OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

FINANCIAL INDEMNITY COMPANY

NAIC# 19852

As Of

December 31, 2007

OHIO Department of INSURANCE

Ted Strickland, Governor
Mary Jo Hudson, Director

50 W Town St Ste 300, Columbus, OH 43215
(614) 644-2658 www.ohioinsurance.gov

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 W. Town St. Ste. 300
Columbus, OH 43215

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a target market conduct examination was conducted on the Ohio business of:

Financial Indemnity Company
NAIC Company Code 19852

The examination was conducted at the Ohio Department of Insurance.

A report of the examination is enclosed.

Respectfully submitted,

Frederic E. Lehr
Assistant Director
Market Conduct Division

August 14, 2008
Date

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FOREWORD

This examination was conducted under authority provided under Ohio Revised Code ("R.C.") 3901.011.

SCOPE OF EXAMINATION

On February 19, 2008, the Market Conduct Division, Ohio Department of Insurance ("Department"), opened an examination into the business practices of Financial Indemnity Company ("Company") by sending a call letter. The Department requested and received responses to interrogatories concerning operations, administration, and claims. The Company's Ohio Private Passenger Automobile total loss Collision and Property Damage claims files were reviewed.

On April 7, 2008, review of the claims files began at the Department's office. The examination was restricted to a review of the Company's activities for Ohio private passenger automobile total loss Collision and Property Damage claims for the period of January 1, 2007, through December 31, 2007. The examination report is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") and the state of Ohio's applicable statutes and rules. Accordingly, the examination included a review of the Company's operations and claims practices.

METHODOLOGY

Only Ohio policyholders' files were reviewed. A series of tests were designed and applied to these files to determine the Company's level of compliance with Ohio's insurance statutes and rules. These tests are described and the results noted in this report.

The examiners used the NAIC's standard of:

7% error ratio on claim files (93% compliance rate)

to determine whether an apparent pattern or practice of non-compliance existed for any given test. The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply. A "no" response may be referred to in this report as an "exception."

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

- Concurred with the findings;
- Had additional information for the examiners to consider; and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the examiners' recommendations are included in this report.

COMPANY HISTORY

Financial Indemnity Company ("FIC") was incorporated in California on December 19, 1945. In 1975, all of FIC's outstanding common stock was purchased by Trinity Universal Insurance Company. Trinity Universal, since 1990, has been a wholly owned subsidiary of Unitrin Inc., a financial services company.

FIC is a property and casualty insurance company. FIC's principal insurance products are personal and commercial non-standard automobile insurance marketed in California and twenty other states by independent agents.

FIC is licensed to write non-standard private passenger and commercial automobile insurance the following states: AL, AZ, CA, CO, DE, ID, IN, LA, MO, MT, NV, NM, OH, OR, TN, TX, UT, WA, WI, and WY.

COMPANY OPERATIONS

As of December 31, 2007, the officers of the Company were:

President	John W. Mullen
Vice President and Treasurer	Philip Lombardo
Vice President and Treasurer	Ronald Ballard
Senior Vice President and Secretary	Lisa Bage
Chairman of the Board	Donald Southwell
Senior Vice President	David Piper
Senior Vice President	Edward Cimini, Jr

GENERAL CLAIM PRACTICES

File Documentation

Overall file documentation was very good. The examiner was able to use the claims representative's notes, claim payment information, and other claim file information to answer all questions pertinent to statutes and rules being tested.

SPECIFIC CLAIM REVIEW

Collision Total Losses Paid

Methodology:

The Company supplied a report of all Ohio collision total loss files that were closed during the specified examination period.

- The examiners reviewed the Company's procedure manuals as part of the examination process.
- The examiners reviewed the total population of collision files to test for compliance.
- One file was removed because the claim was paid by the other insurance company.

- The examiners reviewed claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm. Code 3901-1-54(F)(2)?

Test Methodology:

- Any claimant not contacted within the required time frame was considered an exception.

Findings:

Population	Yes	No	Standard	Compliance
59	59	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (10 days after acceptance) to first party claimants in compliance with Ohio Adm. Code 3901-1-54(G)(6)?

Test Methodology:

- Any claim payment not mailed within 10 days of reaching an agreement and receiving title to the auto was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
59	59	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

3. Vehicle Total Loss-Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm. Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(e)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
59	59	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

4. Vehicle Total Loss-Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company conform to the sales tax provisions of Ohio Adm. Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(f)?

Test Methodology:

- The examiners considered the following to be an exception:
  1. Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm. Code 3901-1-54(E)(1) and (H)(7).
  2. Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid.
  3. Failure to use local sales tax percentage rates.

Findings:

Population	Yes	No	Standard	Compliance
59	59	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

<u>Property Damage Total Losses Paid</u>

Methodology:

The Company supplied a report of all property damage total loss files that were closed during the specified examination period.

- The examiners reviewed the Company's procedure manuals as part of the examination process.
- The examiners reviewed the total population of property damage files to test for compliance.
- The examiners removed 4 files because they involved subrogation.
- The examiners reviewed claim files to verify dates in the claims settlement process.
- The examiners reviewed the claim files to verify the Company's claim settlement practices.

1. Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within required time frames.

Test: Did the Company make timely contact (10 days from receipt of notice) with claimants following the report of a claim in compliance with Ohio Adm. Code 3901-1-54(F)(2)?

Test Methodology:

- Any claimant not contacted within the required time frame was considered an exception.

Findings:

Population	Yes	No	Standard	Compliance
56	56	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

2. Timeliness of Claim Payments

Standard: Claims are resolved in a timely manner.

Test: Did the Company make timely payments (5 working days of receipt of agreement) to third party claimants in compliance with Ohio Adm. Code 3901-1-07(C)(16)?

Test Methodology:

- Any required contact or investigation that was not done within the required time frame was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
56	56	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices was above this standard.

3. Vehicle Total Loss-Actual Cash Value

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company calculate actual cash value on total losses in a manner conforming with Ohio Adm. Code 3901-1-54(H)(6)(a)-(d) and (H)(7)(a)-(e)?

Test Methodology:

- Any calculation of actual cash value that was not calculated as required was considered to be an exception.

Findings:

Population	Yes	No	Standard	Compliance
56	56	0	93%	100%

The standard of compliance is 93%. The Company's claim handling practices were above this standard.

4. Vehicle Total Loss-Sales Tax

Standard: Claims are properly handled in accordance with policy provisions and required Ohio statutes and rules.

Test: Did the Company conform to the sales tax provisions of Ohio Adm. Code 3901-1-54(E)(1), (H)(6)(c), and (H)(7)(f)?

Test Methodology:

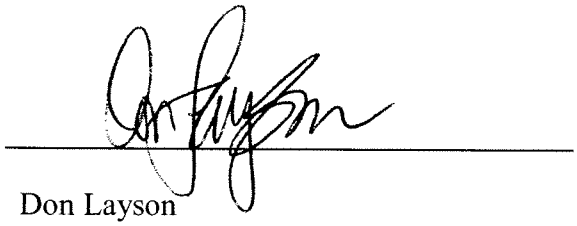
- The examiners considered the following to be an exception:
  1. Failure to notify the insured at time of settlement of the right to submit within 33 days appropriate documentation for reimbursement of sales tax as required by Ohio Adm. Code 3901-1-54(E)(1) and (H)(7).
  2. Informing the claimant of the reimbursement of sales tax prior to acceptance of an offer, but not at the time the loss is paid.
  3. Failure to use local sales tax percentage rates.

Findings:

Population	Yes	No	Standard	Compliance
56	56	0	93%	100%

The standard of compliance is 93%. The Company's handling practices were above this standard.

This concludes the report of the Market Conduct examination of Financial Indemnity Company. The examiners, Don Layson and Angela Dingus, would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson
Examiner-in-Charge

8-14-2008
Date

COMPANY RESPONSE

UNITRIN
SPECIALTY LINES INSURANCE

RECEIVED
AUG 12 2008
OHIO DEPT. OF INSURANCE
MARKET CONDUCT DIVISION

August 6, 2008

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 W. Town St. Ste. 300
Columbus, OH 43215

RE: Total Loss Market Conduct Examination (as of December 31, 2007)
Company: Financial Indemnity Company
NAIC#: 19852

Financial Indemnity Company's management and employees appreciate the professionalism and cooperation shown by the examiners. We are pleased with the results of this Total Loss Examination. We have no further comments.

Sincerely,

Angela Grant Mitchell
Director of Compliance
Financial Indemnity Company
Unitrin Specialty Insurance
Office: 1-800-456-1919 ext. 2529
Fax: 866-825-5471
Email: almitchell@unitrin.com