

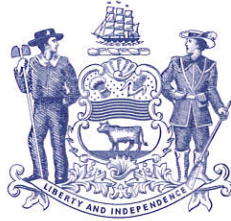
DELAWARE DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION REPORT  
TEACHERS INSURANCE COMPANY

NAIC # 22683  
1 Horace Mann Plaza  
Springfield, Illinois, 62715

As of

December 31, 2012

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

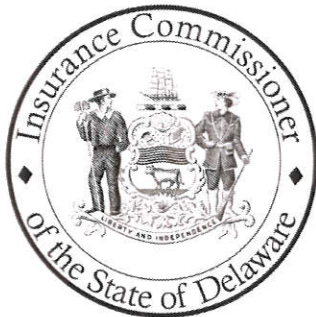
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2012 on

**TEACHERS INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

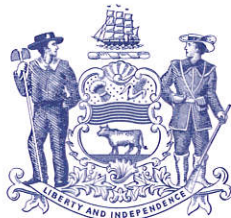
*Laurel J. Taylor*



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

*Karen Weldin Stewart*  
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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



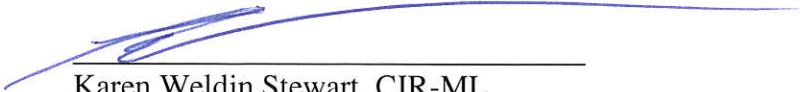
Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
**TEACHERS INSURANCE COMPANY**  
AS OF  
December 31, 2012

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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Honorable Karen Weldin Stewart CIR-ML  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 13.724, and pursuant to statutory provisions including 18 Del. CODE §318-322, a market conduct examination has been conducted of the affairs and practices of:

**Teachers Insurance Company**

The examination was performed as of December 31, 2012. Teachers Insurance Company, hereinafter referred to as the "Company" or as "Teachers," was incorporated under the laws of Illinois. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

1 Horace Mann Plaza  
Springfield, Illinois 62715

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

## **EXECUTIVE SUMMARY**

Teachers Insurance Company is domiciled in Illinois and is licensed and writing automobile insurance in 48 states and the District of Columbia. The Company's main administrative offices are located in Springfield, Illinois.

On their 2012 annual statement filed with the Department, the Teachers Insurance Company reported total individual private passenger automobile premium written for all states of \$177,212,592 of which \$2,889,868 was written in Delaware.

The examination focused on the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling and Claims. This examination was part of a series of examinations to review the use of independent medical examiners, peer review organizations, arbitration and surcharges after an at-fault accident.

The following exceptions were noted in the areas of operation reviewed:

- Claims (Surcharges): 54 Exceptions – 18 Del. Admin. Code 609 Limitations on Automobile Surcharges in Voluntary Markets and Assigned Risk Plan.
  - For failing to properly notify insurers of imposed surcharges.
- Claims (Surcharges): 54 Exceptions – 18 Del. CODE §2712 Filing, approval of forms.
  - For failing to properly file disclosures associated with rate changes.

## **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. CODE §318-322 and covered the experience period of January 1, 2011 through December 31, 2012. This examination was part of a series of examinations conducted to review the use of independent medical examiners, peer review organizations, arbitration and surcharges after an at-fault accident.

The examination was a target market conduct examination of the Company's private passenger automobile business in the following areas of operation: Company Operations and Management; Complaint Handling, and Claims.

## **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on errors found in individual files, the examiners also focus on general business practices of the Company.

The Company identified the universe of files for each segment of the review. Based on the universe sizes, random sampling was utilized to select the files reviewed during this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

## **COMPANY HISTORY**

Teachers Insurance Company, a property and casualty domestic stock company is domesticated, organized, and authorized under the laws of the state of Illinois. Teachers has been a wholly owned subsidiary of the Horace Mann Educators Corporation (HMEC) since 1976. HMEC, originally named Illinois Education Association (IEA) was founded in Springfield, IL in 1945 by two Illinois teachers who saw a need for providing automobile insurance for their association members. Although dormant until 1976, the Company was utilized to assist in domesticating HMEC from California to Delaware. Eventually, Teachers was re-domesticated to Illinois effective December 23, 1988. Teachers is licensed in 47 states and the District of Columbia, and recorded \$2,889,868 in private passenger automobile premiums for Delaware as of December 31, 2012.

The Company markets and underwrites personal lines products (predominantly private passenger auto and homeowners) in the United States. Products are marketed to K-12 teachers, administrators, and other employees of public schools and their families. All marketing is generated through an exclusive sales force of approximately 850 captive agents, many of which were previously teachers. The personal automobile business is primarily preferred risk, with drivers having no recent accidents and limited moving violations. The home office is located in Springfield, IL and claim offices are located in Dallas, TX and Raleigh, NC.

## **COMPANY OPERATIONS AND MANAGEMENT**

### **Internal Audit**

The Company provided information and documentation related to internal audits and internal market regulation/conduct audit reviews. Included with the requests were regulatory actions and court actions taken against the Company and Market Conduct Examination Reports. All reports covered the three years prior to December 31, 2012. The requested information and supporting documentation was provided by the Company and reviewed during the course of the examination.

The examination included a sample review of internal audit reports and internal market regulation/conduct audits under the examination scope. When reports identified deficiencies, corrective actions and remediation plans were included with the business units' response. Additionally, the information and documentation reviewed provided assurance that the internal controls methods and audit procedures in place complied with the Company's established policies and procedures.

There were no exceptions or concerns noted as a result of the review.

## **CONSUMER COMPLAINTS**

The Company identified eight consumer complaints received during the experience period. All eight complaint files were reviewed. The company also provided a complaint log.

The complaint log was reviewed for compliance with 18 Del. C. §2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. Written complaint files involving claims were also reviewed for compliance with 18 Del. Admin. Code 902 §1.2.1.2.

No exceptions were noted.

## **CLAIMS**

### **Independent Medical Examinations**

The Company provided all claims related procedures, reference materials, newsletters, and bulletins utilized during the scope of the examination. The claim handling materials provide references to the process for utilizing Independent Medical Examinations (IME's). The decision to request an IME is done on a case by case basis. A claim analyst makes an initial suggestion for an IME that is sent to a supervisor and an internal panel where the IME request is approved. If an IME is required, the claimant is provided contact information with one of two vendors utilized in Delaware.



The Company provided the listing of all personal passenger auto claims with a bodily injury component. Additionally, the listing identified claims with IME reviews. For 2011, there were a total of 39 Bodily Injury Claims resulting in two IMEs. In 2012, there were a total of 52 Bodily Injury Claims, resulting in two IME's. All four IME claims were reviewed for compliance with 18 Del. CODE §2304 Unfair Practices in the Insurance Business.

No exceptions were noted.

### **Peer Review Organizations**

The Company did not utilize a Peer Review Organization during the examination period.

### **Arbitration**

The Company did not have any claims sent to arbitration during the examination period.

### **Surcharges**

The Company provided copies of surcharge plans filed with the Delaware Department of Insurance that were in use during the examination period. The Company also provided copies of surcharge algorithms and a listing of policies for which surcharges were added after a claim. The surcharge plans, algorithms and listing of policies for which surcharges were added after a claim were reviewed. The Company identified a universe of 289 policies where surcharges were added after an at fault claim of which a sample of 80 policies was selected for review.

The following violations were noted:

#### **54 Exceptions - 18 Del. Admin 609 Limitations on Automobile Surcharges in Voluntary Markets and the Assigned Risk Plan § 5.1.7.**

No surcharge may be imposed unless the named insured is notified at least ten days in advance of the effective date of the surcharge, of the amount of the surcharge and the reasons for the imposition of the surcharge. No surcharge may be instituted against a policyholder except at the time of renewal or policy issuance unless a new insured under the policy is added during the policy term and the new insured is surchargeable under the insurer's filed and approved surcharge plan. Notice of imposition of a surcharge may be included with the renewal offer. This subsection does not apply to new business.

The Company's surcharge notification does not disclose the amount of the surcharge or the reasons for the imposition of the surcharge. The Company contends that providing

driver points provides adequate notification. However, detailing the number of driver points assessed does not adequately explain the increase in premium once a surcharge become effective, per the Delaware code noted above.

*Recommendation:* It is recommended that the Company fully disclose all surcharges, per 18 Del. Admin Code 609.

#### **54 Exceptions - 18 Del. C. § 2712 Filing, approval of forms**

(a) No basic insurance policy or annuity contract, form, or application form where written application is required and is to be made a part of the policy or contract or printed rider or endorsement form or form of renewal certificate shall be delivered or issued for delivery in this State, unless the form has been filed with the Commissioner. This provision shall not apply to surety bonds or to specially rated inland marine risks nor to policies, riders, endorsements, or forms of unique character designed for and used with relation to insurance upon a particular subject or which relate to the manner of distribution of benefits or to the reservation of rights and benefits under life or health insurance policies and are used at the request of the individual policyholder, contract holder, or certificate holder.

(b) Every such filing shall be made not less than 30 days in advance of any such delivery. At the expiration of such 30 days the form so filed shall be effective unless prior thereto it has been affirmatively acknowledged or disapproved by order of the Commissioner.

The Delaware Rating Statement provided at renewal and part of the contract declarations is outdated and currently discloses an inaccurate maximum “Driving Quality Discount” of 15%. Rating and rules manuals filed with the DE DOI, and rates provided to insureds allow for a maximum “Driving Quality Discount” of 20%. The Company is providing inaccurate information to policyholders.

Additionally, the Delaware Rating Statement provided at renewal and part of the contract declarations is further outdated by disclosing an inaccurate surcharge algorithm. The current algorithm allows for one driver point, at fault accident to result in a zero percent surcharge. The updated ratings and rules in use by the Company were not filed with the DE DOI. The unfiled rates currently in use apply a 15% rate increase after one driver point.

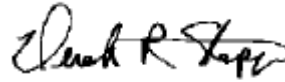
*Recommendation:* It is recommended that the Company properly file all rates, forms and disclosures prior to their use, per 18 Del. CODE §2712.

## CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended the Company fully discloses all surcharges, per 18 Del. Admin Code 609. (Claims – Surcharges)
2. It is recommended the Company properly files all rates, forms and disclosures, per 18 Del. CODE §2712. (Claims – Surcharges)

The examination conducted by Shelly Schuman, Derek Stepp, Gwendolyn Douglas, and Ron Poplos is respectfully submitted.



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Derek Stepp, CIE, MCM  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance