



Illinois Department of Insurance

BRUCE RAUNER
Governor

JAMES A. STEPHENS
Acting Director

March 13, 2015

Terry Lee Ledbetter, President
State National Insurance Company, Inc.
1900 L. Don Dodson Drive
Bedford, TX 76021

Re: State National Insurance Company, NAIC #12831
Market Conduct Examination Report Closing letter

Dear Mr. Ledbetter:

The Department has completed the Market Conduct examination of State National Insurance Company and is closing its file on this exam. I intend to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132.

If you have any questions, my contact information is listed below.

Sincerely,

A handwritten signature in blue ink that reads "Michael P. Rohan".

Michael P. Rohan
Deputy Director
Consumer Education and Protection
Illinois Department of Insurance
122 S. Michigan Avenue, 19th Floor
Chicago, IL 60603
Phone: 312-814-8206
E-mail: Michael.Rohan@Illinois.gov

Cc: Jenifer Aiello, State National Insurance Company (JAiello@statenational.com)

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: July 29, 2014 through November 15, 2014

EXAMINATION OF: State National Insurance Company
NAIC Number: 12831

LOCATION: 1900 Don Dodson Drive
Bedford, TX 76021

PERIOD COVERED
BY EXAMINATION: January 1, 2013 through March 31, 2014

EXAMINERS:
William Koppenheffer
John J. McGinty
James R. Myers, AMCM
Examiner in Charge

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I. SUMMARY

A target Market Conduct Examination of State National Insurance Company, Inc. was performed to determine compliance with Illinois Statutes and Illinois Administrative Code.

No violations were noted.

II. BACKGROUND

Founded in 1973 and headquartered in Bedford, Texas, State National Companies (SNC) provides insurance products and services nationwide. In Lender Services, State National serves lending institutions and specialty lenders of all sizes, providing coverage for their assets resulting from uninsured collateral. As the only program provider in the U.S. that specializes in Lender Protection Insurance, State National is a single-source solution for lenders, acting as agent, broker, administrator, insurance tracker and underwriter.

Total Direct Premiums Written in Illinois for Lender Protection insurance is as follows:

Year	Total Written Premium In Illinois (Per Annual Statement Statutory page 14)
2011	\$5,575,476
2012	\$5,247,797
2013	\$6,974,875

III. METHODOLOGY

The Market Conduct Examination covered business written during the period of January 1, 2013 through March 31, 2014. Specifically, the examination focused on a review of the following areas:

1. Risk Selection - cancellation procedures
2. Underwriting and Rating procedures
3. Claim procedures
4. Appeals, Department Complaints and External Independent Reviews

The review of the above categories was accomplished through examination of active and terminated policy certificates, claim files and complaint files. Each of the categories was examined for compliance with Illinois Regulations and applicable State laws.

The report addresses improper practices, which may have been performed by the Company resulting in failure to comply with Illinois statutes and/or administrative rules.

The following methods were used to obtain the required samples and to assure a methodical selection:

Risk Selection – Cancellations

Risk selection procedures were reviewed for proper notice requirements and for the proper application of return of premium.

Underwriting and Rating

Active business was reviewed for disclosure notice procedures and the proper application of filed rates.

Claims

1. Paid Claims – Payment for claims made during the examination period.
2. Denied Claims – Denial of benefits during the examination period for losses not covered by certificate of coverage provisions.
3. Claims Closed without Payment – Claims closed during the experience without any type of payment during the examination period.

All claims were reviewed for compliance with policy contracts and applicable Sections of the Illinois Insurance Code (Section 5/1 et seq.) and the Illinois Administrative Code.

The period under review was January 1, 2013 through March 31, 2014.

Department Complaints and Consumer Appeals

The Company was asked to provide all files relating to complaints received via the Department of Insurance and those received directly from consumers. The Company was also asked to provide all consumer complaints and external independent reviews handled during the survey period.

The period under review was January 1, 2013 through March 31, 2014.

IV. FINDINGS

A. COMPANY OPERATIONS AND MANAGEMENT

A review was conducted of the Company's underwriting guidelines and procedures, internal audits, disaster recovery plan, anti-fraud program and third-party vendor contracts.

No violations were noted.

B. MARKETING AND SALES

The Company does not have any marketing or sales material.

C. COMPLAINT HANDLING

A review of the two complaints received by the Company, received by the Illinois Department of Insurance and all Appeals produced no criticisms.

D. UNDERWRITING AND RATING

1. Underwriting – Collateral Protection Insurance - Automobile Active

Field Size 24,519
Sample Size 116
Files in Error 0
Error Rate 0%

No violations were noted.

2. Risk Selection – Collateral Protection Insurance – Automobile Lapsed

Field Size 1,039
Sample Size 113
Files in Error 0
Error Rate 0%

No violations were noted.

3. Risk Selection – Collateral Protection Insurance – Automobile Cancelled

Field Size 16,167
Sample Size 116
Files in Error 0
Error Rate 0%

No violations were noted.

4. Risk Selection – Collateral Protection Insurance – Automobile Refunds

Field Size 16,088
Sample Size 116
Files in Error 0
Error Rate 0%

No violations were noted.

E. CLAIMS

1. Automobile – Paid

Field Size 512
Sample Size 83
Files in Error 0
Error Rate 0%

No violations were noted.

2. Automobile – Denied

Field Size 172
Sample Size 76
Files in Error 0
Error Rate 0%

No violations were noted.

3. Automobile – Closed without Payment

Field Size 293
Sample Size 76
Files in Error 0
Error Rate 0%

No violations were noted.

V. TECHNICAL APPENDICES

No technical appendices are attached.

STATE OF PENNSYLVANIA)
COUNTY OF BLAIR) ss

James R. Myers, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of State National Insurance Company, Inc. (the "Company"), NAIC #12831;

That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.

James R. Myers
Examiner-In-Charge

Subscribed and sworn to before me this 13th day of JANUARY, 2014. *RS*

Randy K Stoltz
Notary Public

