company reinforced Medical Expense Benefit procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 3) We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced denial procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 4)
 - a. We agree with this finding. On July 14, 2010, the Company reinforced Uninsured Motorist procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - b. We agree with this finding. On August 18, 2010, the Company reinforced total loss settlement procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - c. We agree with this finding. On May 26, 2010, the Company reinforced Medical Expense Benefit procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

- d. We agree with this finding. On May 26, 2010, the Company reinforced Transportation Expense procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - e. We agree with this finding. On July 14, 2010, the Company reinforced Other Than Collision coverage procedures with our claims counselors. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 5)
- a. We agree with this finding. On August 11, 2010, the Company reinforced the requirement to provide a copy of the repair estimate to the insured. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.
 - b. We agree with this finding. On August 11, 2010, the Company reinforced the requirement to provide a copy of the repair estimate to the claimant. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.
- 6)
- a. We agree with the finding for CPA022. On July 14, 2010, the Company reinforced with our claims counselors the Transportation Expense procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

We agree with the finding for CPA089. On July 14, 2010, the Company reinforced with our claims counselors the Other Than Collision coverage procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

We agree with the finding for CPA092. On May 26, 2010, the Company reinforced with our claims counselors the Medical Expense Benefit procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - b. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the Loss of Use procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 7) We agree with the finding for CPA079. On July 14, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed. We agree with the finding for CPA092. On May 26, 2010, the Company reinforced with our claims counselors the Medical Expense Benefit procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 8) We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced with our claims counselors the requirement to promptly reimburse the insured's Medical Expense Benefits claim. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 9) We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include a correct statement of coverage under which payments

are made with all claims payments to insureds. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

- 10) We agree with this finding. On August 18, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of compromised settlement. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 11) We agree with this finding. On August 11, 2010, the Company reinforced with our claims counselors the aftermarket parts procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 12) We agree with this finding. In the fourth quarter of 2010, the Company will implement the use of the authorization form to obtain a statement from an insured to make payments directly to the medical provider. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 13)
- a. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include the lienholder on the checks. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - b. We agree with this finding. On July 14, 2010 and August 18, 2010, the Company reinforced with our claims counselors the requirements of paying an insured what he/she is entitled to receive under the terms of his/her policy. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - c. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include the insured name on a check issued to the repairing garage. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - d. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
 - e. We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced with our claims counselors the requirement to issue payments under the correct coverage. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

Other Law Violations

We agree with this finding. On April 8, 2010 and July 14, 2010, the Company reinforced with our claims counselors the requirement to include a statement regarding insurance fraud on claims forms required by the Company as a condition of payment. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

Homeowners Claims

- 1) We agree with this finding. On August 18, 2010 and August 25, 2010, the C reinforced with our claims counselors the requirement to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 2)
 - a. We agree with this finding. On August 25, 2010 and September 15, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Additional Living Expense coverage of the policy. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - b. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Replacement Cost Benefits under the Dwelling coverage of the policy. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - c. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Replacement Cost Benefits under the Personal Property coverage of the policy. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
 - d. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the benefits under the Incidental coverages of the policy. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 3) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 4) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the claim denial procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- 5) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis for its denial in the written denial of the claim. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 6)
 - a. We agree with the finding for reference number CHO011. On June 8, 2010, the Company reinforced with our claims counselors the requirement to properly pay the claim under the insured's Replacement Cost Dwelling coverage. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

We disagree with the finding for reference number CHO029. The Company reopened the claim and investigated the facts. The Company's claims counselor contacted the water restitution company. The area in question was corrected. All bills to the water restitution company have been paid. The insured was not billed for anything from this loss. This issue is resolved and the claim is closed. Management notes are attached. See Exhibit 41.

We disagree with the finding for reference number CHO035. On June 3, 2010, the Company received the first estimate and issued payment of \$3,171.94 with an explanation letter to the insured. On July 25, 2010, the Company received the final repair bill and issued an additional payment of \$2,450.26 with an explanation letter to the insured. The claims counselor's file notes repeated the deductible in error. Management notes are attached. See Exhibit 42.

- b. We agree with this finding. On June 8, 2010, the Company reinforced with our claims counselors the requirement to properly pay the claim under the Damage to Property of Others coverage. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 7) We agree with this finding. On June 8, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to provide the insured with six months from the last actual cash payment to assert a claim for replacement cost on the damaged property. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 8) We agree with this finding. On August 25, 2010, August 26, 2010 and September 18, 2010, the Company reinforced with our claims counselors our standards for prompt investigation of claims. Audits will be conducted in the fourth quarter of 2010 to ensure these standards are followed.
- 9) We agree with this finding. On August 26, 2010, the Company reinforced with our claims counselors the requirement of attempting, in good faith, to make prompt, fair and equitable settlement of a claim in which liability is reasonably clear. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 10) We agree with this finding. On June 8, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis in the insurance policy or applicable law for the denial of a claim or offer of a compromised settlement. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- 11) We agree with this finding. On August 26, 2010, the Company reinforced with our claims counselors the provisions of our insurance contract. Audits will be conducted in the fourth quarter of 2010 to ensure the insurance contract provisions are followed.

Other Law Violations

We agree with this finding. On September 8, 2010, the Company reinforced with our claims counselors the requirement to include the statement regarding insurance fraud on claims forms required by the Company as a condition of payment. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

Review of Forms

Automobile Policy Forms

Policy Forms Used During the Examination Period

The examiners found no violations in this area.

Other Forms Used During the Examination Period

The examiners found no additional forms to review.

Homeowners Policy Forms

Policy Forms Used During the Examination Period

The examiners found no violations in this area.

Other Forms Used During the Examination Period

The examiners found no additional forms to review.

Review of the Policy Issuance Process

Automobile Policies

New Business Policies

The examiners found no violations in this area.

Renewal Business Policies

- 1) We agree with this finding. On March 31, 2010, the Company corrected this system error.
- 2) We agree with this finding. On March 31, 2010, the Company corrected this system error.

Homeowners Policies

New Business Policies

- 1) We disagree with this finding. The Company provided the Important Information Regarding Your Insurance notice, which is identified as "Who to contact for assistance, CA-G50VA1" on page 6. See Exhibit 43.
- 2) We agree with this finding. In April of 2010, the Company reinforced with staff the requirement to provide the Replacement Cost Coverage notice to the applicant and to check the appropriate box on the application to indicate the notice was provided.

- 3) We agree with this finding. The Company conducted research but was unable to determine why this insured did not receive a Credit Adverse Action notice. Audits will be conducted to ensure this procedure is followed.

Renewal Business Policies

We agree with this finding. On February 25, 2010, the Company corrected the error.

Review of Statutory Notices

General Statutory Notices

The examiners found no violations in this area.

Statutory Vehicle Notices

We agree with this finding. On April 29, 2010, the Company corrected the notice.

Statutory Property Notices

1) We agree with this finding. On August 13, 2010, the Company corrected the notice.

2) We agree with this finding. On July 29, 2010, the Company corrected the notice.

Other Notices Used by the Company

We agree with this finding. The Company revised the website glass script to disclose the use of a Third Party Administrator.

Licensing and Appointment Review

Agent

The examiners found no violations in this area.

Agency

We agree with this finding. The Company modified our procedure to address confirmation of both an individual and agency license in order to prevent this issue from recurring.

Review of the Complaint-Handling Process

The examiners found no violations in this area.

Review of Privacy and Information Security Procedures

The Company provided its information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

General

Rating and Underwriting Review

- 1) Correct the error that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' account the amount of the overcharge as of the date the error first occurred.

Please see the attached Rating Overcharges spreadsheet.

- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.

Please see the attached Rating Overcharges spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that it has refunded or credited the overcharges listed in the file.

Please see the attached Rating Overcharges spreadsheet.

- 4) Include accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.

On August 17, 2010, the Company revised its procedures to list only those endorsements that are applicable to the policy on the Declarations page.

- 5) Use the rules and rates on file with Bureau. Particular attention should be focused on the use of filed discounts, surcharges, tier eligibility, driver classification, territory and public protection class.

The Company continues to disagree with reference numbers RPA002, RPA011, RPA025, RPA026, RPA029, RPA031, RPA032, RPA042, RPA053, RPA054, RPA056, RHO038 and RHO041, as indicated in Part One of the report. The Company agrees with the remaining findings.

By the first quarter of 2011, the Company will submit a rule filing to ensure our discount and surcharge procedures are aligned with our rules.

On September 27, 2010, the Company reinforced with staff to use the most recent insurance score when issuing an application.

On September 27, 2010, the Company reinforced with staff to follow the symbol assignment and driver classification procedures.

On September 24, 2010, the Company reinforced with staff to follow the territory and public protection class assignment procedures.

The Company will audit our processes and procedures to ensure they are in alignment with our rules and rates on file with the Bureau.

- 6) Use credit information in accordance with the requirements of the filed rules and statutes.

On May 2, 2010, the Company corrected the system error that was causing the credit information to be pulled incorrectly. In addition, on September 27, 2010, the Company reinforced with staff to follow the tier ordering procedures in accordance with the requirements of the filed rules and statutes.

- 7) Use binders no longer than the 60 day limitation required by the statute.

In May of 2010, the Company reinforced with staff the requirement that binders may be made or used for a period not exceeding 60 days, pending the issuance of the policy. Audits will be conducted to ensure this requirement is followed.

- 8) Provide AUD notices when the policy is issued with information that is different than provided by the insured on the application.

In May of 2010 and on June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure. Audits will be conducted to ensure this procedure is followed.

- 9) Update the insureds' credit information at least once every three years.

The Company continues to disagree with reference number RPA026, as indicated in Part One of the report. The Company agrees with the remaining findings.

By the first quarter of 2011, the Company plans to implement a system correction to check the age of the insurance score according to the effective date of the renewal, instead of the billing cycle date of the renewal.

By the first quarter of 2011, the Company's business practice will be revised to ensure we are obtaining credit scores every 36 months when the policy terms change.

Termination Review

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

Please see the attached Termination Overcharges spreadsheet.

- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.

Please see the attached Termination Overcharges spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that it has refunded or credited the overcharges listed in the file.

Please see the attached Termination Overcharges spreadsheet.

- 4) Calculate return premiums in accordance with filed rules and rates.

The Company continues to disagree with reference numbers TPA053, TPA055, TPA056, TPA060, TPA068, TPA070 and TPA071, as indicated in Part One of the report. The Company agrees with the remaining finding.

By the first quarter of 2011, the Company will implement a procedure to void applications that have been transmitted but the signed application and money have not been received.

- 5) Obtain written requests for cancellation from the insured before processing insured requested cancellations.

The Company continues to disagree with reference numbers TPA003, TPA006, TPA007, TPA009, TPA010, TPA013, TPA015, TPA016, TPA018, TPA019, TPA021, TPA023, TPA025, TPA026, TPA029, TPA030, TPA031, TPA032, TPA034, TPA037, THO006, THO007, THO008, THO010 and THO012. Please reference Part One, Termination Review, All Other Cancellations-Automobile Policies, Requested by the Insured and Termination Review, All Other Cancellations-Homeowner Policies, Requested by the Insured.

- 6) Cancel owner occupied dwelling policies after the 89th day of coverage only for reasons permitted by the statute.

In April of 2010 and in May of 2010, the Company reinforced with staff to follow the cancellation procedures. Audits will be conducted to ensure these procedures are followed.

Claims Review

- 1) Correct the error that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.

Please see the attached Claims Underpayments spreadsheet.

- 2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.

Please see the attached Claims Underpayments spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

Please see the attached Claims Underpayments spreadsheet.

- 4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

On July 14, 2010, August 18, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim. Audits will be conducted in fourth quarter 2010 to ensure this requirement is followed.

- 5) Document the claim file that all applicable coverages have been discussed with the insured.

On July 14, 2010 the Company reinforced with our claims counselors the proper coverage procedures to ensure that insureds are informed of the correct coverage and the claim file is documented. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

- 6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

The Company continues to disagree with reference numbers CHO029 and CHO035, as indicated in Part One of the report. The Company agrees with the remaining findings.

On May 26, 2010, July 14, 2010 and August 18, 2010, the Company reinforced procedures with our claims counselors to ensure that we offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

- 7) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

On August 25, 2010, the Company reinforced procedure with our claims counselors to ensure that we properly represent pertinent facts or insurance provisions relating to the coverage at issue. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

- 8) Adopt and implement standards for prompt investigation of claims.

On August 25, 2010, August 26, 2010 and September 18, 2010, the Company reinforced with our claims counselors our standards for prompt investigation of claims. Audits will be conducted in the fourth quarter of 2010 to ensure these standards are followed.

- 9) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.

On May 26, 2010, July 14, 2010 and August 26, 2010, the Company reinforced with our claims counselors our standards to negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear. Audits will be conducted in the fourth quarter of 2010 to ensure these standards are followed.

- 10) Obtain a written authorization from an insured prior to making payments directly to the medical provider.

In the fourth quarter of 2010, the Company will revise the written authorization form. In October 2010, the Company reinforced with claims counselors the written authorization procedure. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.

Review of Policy Issuance Process

- 1) Provide the insured the Notice of Information Collection and Disclosure Practices with all renewal policies.

On March 31, 2010, the Company corrected the system error to ensure the insured is provided the Notice of Information Collection and Disclosure practices with all renewal policies.

- 2) Provide the insured the Notice of Financial Collection and Disclosure Practices with all renewal policies.

On March 31, 2010, the Company corrected the system error to ensure the insured is provided the Notice of Financial Collection and Disclosure practices with all renewal policies.

- 3) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.

The Company continues to disagree with reference number MHO006, as indicated in Part One of the report. The Company agrees with the remaining findings.

On February 25, 2010, the Company corrected the system error to ensure the insured is provided the Important Information Regarding Your Insurance notice with all new and renewal policies.

- 4) Provide the insured the Replacement Cost coverage notice with all new policies of fire and fire in combination with other insurance coverages.

In April 2010, the Company reinforced with staff the requirement to provide the Replacement Cost Coverage notice to the applicant and to check the appropriate box on the application to indicate the notice was provided. Audits will be conducted to ensure this requirement is followed.

- 5) Provide the insured with written notice of an AUD.

The Company corrected the error to ensure the insured is provided the written notice of an Adverse Underwriting Decision. Audits will be conducted to ensure this procedure is followed.

Review of Statutory Notices

- 1) Amend the 60 day cancellation warning to comply with 38.2-2210 A of the Code of Virginia.

On April 29, 2010, the Company revised the 60 day cancellation warning to comply with 38.2-2210A.

- 2) Amend the Ordinance or Law notice to comply with 38.2-2126 of the Code of Virginia.

On August 13, 2010, the Company revised the Ordinance or Law notice to comply with 38.2-2124 (not 38.2-2126).

- 3) Amend the Flood Exclusion notice to comply with 38.2-2125 of the Code of Virginia.

On July 29, 2010, the Company revised the Flood Exclusion notice to comply with 38.2-2125.

Licensing and Appointment Review

- 1) Appoint agents within 30 days of the application.

The Company modified our procedure to address confirmation of both an individual and agency license within 30 days of the application. Audits will be conducted to ensure this procedure is followed.

PART THREE – EXAMINERS’ NOTES

Claims

- Failure to make all claim denials in writing and keep a copy in the claim file.
 - On May 26, 2010, July 14, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to make all claim denials in writing and keep a copy in the claim file. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- Failure to make an appropriate reply within ten working days to communications reasonably suggesting a response was expected.
 - On August 25, 2010, the Company reinforced with our claims counselors the requirement to make an appropriate reply within ten working days to communications reasonably suggesting a response is expected. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- Provide copies of repair estimates prepared by or on behalf of the companies.
 - On August 11, 2010, the Company reinforced with our claims counselors the requirement to provide copies of repair estimates prepared by or on behalf of the Company. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- Failure to include a correct statement of coverage under which payments are made with all claim payments to insureds.
 - On July 14, 2010, the Company reinforced with our claims counselors the requirement to include a correct statement of coverage under which payments are made with all claims payments to insureds. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- Failure to include a reasonable explanation of the basis in the applicable law for the denial of a claim or offer of a compromised settlement.
 - On June 8, 2010, August 18, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to include a reasonable explanation of the basis in the applicable law for the denial of a claim or offer of a compromised settlement. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.
- Failure to comply with the provisions of the insurance contract.
 - On July 14, 2010, the Company reinforced with our claims counselors the requirement to comply with the provisions of the insurance contract. Audits will be conducted in the fourth quarter of 2010 to ensure this requirement is followed.

Recommendations

Rating and Underwriting

- The companies should include the Transportation Expenses premium in the Policy Premium amount of the declarations page instead of adding it into the Premium Change amount.
 - The Company is including the Transportation Expenses premium in the Policy Premium amount of the declarations page, as recommended.
- The companies should stop including the installment fee in the Premium Change or Policy Premium amount on the private passenger automobile declarations page.
 - The Company will research any programming changes that need to be made to the Premium Change or Policy Premium amount on the private passenger automobile declarations page.
- The companies should include in their Adverse Action Credit notice all of the adverse actions applicable to the insured.
 - By the first quarter of 2011, the Company will revise and implement the Adverse Action Credit notice to include all of the adverse actions applicable to the insured.
- The companies should amend the homeowners manual premium determination rule to include the application of the Rowhouse/Townhouse surcharge factor.
 - In the fourth quarter of 2010, the Company will amend the homeowners manual premium determination rule to include the application of the Rowhouse/Townhouse surcharge factor.
- The companies must show accurate Adverse Action Credit identifiers (form numbers) in the “Forms Mailed” section of the homeowners declarations page.
 - By the first quarter of 2011, the Company will revise the “Forms Mailed” section of the homeowners declarations page to show accurate Adverse Action Credit identifiers.

Termination

- The correct address for the Virginia Property Insurance Association should appear on the companies' Termination Notice.
 - On June 1, 2010, the Company revised the Termination Notice to include the correct address for the Virginia Property Insurance Association.

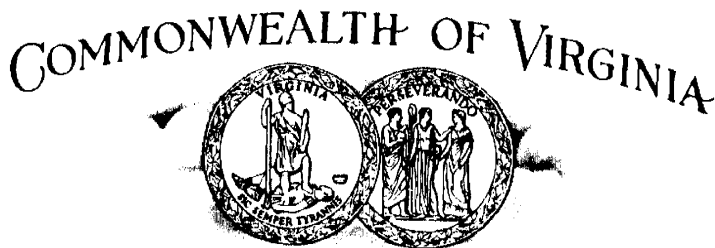
- The companies should amend the Annual Renewal Notice and Installment Billing letters to indicate the correct date to which the installment will extend the policy instead of showing the policy expiration date.
 - By the second quarter of 2011, the Company will amend the Annual Renewal Notice and Installment Billing letters to indicate the correct date to which the installment will extend the policy instead of showing the policy expiration date.
- The companies should not include an AUD notice in its nonpayment of premium cancellation notices since it is not required.
 - In the fourth quarter of 2010, the Company will revise the nonpayment of premium cancellation notices to remove the Adverse Underwriting Decision notice.
- The companies should not provide the Right to Review by the Commissioner language in their notices mailed within the first 59 days of a new business private passenger automobile policy since such right is not provided by the Code.
 - By the first quarter of 2011, the Company will remove the Right to Review by the Commissioner language in their notices mailed within the first 59 days of a new business private passenger automobile policy since such right is not provided by the Code.
- The companies should amend the Miscellaneous Cancellation rule to state the company will pro-rate an insured-requested cancellation if the insured continues to carry insurance on a vehicle with us in the private passenger automobile manual.
 - By the third quarter of 2011, the Company will amend the Miscellaneous Cancellation rule to state the company will pro-rate an insured-requested cancellation if the insured continues to carry insurance on a vehicle with us in the private passenger automobile manual.

Claims

- The companies should use the term “Other Than Collision” coverage on the check instead of the term “Comprehensive”.
 - On September 19, 2010, the Company implemented the system correction to add the term “Other Than Collision” coverage on the check.
- The companies should use the term “Medical Expense Benefits” coverage on the check instead of the term “Medical Payment/PIP”.
 - On September 19, 2010, the Company implemented the system correction to add the term “Medical Payment/Medical Expense Benefits” coverage on the check.

- The companies should implement a consistent claim practice to determine when to use the UM letter.
 - On October 6, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.
- The companies should implement a consistent claim practice to determine when to apply the appropriate transfer fees.
 - On July 30, 2010, the Company provided the claims counselors with a training tool to assist them in determining the appropriate transfer fees. Audits will be conducted in the fourth quarter of 2010 to ensure the appropriate transfer fees are applied.
- The companies should implement a consistent claim practice to determine when to apply the replacement cost settlement procedure.
 - On July 14, 2010, the Company reinforced with our claims counselors the replacement cost settlement procedure. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.
- The companies should implement a consistent claim practice to determine when to request the lightning claim form.
 - On August 25, 2010, the Company reinforced with our claims counselors the lightning claim procedure. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.
- The companies should revise the replacement cost letter to state “within the six months after the last ACV payment” and delete “Virginia” from the sentence.
 - On September 28, 2010, the Company revised the replacement cost letter to state “within the six months after the last ACV payment” and deleted “Virginia” from the sentence.
- The companies should disclose “In Payment Of” field the correct coverage on the third party check.
 - On September 17, 2010, the Company corrected the system to disclose the correct coverage in the “In Payment Of” field on the third party check.

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION
COMMISSION
BUREAU OF INSURANCE



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December 6, 2010

VIA UPS 2nd DAY DELIVERY

Ms. Stephanie Fuller, CIA, AIC, AIS
Director of Compliance
The Horace Mann Companies
#1 Horace Mann Plaza
Springfield, IL 62715

RE: Market Conduct Examination
Horace Mann Insurance Company (NAIC# 22578)
Horace Mann Property & Casualty Insurance Company (NAIC# 22756)
Teachers Insurance Company (NAIC# 22683)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Fuller:

The Bureau of Insurance (Bureau) has reviewed the Horace Mann Companies' (Companies) October 20, 2010 response to the Preliminary Market Conduct Report (Report) of the above referenced companies. The Bureau has referenced only those items in which the Companies have 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

Automobile New Business Rating

- (2) This item stays in the Report. The declarations page indicates **"About your policy & endorsements – Applicable policy and endorsement forms"**. Listing endorsements in this section of the declarations page implies the coverage is applicable. This is misleading to the insured.
- (4d) After further review the violations for RPA011 and RPA002 have been withdrawn.
- (5b) The Report has been amended to remove this item and only reflect two violations in this section.

Automobile Renewal Business Rating

- (1b) This item stays in the Report. The declarations page indicates **"About your policy & endorsements – Applicable policy and endorsement forms"**.

Listing endorsements in this section of the declarations page implies the coverage is applicable. This is misleading to the insured.

- (3a) Based upon additional information provided by the company the violation for RPA026 has been withdrawn.
- (3b) The violations for RPA026, RPA031, RPA032, RPA042 and RPA053 stay in the Report. The companies' response indicates the companies are accessing the insured's credit information unnecessarily and in some instances the companies are not using the best score available for the insured at the time the policy renews.
- (3c) The violation for RPA029 stays in the Report. The change to the driver classification factor was applicable at the time the policy renewed.
- (3d) The violation for RPA025 stays in the Report. Rule IV.C.4, found on page 13 of the manual on file with the Bureau states: "When coverage is reactivated more than 60 days from the lapse the policy will be written as new business". The policy was not continuously in force for 9 years or greater and the incorrect factor was used.
- (3e) The violation for RPA054 stays in the Report. The violation for this policy indicates the company used the credit score of someone other than the first or second named insured when rating this policy. For reconsideration the company must furnish the declarations page showing the person whose credit score was used as the first or second named insured.

The violation for RPA056 stays in the Report. The companies' practice in obtaining credit scores is inconsistent. Based upon the companies' response, the companies are obtaining updated credit scores near the renewal effective date and not using the latest and/or best credit score when the policy renews.

- (4) The violation for RPA026 stays in the Report. It is impossible to establish when this insurance score was obtained.

Homeowners Renewal Business Rating

- (2a) After further review, the violation for RHO041 is withdrawn.

The violation for RHO038 stays in the Report. The company has not provided evidence of continuous coverage. The documentation provided substantiates coverage from 2001-2002. The company has not provided evidence of coverage from 2002-2009.

Automobile Nonpayment of Premium Cancellations

- (1a) After further review, the violations in subsection (a) have been withdrawn.
- (2) After further review, all of the violations in this section have been withdrawn.

Automobile Insured Requested Cancellations

- (1) After further review, the violation for TPA060 has been withdrawn.
- (2) After further review, all of the violations in this section have been withdrawn.

Automobile Company-Initiated Non-renewals

- (2a) Based upon additional information provided by the company, this item has been withdrawn.
- (2b) Based upon additional information provided by the company, this item has been withdrawn.
- (3) Based upon additional information provided by the company, this item has been withdrawn.

Homeowners Insured Requested Cancellations

- (2) After further review, all of the violations in this section have been withdrawn.

Homeowners Claims

- (6a) The violation for CHO029 stays in the Report. The company should provide the water restitution company's report to verify that the area in question was corrected.

After further review the violation for CHO035 is withdrawn.

Homeowners New Business Policy Issuance

- (1) This item stays in the Report. It was outlined in the Data Call Manual and reiterated during the conference call that any material that was not provided with the initial Policy Issuance submission would be considered material not sent to the insured. The notice included with the company's response was not included in the policy packet sent to the insured on MHO006.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (5) The rate and rule violations for RPA002, RPA011, and RHO041 have been withdrawn from the Report as indicated in the response to Part One of the Report.
- (9) The violation for RPA026 stays in the Report. Please refer to the response to item 3b in Part One of the Report.

Terminations

- (4) The violations for TPA053, TPA055, TPA056, TPA060, TPA068, TPA070 and TPA071 have all been withdrawn from the Report.
- (5) The corrective action previously shown as item five has been removed from the Report.
- (6) The binder violations have been added to the Report.
- (7) The violations regarding AUD have been added to the Report.

Claims

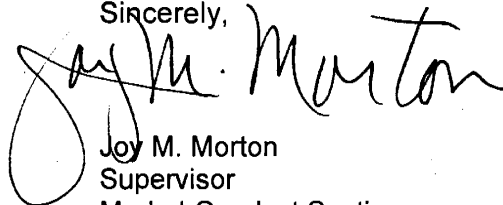
- (6) The violation for CHO029 stays in the Report. For reconsideration the company must provide the water restitution company's summary of the clean up results.
The violation for CHO041 has been removed from the Report.
- (9) The corrective action previously shown as item nine has been removed from the Report.
- (11) The violations regarding the companies' response to correspondence have been added to the corrective action plan

Policy Issuance

- (3) The violation for MHO006 stays in the Report. Please refer to the Bureau's response in Part One above.
- (5) The corrective action previously shown as item five has been removed from the Report.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The companies' response to this letter is due in the Bureau's office by January 14, 2011.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9731
joy.morton@scc.virginia.gov

January 14, 2011

11 JAN 18 AM 11:33

Sent via Email and Federal Express

Joy M. Morton
Supervisor
Virginia Bureau of Insurance
Market Conduct Section
Property and Casualty Division
1300 East Main Street
Richmond, VA 23219

Regarding: Market Conduct Examination
Horace Mann Insurance Company (NAIC# 22578)
Horace Mann Property & Casualty Insurance Company (NAIC# 22756)
Teachers Insurance Company (NAIC# 22683)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Morton,

Enclosed with this letter is a copy of our revised response to the Preliminary Market Conduct Examination Report (Report dated December 6, 2010). Also enclosed are copies of the overcharges (rating and terminations) and the underpayments (claims) Excel spreadsheets.

Our revisions are based on your cover letter of December 6, 2010. The following lists the Report location and applicable changes:

PART ONE – THE EXAMINERS' OBSERVATIONS

Automobile New Business Policies

- (2) Regarding reference numbers RPA003, RPA023 and RPA024, we have added more information to consider.
- (4a) Regarding reference number RPA009, the corrective action plan target date was updated.

Automobile Renewal Business Policies

- (1b) Regarding reference number RPA059, we have added more information to consider.
- (3b) Regarding reference numbers RPA026, RPA031, RPA032, RPA042 and RPA053, we changed our response from disagree to agree.
- (3c) Regarding reference number RPA029, the Bureau agreed in a conference call to withdraw this item.
- (3d) Regarding reference number RPA025, we changed our response from disagree to agree.
- (3e) Regarding reference numbers RPA054 and RPA056, we changed our response from disagree to agree.

Homeowners Renewal Business Policies

- (2a) Regarding reference number RHO038, the Bureau agreed in a conference call to withdraw this item.

Homeowners Claims

- (6a) Regarding reference number CHO029, the Bureau agreed in a conference call to withdraw this item.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (5) Regarding reference numbers RPA029 and RHO038, the Bureau agreed in a conference call to withdraw these items.

- (5) Regarding the various reference numbers on discount and surcharge procedures, the corrective action plan target dates were updated.
- (9) Regarding reference number RPA026, we changed our response from disagree to agree.
- (9) Regarding the various reference numbers on procedures to obtain credit information once every three years, the corrective action plan target dates were updated.

Termination Review

- (4) Regarding the various reference numbers on calculating correct return premium, the corrective action plan target date was updated.

PART THREE – EXAMINERS’ NOTES

Rating and Underwriting

- (3) Regarding the item on the Adverse Action Credit notice including all adverse actions applicable, an implementation date is noted.
- (4) Regarding the premium rule on including Rowhouse/Townhouse surcharge factor, the corrective action plan target date was updated.

Note: In all Parts of the Report, when a Claim item was audited in 2010 for that specific item, the month and year of the audit is noted.

The Company completed the Excel spreadsheets provided by the Virginia Bureau of Insurance, with the exception of reference number, CHO029, a withdrawn item.

We would like to extend our appreciation to you and your staff for the efficient and professional manner with which the examination was conducted.

Sincerely,



Kay Summers-Orr, CIA
P&C Auditor
The Horace Mann Companies
1 Horace Mann Plaza
Springfield, IL 62715
217-788-8525

Enclosures

CONFIDENTIALITY NOTE:

This e-mail and any attachments are confidential and may be protected by legal privilege. If you are not the intended recipient, be aware that any disclosure, copying, distribution or use of this e-mail or any attachment is prohibited. If you have received this e-mail in error, please notify us immediately by returning it to the sender and delete this copy from your system. Thank you for your cooperation.

PART ONE – THE EXAMINERS’ OBSERVATIONS

Rating And Underwriting Review

Automobile New Business Policies

- 1) We agree with this finding. In May of 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 2) We disagree with this finding. § 38.2-305 A states that the policy “shall specify the conditions pertaining to the insurance.” The Transportation Expenses endorsement, PP 13 52 01 04, states that the Transportation Expenses Provision is added to Part D when a specific premium charge is shown in the schedule on the endorsement or in the declarations for a covered auto. Listing the endorsement on the declarations page is not a condition of coverage, and does not indicate that the coverage is provided. By the terms of the endorsement, it is the showing of a specific premium charge that is a condition of coverage. The company did not list Transportation Expenses Coverage or show a specific premium charge for Transportation Expenses Coverage on the declarations page for the indicated policies, therefore, the company did not violate § 38.2-305 A. However, in the spirit of cooperation, as of August 17, 2010, the company has stopped listing the Transportation Expenses endorsement on the declarations page when the policy does not include Transportation Expenses Coverage. See Exhibit 1.
- 3) We agree with this finding. In the second quarter of 2011, the Company will conduct a pilot regarding changes to the process for new business application record retention.
- 4)
 - a. We agree with this finding. In the second quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.
 - b. We agree with this finding. On September 27, 2010, the Company reinforced with staff to follow the symbol assignment procedure.
 - c. We agree with this finding. On September 24, 2010, the Company reinforced with staff to follow the territory assignment procedure.
 - d. We agree with the finding for reference number RPA006. On September 27, 2010, the Company reinforced with staff to use the most recent score when issuing an application.
 - e. We agree with the finding for reference number RPA006. On September 24, 2010, the Company reinforced with staff to follow standard operating procedures.

We agree with the finding for reference RPA017. In the second quarter of 2011, the Company will revise our business practice.
 - f. We agree with this finding. On May 2, 2010, this system error was corrected.
- 5) We agree with this finding. On May 9, 2010, this system error was corrected.
- 6) We agree with this finding. On September 27, 2010, the Company reinforced with staff to follow the tier ordering procedures.

Automobile Renewal Business Policies

- 1)
 - a. We agree with this finding. On August 2, 2010, the Company reinforced with staff to follow standard operating procedures to attach the Joint Ownership Coverage-Virginia endorsement when required.
 - b. We disagree with this finding. § 38.2-305 A states that the policy "shall specify the conditions pertaining to the insurance." The Transportation Expenses endorsement, PP 13 52 01 04, states that the Transportation Expenses Provision is added to Part D when a specific premium charge is shown in the schedule on the endorsement or in the declarations for a covered auto. Listing the endorsement on the declarations page is not a condition of coverage, and does not indicate that the coverage is provided. By the terms of the endorsement, it is the showing of a specific premium charge that is a condition of coverage. The company did not list Transportation Expenses Coverage or show a specific premium charge for Transportation Expenses Coverage on the declarations page for the indicated policies, therefore, the company did not violate § 38.2-305 A. However, in the spirit of cooperation, as of August 17, 2010, the company has stopped listing the Transportation Expenses endorsement on the declarations page when the policy does not include Transportation Expenses Coverage. See Exhibit 2.
- 2) We agree with the finding for reference number RPA047. On May 14, 2010, the Company issued a reminder to staff emphasizing the criticality of communicating coverage correctly with customers.

We agree with the finding for reference number RPA050. On May 27, 2010, the Company revised its Policy Change Notice to display the old underwriting company and the new underwriting company when an underwriting company change occurs.

- 3)
 - a. We agree with the finding for reference number RPA049. The Company corrected the policy and made the proper premium adjustment.
 - b. We agree with the findings for reference numbers RPA026, RPA031, RPA032, RPA042 and RPA053. We will update our rule in the second quarter of 2011 to clarify when the new score will be used.
 - c. We agree with the finding for reference numbers RPA041 and RPA050. The Company reinforced with staff to follow the classification procedure.

Per our conversation on January 6, 2011, the Bureau agreed to withdraw reference number RPA029.

- d. We agree with the finding for reference number RPA043. In the third quarter of 2011, the Company will submit a filing with the corrected table.

We agree with reference number RPA025. Per our filed rules, which were just updated August 16, 2010: "Policy Age means the number of years, measured from the original effective date of the policy, that the policy has been in force with us." Since this policy's

original effective date is November 11, 1976, the policy will receive the maximum number of years. Our rules were not accurate at the time.

- e. We agree with the finding for reference numbers RPA035, RPA054 and RPA056. The Company's business practice will be revised to ensure we are obtaining credit scores every 36 months when the policy term or payment method changes.
- 4) We agree with the finding for reference number RPA025. The Company's business practice will be revised to ensure we are obtaining credit scores every 36 months when the policy terms change.

We disagree with the finding for reference number RPA026. The Company was not able to find evidence of a credit score being requested for five prior years; however, we are in the process of updating our system to retain insurance scores for ten years. See Exhibit 3.

Homeowners New Business Policies

- 1)
- a. We agree with the finding for reference number RHO006. In May of 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.
 - b. We agree with the findings for reference numbers RHO005, RHO007, RHO013, RHO014, RHO017, RHO019 and RHO020. In May of 2010 and on June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.

- 2)
- a. We agree with the finding for reference number RHO001. By the second quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.

We agree with the findings for reference numbers RHO002, RHO005, RHO007, RHO008, RHO010, RHO011, RHO013 and RHO018. In May 2010, the Company reinforced with staff to follow the application review procedure.

- b. We agree with the finding. In September 2010, the Company reinforced with staff to follow the rating procedure.
 - c. We agree with the finding. On September 27, 2010, the Company reinforced with staff to follow the public protection class procedure.
- 3) We agree with the finding. In May 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.

Homeowners Renewal Business Policies

- 1) We agree with the finding for reference number RHO040. By the first quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.
- 2)
- a. Per our conversation on January 6, 2011, the Bureau agreed to withdraw reference number RHO038.

b. We agree with this finding. The Company has revised our procedures to validate the public protection classes at renewal.

3) We agree with this finding. We implemented the change to our system on December 7, 2010.

Termination Review

Company Initiated Cancellations – Automobile Policies

Notice Mailed Prior to the 60th Day of Coverage

The examiners found no violations in this area.

Notice Mailed After the 59th Day of Coverage

- 1) We agree with the finding for reference number TPA049. On July 2, 2010, the Company's Adverse Underwriting Decision notice was corrected.
- 2) We agree with the finding for reference number TPA047. In May of 2010, the Company reinforced with staff to follow the cancellation procedures.
- 3) We agree with the finding of reference number TPA049. On August 2, 2010, the Company revised our coding procedures.

All Other Cancellations – Automobile Policies

Nonpayment of the Premium

We agree with this finding. The Company will reinforce with staff to follow the cancellation procedure.

Requested by the Insured

- 1) We agree with the finding for reference number TPA022. On March 15, 2010, this system error was corrected.

We agree with the findings for reference numbers TPA026 and TPA030. In the third quarter of 2011, the Company will submit a rule filing to ensure our procedures are aligned with our rules.

Company-Initiated Non-renewals – Automobile Policies

We agree with this finding. On July 2, 2010, the Company corrected the AUD notice language.

Homeowners Policies

Company-Initiated Cancellations – Homeowners Policies

Notice Mailed Prior to the 90th Day of Coverage

- 1) We agree with this finding. On June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure.
- 2) We agree with this finding. In the fourth quarter of 2010, the Company implemented a procedure to void applications which have been transmitted but the signed application and premium have not been received.
- 3) We agree with this finding. In May of 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 4) We agree with this finding. On June 1, 2010, this system error was corrected.

Notice Mailed After the 89th Day of Coverage

- 1) We agree with this finding. In the fourth quarter of 2010, the Company implemented a procedure to void applications that have been transmitted but the signed application and premium have not been received.
- 2) We agree with this finding. In May 2010, the Company reinforced with staff that binders may be made or used for a period not exceeding 60 days pending the issuance of the policy.
- 3) We agree with this finding. In April of 2010 and in May of 2010, the Company reinforced with staff to follow the cancellation procedures.
- 4) We agree with this finding. On September 27, 2010, the Company corrected the notice.

All Other Cancellations – Homeowners Policies

Nonpayment of the Premium

The examiners found no violations in this area.

Requested by the Insured

We agree with this finding. The Company corrected the policy and adjusted the premium. The Company reinforced with staff to follow the cancellation procedures.

Company-Initiated Non-renewals – Homeowners Policies

The examiners found no violations in this area.

Claims Review

Private Passenger Automobile Claims

- 1) We agree with this finding. On July 14, 2010, the Company reinforced with staff to follow file documentation procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.
- 2)
 - a. We agree with this finding. On March 26, 2010, the Company reinforced procedures with our claims counselors to ensure correct forms are sent at the time of the claim. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - b. We agree with this finding. On July 14, 2010 the Company reinforced procedures with our claims counselors to ensure that insureds are informed of their Transportation Expense coverage when the coverage is applicable. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - c. We agree with this finding. On July 14, 2010 the Company reinforced procedures with our claims counselors to ensure that insureds are informed of their rental benefits under Uninsured Motorists Property Damage coverage. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - d. We agree with this finding. On May 26, 2010, the Company reinforced Medical Expense Benefit procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
- 3) We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced denial procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
- 4)
 - a. We agree with this finding. On July 14, 2010, the Company reinforced Uninsured Motorist procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - b. We agree with this finding. On August 18, 2010, the Company reinforced total loss settlement procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - c. We agree with this finding. On May 26, 2010, the Company reinforced Medical Expense Benefit procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - d. We agree with this finding. On May 26, 2010, the Company reinforced Transportation Expense procedures with our claims counselors. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - e. We agree with this finding. On July 14, 2010, the Company reinforced Other Than Collision coverage procedures with our claims counselors. Audits were conducted in the October of 2010 to ensure these procedures were followed.

- 5)
- a. We agree with this finding. On August 11, 2010, the Company reinforced the requirement to provide a copy of the repair estimate to the insured. Audits were conducted in October of 2010 to ensure this procedure was followed.
 - b. We agree with this finding. On August 11, 2010, the Company reinforced the requirement to provide a copy of the repair estimate to the claimant. Audits will be conducted in the fourth quarter of 2010 to ensure this procedure is followed.

- 6)
- a. We agree with the finding for CPA022. On July 14, 2010, the Company reinforced with our claims counselors the Transportation Expense procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.

We agree with the finding for CPA089. On July 14, 2010, the Company reinforced with our claims counselors the Other Than Collision coverage procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.

We agree with the finding for CPA092. On May 26, 2010, the Company reinforced with our claims counselors the Medical Expense Benefit procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.

- b. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the Loss of Use procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.
- 7) We agree with the finding for CPA079. On July 14, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits will be conducted in the fourth quarter of 2010 to ensure these procedures are followed.

We agree with the finding for CPA092. On May 26, 2010, the Company reinforced with our claims counselors the Medical Expense Benefit procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.

- 8) We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced with our claims counselors the requirement to promptly reimburse the insured's Medical Expense Benefits claim. Audits were conducted in October of 2010 to ensure this requirement was followed.
- 9) We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include a correct statement of coverage under which payments are made with all claims payments to insureds. Audits were conducted in October of 2010 to ensure this requirement was followed.

- 10) We agree with this finding. On August 18, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for the denial of a claim or offer of compromised settlement. Audits were conducted in October of 2010 to ensure this requirement was followed.

- 11) We agree with this finding. On August 11, 2010, the Company reinforced with our claims counselors the aftermarket parts procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.
- 12) We agree with this finding. In October of 2010, the Company conducted additional training in the Raleigh, North Carolina claims office on this Medical Expense Benefit form regarding how to use and make payments on an injury loss. Additionally, in October of 2010 the fall quarterly reviews were conducted to reinforce our best practices. The Medical Expense Benefit revised forms are currently being used in our Raleigh claims office.
- 13)
- a. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include the lien holder on the checks. Audits were conducted in October of 2010 to ensure this requirement was followed.
 - b. We agree with this finding. On July 14, 2010 and August 18, 2010, the Company reinforced with our claims counselors the requirements of paying an insured what he/she is entitled to receive under the terms of his/her policy. Audits were conducted in October of 2010 to ensure this requirement was followed.
 - c. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the requirement to include the insured name on a check issued to the repairing garage. Audits were conducted in October of 2010 to ensure this requirement was followed.
 - d. We agree with this finding. On July 14, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.
 - e. We agree with this finding. On May 26, 2010 and July 14, 2010, the Company reinforced with our claims to counselors the requirement to issue payments under the correct coverage. Audits were conducted in October of 2010 to ensure this requirement was followed.

Other Law Violations

We agree with this finding. On April 8, 2010 and July 14, 2010, the Company reinforced with our claims counselors the requirement to include a statement regarding insurance fraud on claims forms required by the Company as a condition of payment. Audits were conducted in October of 2010 to ensure this requirement was followed.

Homeowners Claims

- 1) We agree with this finding. On August 18, 2010 and August 25, 2010, the C reinforced with our claims counselors the requirement to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 2)
 - a. We agree with this finding. On August 25, 2010 and September 15, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Additional

Living Expense coverage of the policy. Audits were conducted in November of 2010 to ensure this requirement was followed.

- b. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Replacement Cost Benefits under the Dwelling coverage of the policy. Audits were conducted in November of 2010 to ensure this requirement was followed.
 - c. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the Replacement Cost Benefits under the Personal Property coverage of the policy. Audits were conducted in November of 2010 to ensure this requirement was followed.
 - d. We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to inform the insured of the benefits under the Incidental coverages of the policy. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 3) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 4) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the claim denial procedures. Audits were conducted in November of 2010 to ensure these procedures were followed.
- 5) We agree with this finding. On August 25, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis for its denial in the written denial of the claim. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 6)
- a. We agree with the finding for reference number CHO011. On June 8, 2010, the Company reinforced with our claims counselors the requirement to properly pay the claim under the insured's Replacement Cost Dwelling coverage. Audits were conducted in November of 2010 to ensure this requirement was followed.

Per our conversation on January 6, 2011, the Bureau agreed to withdraw reference number CHO029.

- b. We agree with this finding. On June 8, 2010, the Company reinforced with our claims counselors the requirement to properly pay the claim under the Damage to Property of Others coverage. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 7) We agree with this finding. On June 8, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to provide the insured with six months from the last

actual cash payment to assert a claim for replacement cost on the damaged property. Audits were conducted in November of 2010 to ensure this requirement was followed.

- 8) We agree with this finding. On August 25, 2010, August 26, 2010 and September 18, 2010, the Company reinforced with our claims counselors our standards for prompt investigation of claims. Audits were conducted in November of 2010 to ensure these standards were followed.
- 9) We agree with this finding. On August 26, 2010, the Company reinforced with our claims counselors the requirement of attempting, in good faith, to make prompt, fair and equitable settlement of a claim in which liability is reasonably clear. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 10) We agree with this finding. On June 8, 2010, the Company reinforced with our claims counselors the requirement to provide a reasonable explanation of the basis in the insurance policy or applicable law for the denial of a claim or offer of a compromised settlement. Audits were conducted in November of 2010 to ensure this requirement was followed.
- 11) We agree with this finding. On August 26, 2010, the Company reinforced with our claims counselors the provisions of our insurance contract. Audits were conducted in November of 2010 to ensure the insurance contract provisions were followed.

Other Law Violations

We agree with this finding. On September 8, 2010, the Company reinforced with our claims counselors the requirement to include the statement regarding insurance fraud on claims forms required by the Company as a condition of payment. Audits were conducted in November of 2010 to ensure this requirement was followed.

Review of Forms

Automobile Policy Forms

Policy Forms Used During the Examination Period

The examiners found no violations in this area.

Other Forms Used During the Examination Period

The examiners found no additional forms to review.

Homeowners Policy Forms

Policy Forms Used During the Examination Period

The examiners found no violations in this area.

Other Forms Used During the Examination Period

The examiners found no additional forms to review.

Review of the Policy Issuance Process

Automobile Policies

New Business Policies

The examiners found no violations in this area.

Renewal Business Policies

- 1) We agree with this finding. On March 31, 2010, the Company corrected this system error.
- 2) We agree with this finding. On March 31, 2010, the Company corrected this system error.

Homeowners Policies

New Business Policies

- 1) We disagree with this finding. The Company provided the Important Information Regarding Your Insurance notice, which is identified as "Who to contact for assistance, CA-G50VA1" on page 6. See Exhibit 4.
- 2) We agree with this finding. In April of 2010, the Company reinforced with staff the requirement to provide the Replacement Cost Coverage notice to the applicant and to check the appropriate box on the application to indicate the notice was provided.
- 3) We agree with this finding. The Company conducted research but was unable to determine why this insured did not receive a Credit Adverse Action notice. Audits will be conducted to ensure this procedure is followed.

Renewal Business Policies

We agree with this finding. On February 25, 2010, the Company corrected the error.

Review of Statutory Notices

General Statutory Notices

The examiners found no violations in this area.

Statutory Vehicle Notices

We agree with this finding. On April 29, 2010, the Company corrected the notice.

Statutory Property Notices

- 1) We agree with this finding. On August 13, 2010, the Company corrected the notice.
- 2) We agree with this finding. On July 29, 2010, the Company corrected the notice.

Other Notices Used by the Company

We agree with this finding. The Company revised the website glass script to disclose the use of a Third Party Administrator.

Licensing and Appointment Review

Agent

The examiners found no violations in this area.

Agency

We agree with this finding. The Company modified our procedure to address confirmation of both an individual and agency license in order to prevent this issue from recurring.

Review of the Complaint-Handling Process

The examiners found no violations in this area.

Review of Privacy and Information Security Procedures

The Company provided its information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

General

Rating and Underwriting Review

- 1) Correct the error that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' account the amount of the overcharge as of the date the error first occurred.

Please see the attached Rating Overcharges spreadsheet.

- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.

Please see the attached Rating Overcharges spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that it has refunded or credited the overcharges listed in the file.

Please see the attached Rating Overcharges spreadsheet.

- 4) Include accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.

On August 17, 2010, the Company revised its procedures to list only those endorsements that are applicable to the policy on the Declarations page.

- 5) Use the rules and rates on file with Bureau. Particular attention should be focused on the use of filed discounts, surcharges, tier eligibility, driver classification, territory and public protection class.

Per our conversation on January 6, 2011, the Bureau agreed to withdraw reference numbers RPA029 and RHO038 .

In the second quarter of 2011, the Company will submit Private Passenger Automobile and Homeowner rule filings to ensure our discount and surcharge procedures are aligned with our rules.

On September 27, 2010, the Company reinforced with staff to use the most recent insurance score when issuing an application.

On September 27, 2010, the Company reinforced with staff to follow the symbol assignment and driver classification procedures.

On September 24, 2010, the Company reinforced with staff to follow the territory and public protection class assignment procedures.

The Company will audit our processes and procedures to ensure they are in alignment with our rules and rates on file with the Bureau.

- 6) Use credit information in accordance with the requirements of the filed rules and statutes.

On May 2, 2010, the Company corrected the system error that was causing the credit information to be pulled incorrectly. In addition, on September 27, 2010, the Company reinforced with staff to follow the tier ordering procedures in accordance with the requirements of the filed rules and statutes.

- 7) Use binders no longer than the 60 day limitation required by the statute.

In May of 2010, the Company reinforced with staff the requirement that binders may be made or used for a period not exceeding 60 days, pending the issuance of the policy. Audits will be conducted to ensure this requirement is followed.

- 8) Provide AUD notices when the policy is issued with information that is different than provided by the insured on the application.

In May of 2010 and on June 24, 2010, the Company reinforced with staff to follow the Adverse Underwriting Decision notice procedure. Audits will be conducted to ensure this procedure is followed.

- 9) Update the insureds' credit information at least once every three years.

The Company implemented on December 7, 2010, a system correction to check the age of the insurance score according to the effective date of the renewal, instead of the billing cycle date of the renewal.

In the fourth quarter of 2010, the Company's business practice was revised to ensure we are obtaining credit scores every 36 months when the policy terms change.

Termination Review

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

Please see the attached Termination Overcharges spreadsheet.

- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.

Please see the attached Termination Overcharges spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that it has refunded or credited the overcharges listed in the file.

Please see the attached Termination Overcharges spreadsheet.

- 4) Calculate return premiums in accordance with filed rules and rates.

In October of 2010, the Company implemented a procedure to void applications that have been transmitted but the signed application and money have not been received.

- 5) Cancel owner occupied dwelling policies after the 89th day of coverage only for reasons permitted by the statute.

In April of 2010 and in May of 2010, the Company reinforced with staff to follow the cancellation procedures. Audits will be conducted to ensure these procedures are followed.

- 6) Use binders no longer than the 60 day limitation allowed by the statute.

In May of 2010, the Company reinforced with staff the requirement that binders may be made or used for a period not exceeding 60 days, pending the issuance of the policy. Audits will be conducted to ensure this requirement is followed.

- 7) Amend the Adverse Underwriting Decision Notice verbiage to comply with § 38.2-610 of the Code of Virginia.

The changes were made and moved to production on July 2, 2010. To assure that this fix remains in place, this issue will be subject to random quality checks on output to verify compliance.

Claims Review

- 1) Correct the error that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.

Please see the attached Claims Underpayments spreadsheet.

- 2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.

Please see the attached Claims Underpayments spreadsheet.

- 3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.

Please see the attached Claims Underpayments spreadsheet.

- 4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

On July 14, 2010, August 18, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim. Audits were conducted in October of 2010, on Automobile claims, and in November of 2010, on Homeowner claims, to ensure this requirement was followed.

- 5) Document the claim file that all applicable coverages have been discussed with the insured.

On July 14, 2010 the Company reinforced with our claims counselors the proper coverage procedures to ensure that insureds are informed of the correct coverage and the claim file is documented. Audits were conducted in October of 2010 to ensure these procedures were followed.

- 6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

Per our conversation on January 6, 2011, the Bureau agreed to withdraw reference number RPA029. The Company agrees with the remaining findings.

On May 26, 2010, July 14, 2010 and August 18, 2010, the Company reinforced procedures with our claims counselors to ensure that we offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions. Audits were conducted in October of 2010, on Automobile claims, and in November of 2010, on Homeowner claims, to ensure these procedures were followed.

- 7) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

On August 25, 2010, the Company reinforced procedure with our claims counselors to ensure that we properly represent pertinent facts or insurance provisions relating to the coverage at issue. Audits were conducted in October of 2010, on Automobile claims, and in November of 2010, on Homeowner claims, to ensure these procedures were followed.

- 8) Adopt and implement standards for prompt investigation of claims.

On August 25, 2010, August 26, 2010 and September 18, 2010, the Company reinforced with our claims counselors our standards for prompt investigation of claims. Audits were conducted in November of 2010 to ensure these standards were followed.

- 9) Obtain a written authorization from an insured prior to making payments directly to the medical provider.

In October of 2010, the Company conducted additional training in the Raleigh, North Carolina claims office on this Medical Expense Benefit form regarding how to use and make payments on an injury loss. Additionally, in October of 2010 the fall quarterly reviews were conducted to reinforce our best practices. The Medical Expense Benefit revised forms are currently being used in our Raleigh claims office.

- 10) Acknowledge correspondence that reasonably suggests a reply is expected within 10 business days.

This finding does not reflect the Companies' practice and attribute it to human error. On August 25, 2010, our claims management reemphasized this requirement with all claims staff. Home Office personnel and Claims branch management conducted audits in November of 2010 to ensure this requirement was followed.

Review of Policy Issuance Process

- 1) Provide the insured the Notice of Information Collection and Disclosure Practices with all renewal policies.

On March 31, 2010, the Company corrected the system error to ensure the insured is provided the Notice of Information Collection and Disclosure practices with all renewal policies.

- 2) Provide the insured the Notice of Financial Collection and Disclosure Practices with all renewal policies.

On March 31, 2010, the Company corrected the system error to ensure the insured is provided the Notice of Financial Collection and Disclosure practices with all renewal policies.

- 3) Provide the insured the Important Information Regarding Your Insurance notice with all new and renewal policies.

The Company continues to disagree with reference number MHO006, as indicated in Part One of the report. The Company agrees with the remaining findings.

On February 25, 2010, the Company corrected the system error to ensure the insured is provided the Important Information Regarding Your Insurance notice with all new and renewal policies.

- 4) Provide the insured the Replacement Cost coverage notice with all new policies of fire and fire in combination with other insurance coverages.

In April 2010, the Company reinforced with staff the requirement to provide the Replacement Cost Coverage notice to the applicant and to check the appropriate box on the application to indicate the notice was provided. Audits will be conducted to ensure this requirement is followed.

Review of Statutory Notices

- 1) Amend the 60 day cancellation warning to comply with 38.2-2210 A of the Code of Virginia.

On April 29, 2010, the Company revised the 60 day cancellation warning to comply with 38.2-2210 A.

- 2) Amend the Ordinance or Law notice to comply with 38.2-2126 of the Code of Virginia.

On August 13, 2010, the Company revised the Ordinance or Law notice to comply with 38.2-2124 (not 38.2-2126).

- 3) Amend the Flood Exclusion notice to comply with 38.2-2125 of the Code of Virginia.

On July 29, 2010, the Company revised the Flood Exclusion notice to comply with 38.2-2125.

Licensing and Appointment Review

- 1) Appoint agents within 30 days of the application.

The Company modified our procedure to address confirmation of both an individual and agency license within 30 days of the application. Audits will be conducted to ensure this procedure is followed.

PART THREE – EXAMINERS’ NOTES

Claims

- Failure to make all claim denials in writing and keep a copy in the claim file.
 - On May 26, 2010, July 14, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to make all claim denials in writing and keep a copy in the claim file. Audits were conducted in October of 2010, on Automobile claims, and in November of 2010, on Homeowner claims, to ensure this requirement was followed.
- Failure to make an appropriate reply within ten working days to communications reasonably suggesting a response was expected.
 - On August 25, 2010, the Company reinforced with our claims counselors the requirement to make an appropriate reply within ten working days to communications reasonably suggesting a response is expected. Audits were conducted in November of 2010 to ensure this requirement was followed.
- Provide copies of repair estimates prepared by or on behalf of the companies.
 - On August 11, 2010, the Company reinforced with our claims counselors the requirement to provide copies of repair estimates prepared by or on behalf of the Company. Audits were conducted in October of 2010 to ensure this requirement was followed.
- Failure to include a correct statement of coverage under which payments are made with all claim payments to insureds.
 - On July 14, 2010, the Company reinforced with our claims counselors the requirement to include a correct statement of coverage under which payments are made with all claims payments to insureds. Audits were conducted in October of 2010 to ensure this requirement was followed.
- Failure to include a reasonable explanation of the basis in the applicable law for the denial of a claim or offer of a compromised settlement.
 - On June 8, 2010, August 18, 2010 and August 25, 2010, the Company reinforced with our claims counselors the requirement to include a reasonable explanation of the basis in the applicable law for the denial of a claim or offer of a compromised settlement. Audits were conducted in October of 2010, on Automobile claims, and in November of 2010, on Homeowner claims, to ensure this requirement was followed.
- Failure to comply with the provisions of the insurance contract.
 - On July 14, 2010, the Company reinforced with our claims counselors the requirement to comply with the provisions of the insurance contract. Audits were conducted in October of 2010 to ensure this requirement was followed.

Recommendations

Rating and Underwriting

- The companies should include the Transportation Expenses premium in the Policy Premium amount of the declarations page instead of adding it into the Premium Change amount.
 - The Company is including the Transportation Expenses premium in the Policy Premium amount of the declarations page, as recommended.
- The companies should stop including the installment fee in the Premium Change or Policy Premium amount on the private passenger automobile declarations page.
 - The Company will research any programming changes that need to be made to the Premium Change or Policy Premium amount on the private passenger automobile declarations page.
- The companies should include in their Adverse Action Credit notice all of the adverse actions applicable to the insured.
 - In October of 2010, the Company revised and implemented the Adverse Action Credit notice to include all of the adverse actions applicable to the insured.
- The companies should amend the homeowners manual premium determination rule to include the application of the Rowhouse/Townhouse surcharge factor.
 - In the second quarter of 2011, the Company will amend the homeowners manual premium determination rule to include the application of the Rowhouse/Townhouse surcharge factor.
- The companies must show accurate Adverse Action Credit identifiers (form numbers) in the “Forms Mailed” section of the homeowners declarations page.
 - In October of 2010, the Company revised the “Forms Mailed” section of the homeowners declarations page to show accurate Adverse Action Credit identifiers.

Termination

- The correct address for the Virginia Property Insurance Association should appear on the companies’ Termination Notice.
 - On June 1, 2010, the Company revised the Termination Notice to include the correct address for the Virginia Property Insurance Association.
- The companies should amend the Annual Renewal Notice and Installment Billing letters to indicate the correct date to which the installment will extend the policy instead of showing the policy expiration date.

- The Company implemented, on November 17, 2010, the amended Annual Renewal Notice and Installment Billing letters to indicate the correct date to which the installment will extend the policy instead of showing the policy expiration date.
- The companies should not include an AUD notice in its nonpayment of premium cancellation notices since it is not required.
 - In the first quarter of 2011, the Company will revise the nonpayment of premium cancellation notices to remove the Adverse Underwriting Decision notice.
- The companies should not provide the Right to Review by the Commissioner language in their notices mailed within the first 59 days of a new business private passenger automobile policy since such right is not provided by the Code.
 - In the first quarter of 2011, the Company will remove the Right to Review by the Commissioner language in their notices mailed within the first 59 days of a new business private passenger automobile policy since such right is not provided by the Code.
- The companies should amend the Miscellaneous Cancellation rule to state the company will pro-rate an insured-requested cancellation if the insured continues to carry insurance on a vehicle with us in the private passenger automobile manual.
 - By the third quarter of 2011, the Company will amend the Miscellaneous Cancellation rule to state the company will pro-rate an insured-requested cancellation if the insured continues to carry insurance on a vehicle with us in the private passenger automobile manual.

Claims

- The companies should use the term “Other Than Collision” coverage on the check instead of the term “Comprehensive”.
 - On September 19, 2010, the Company implemented the system correction to add the term “Other Than Collision” coverage on the check.
- The companies should use the term “Medical Expense Benefits” coverage on the check instead of the term “Medical Payment/PIP”.
 - On September 19, 2010, the Company implemented the system correction to add the term “Medical Payment/Medical Expense Benefits” coverage on the check.
- The companies should implement a consistent claim practice to determine when to use the UM letter.
 - On October 6, 2010, the Company reinforced with our claims counselors the Uninsured Motorists coverage procedures. Audits were conducted in October of 2010 to ensure these procedures were followed.

- The companies should implement a consistent claim practice to determine when to apply the appropriate transfer fees.
 - On July 30, 2010, the Company provided the claims counselors with a training tool to assist them in determining the appropriate transfer fees. Audits were conducted in October of 2010 to ensure the appropriate transfer fees were applied.
- The companies should implement a consistent claim practice to determine when to apply the replacement cost settlement procedure.
 - On July 14, 2010, the Company reinforced with our claims counselors the replacement cost settlement procedure. Audits were conducted in November of 2010 to ensure this procedure was followed.
- The companies should implement a consistent claim practice to determine when to request the lightning claim form.
 - On August 25, 2010, the Company reinforced with our claims counselors the lightning claim procedure. Audits were conducted in November of 2010 to ensure this procedure was followed.
- The companies should revise the replacement cost letter to state “within the six months after the last ACV payment” and delete “Virginia” from the sentence.
 - On September 28, 2010, the Company revised the replacement cost letter to state “within the six months after the last ACV payment” and deleted “Virginia” from the sentence.
- The companies should disclose “In Payment Of” field the correct coverage on the third party check.
 - On September 17, 2010, the Company corrected the system to disclose the correct coverage in the “In Payment Of” field on the third party check.

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/boi>

February 15, 2011

Stephanie Fuller, CIA, AIC, AIS
Director of Compliance
The Horace Mann Companies
#1 Horace Mann Plaza
Springfield, IL 62715

Re: Market Conduct Examination
Horace Mann Insurance Company (NAIC# 22578)
Horace Mann Property & Casualty Insurance Company (NAIC# 22756)
Teachers Insurance Company (NAIC# 22683)
Examination Period: January 1, 2009 – December 31, 2009

Dear Ms. Fuller:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of January 14, 2011. Based upon the Bureau's review of the companies' letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Horace Mann Insurance Company, Horace Mann Property and Casualty Insurance Company and Teachers Insurance Company (Report).

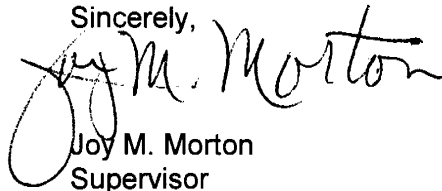
Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-304, 38.2-305 A; 38.2-305 B; 38.2-502; 38.2-510 A 1; 38.2-510 A 3; 38.2-517 A; 38.2-604 A; 38.2-604.1 A; 38.2-610; 38.2-1318; 38.2-1812; 38.2-1906 D; 38.2-2112 A; 38.2-2114 A; 38.2-2114 C; 38.2-2118; 38.2-2124; 38.2-2125; 38.2-2126 A; 38.2-2126 B; 38.2-2201 B; 38.2-2210 A; 38.2-2212 D; 38.2-2212 E; 38.2-2234 A; 38.2-2234 B; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

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,

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

JMM



Auto | Home | Life | Annuity
STATE CORP. COMMISSION
BUREAU OF INSURANCE
11 MAR 10 AM 9:21

March 9, 2011

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

RE: Market Conduct Examination Settlement Offer

Dear Ms. Bannister:

It is our understanding that as long as you receive a check for \$48,800 and the signed settlement order by March 10, 2011 that the examination will be settled. Therefore, please find enclosed Horace Mann Insurance Company's, Horace Mann Property & Casualty Insurance Company's and Teachers Insurance Company's signed acknowledgement of the settlement order dated February 16, 2011 for the 2009 Virginia market conduct examination and a check for \$48,800.

Thank you for your assistance in settling this examination.

Sincerely,

Stephanie Fuller, CIA, AIC, AIS
Director of Compliance
The Horace Mann companies
#1 Horace Mann Plaza
Springfield, IL 62715

Enclosures

400036

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

RE: Market Conduct Examination Settlement Offer

Dear Ms. Bannister:

This will acknowledge receipt of your letter dated February 16, 2011, concerning the above referenced matter.

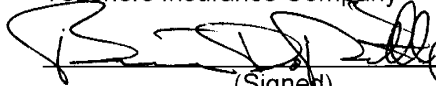
We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of § 38.2-304; 38.2-305 A; 38.2-305 B; 38.2-502; 38.2-510 A 1; 38.2-510 A 3; 38.2-517 A; 38.2-604 A; 38.2-604.1 A; 38.2-610; 38.2-1318; 38.2-1812; 38.2-1906 D; 38.2-2112 A; 38.2-2114 A; 38.2-2114 C; 38.2-2118; 38.2-2124; 38.2-2125; 38.2-2126 A; 38.2-2126 B; 38.2-2201 B; 38.2-2210 A; 38.2-2212 D; 38.2-2212 E; 38.2-2234 A; 38.2-2234 B; and 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

1. We enclose with this letter a check made payable to the Treasurer of Virginia in the amount of \$48,800.
2. We agree to comply with the corrective action plan set forth in the companies' letters of January 14, 2011.
3. We confirm that restitution was made in accordance with the companies' letters of October, 20, 2010 and January 14, 2011.
4. We further acknowledge the companies' 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,

Horace Mann Insurance Company
Horace Mann Property & Casualty Insurance Company
Teachers Insurance Company



(Signed)

Brian T. Ditte

(Type or Print Name)

VP PTC Controller

(Title)

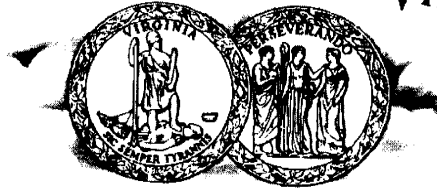
3/8/2011

(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

Horace Mann Insurance Company, Horace Mann Property & Casualty Insurance Company and Teachers Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$48,800 by their check numbered 7700299592 dated April 19, 2011, copies of which are located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

110420282

AT RICHMOND, APRIL 13, 2011 CLERK'S OFFICE

2011 APR 13 PM 3:10

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

DOCUMENT CONTROL

v.

CASE NO. INS-2011-00050

HORACE MANN INSURANCE COMPANY,
HORACE MANN PROPERTY & CASUALTY
INSURANCE COMPANY,
and
TEACHERS INSURANCE COMPANY,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendants, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated §§ 38.2-304 and 38.2-2112 A of the Code of Virginia by using a binder in excess of sixty (60) days; violated § 38.2-305 A by failing to include accurate information in policies; violated § 38.2-1906 D by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; violated § 38.2-502 by misrepresenting benefits, advantages, or terms of insurance policies; violated § 38.2-1318 by failing to provide convenient access to the files, documents, and records; violated § 38.2-1812 for paying commissions to agencies that were not appointed by the Defendants; violated §§ 38.2-305 B, 38.2-604 A, 38.2-604.1 A, 38.2-610 A, 38.2-2118, 38.2-2124, 38.2-2125, 38.2-2126 A, 38.2-2210 A, and 38.2-2234 A by failing to provide proper notices to the insureds; violated §§ 38.2-2114 A, 38.2-2114 C, 38.2-2212 D, and 38.2-2212 E by failing to properly

terminate policies; violated §§ 38.2-2126 B and 38.2-2234 B by failing to update the insureds' credit information at least once in a three year period; and violated §§ 38.2-510 A 1, 38.2-510 A 3, 38.2-517 A, and 38.2-2201 B, as well as 14 VAC 5-400-30, 14 VAC 5-400-40 A, 14 VAC 5-400-50 C, and 14 VAC 5-400-70 D, for failing to properly handle claims.

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 Defendants' licenses upon a finding by the Commission, after notice and opportunity to be heard, that the Defendants have committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter, whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth of Virginia the sum of Forty-eight Thousand Eight Hundred Dollars (\$48,800), waived their right to a hearing, agreed to comply with the Corrective Action Plan set forth in their letter to the Bureau of Insurance dated January 14, 2011, and the Defendants have confirmed that restitution was made in accordance with their letters to the Bureau of Insurance dated October 20, 2010, and January 14, 2011.

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendants 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 Defendants, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants 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:

Stephanie Fuller, Director of Compliance, The Horace Mann Companies, #1 Horace Mann Plaza, Springfield, Illinois 62715; 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:

Joel H. Peck
Clerk of the
State Corporation Commission