

No. **2025-9264**

**Official Order
of the
Texas Commissioner of Insurance**

Date: 04/17/2025

Subject Considered:

First Chicago Insurance Company
6640 S Cicero Ave
Bedford Park, IL 60618

Consent Order
TDI Enforcement File No. 35769

General Remarks and Official Action Taken:

This is a consent order with First Chicago Insurance Company (First Chicago). The Texas Department of Insurance (TDI) conducted a market conduct examination and found violations of Texas insurance laws. First Chicago has agreed to pay an administrative penalty of \$150,000

Waiver

First Chicago acknowledges that the Texas Insurance Code and other applicable laws provide certain rights. First Chicago waives all of these rights, and any other applicable procedural rights, in consideration of the entry of this consent order.

Findings of Fact

1. First Chicago is a foreign fire and casualty company holding a certificate of authority to transact business in Texas.
2. TDI conducted a targeted market conduct examination that covered activity between January 1, 2022, and September 30, 2023, on First Chicago's private passenger automobile line of business.

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3. The purpose of the examination was to determine First Chicago's compliance with Texas statutes and regulations related to sales, advertising, marketing, underwriting and rating, claims practices, and consumer complaints.
4. During the examination, TDI found violations of the Texas Insurance Code and Texas Administrative Code.

Agreements With Affiliates:

5. Effective October 1, 2019, First Chicago entered into a managing general agency (MGA) agreement with Lonestar Managing General Agency, Inc. (Lonestar).
6. Under the terms of the agreement, Lonestar was allowed to appoint and supervise agents, receive premiums, and submit rate and rule form filings.
7. First Chicago's MGA agreement with Lonestar failed to include several provisions required by the Texas Administrative Code, including:
 - a. Failing to state that an MGA may not bind reinsurance or retrocessions on behalf of the insurer, may not commit the insurer to participation in insurance or reinsurance syndicates, and may not collect a payment from a reinsurer or commit the insurer to a claim settlement with a reinsurer without written approval of the insurer. The MGA contract must state that, if prior approval is given, the MGA must promptly forward a report to the insurer;
 - b. Failing to state that the contract shall prohibit the MGA from ceding reinsurance on behalf of the insurer to a company that would not qualify for reinsurance credit;
 - c. Failing to specify the conditions under which the MGA may place reinsurance;
 - d. Failing to provide that the MGA shall not be required to return, as commission or return commission, monies greater than the total commission paid or otherwise payable to the MGA;
 - e. Failing to state that the MGA must notify the insurer in writing within 30 days if there is a change in ownership of 10% or more of the outstanding stock of the MGA, any principal officer of the MGA, or any director of the MGA.

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8. First Chicago did not perform its required 2022 annual audit of Lonestar.

Sales, Advertising, and Marketing:

9. TDI staff randomly sampled 100 policies issued in 2022 and 2023 to determine compliance with agents licensing and appointment requirements under Texas Insurance Code Chapters 4001 and 4051.
10. First Chicago utilized 740 active agents and terminated appointments to three agents in 2022 and 2023.
11. In 35% (35 of 100) of the policies reviewed, First Chicago used agents listed on the declarations page that were not appointed to issue or service policies.
12. In 56% (28 of 50) of the new policies reviewed, First Chicago used agents that were not appointed to issue or service policies.

Underwriting and Rating:

13. TDI staff randomly sampled policies First Chicago issued in 2022 and 2023 to determine the accuracy of rating, use of proper forms and endorsements, timely handling of transactions and policy service request, adherence to consistent and nondiscriminatory underwriting practices, mandatory coverages, and compliance with statutes and regulations.
14. First Chicago utilized the Texas standard policy forms and endorsements as authorized under TEX. INS. CODE § 2301.008, and its own policy forms and endorsements as authorized under TEX. INS. CODE § 2301.006(a).
15. In 89% (89 of 100) of the policies reviewed, the Notice of Toll-Free Telephone Numbers and Information and Complaint Procedures were not prominently displayed as the first, second, or third page of the policy documents.
16. TDI staff reviewed a sample of First Chicago's issued policies to determine the accuracy of underwriting and rating as filed with TDI under TEX. INS. CODE §§ 38.002, 2251.101, and 28 TEX. ADMIN. CODE § 5.9332–5.9342, and to determine compliance with mandatory coverages, uninsured or underinsured motorist and personal injury protection, under TEX. INS. CODE Chapter 1952, Subchapters C and D.

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17. In 1% (1 of 100) of the issued policies reviewed, First Chicago issued an insurance policy without personal injury protection coverage and did not obtain a completed rejection in writing from the insured prior to issuing the policy.
18. In 1% (1 of 100) of the issued policies reviewed, First Chicago applied the incorrect points factor by applying an inapplicable good driver record discount.
19. TDI staff reviewed sampled cancellations and non-renewals to determine the accuracy of premium refunding and compliance with policy termination requirements under TEX. INS. CODE Chapter 551, 558 and 28 TEX. ADMIN. CODE Chapter 5, Subchapter H.
20. In 4% (2 of 49) of the policies reviewed, First Chicago did not refund the total amount of unearned premium or refunded the unearned premium later than the 15th business day. In one instance, First Chicago did not refund the total amount of unearned premium. First Chicago stated that the cancellation was processed, and a refund issued to the insured. Upon discovering the cancellation was processed incorrectly, the cancellation was revised, and the balance of the unearned premium in the amount of \$20 was refunded.

Claims:

21. TDI staff conducted a stratified sampling to include all policy and coverage types for claims First Chicago processed in 2022 and 2023 to determine compliance with policy provisions, timeliness and accuracy of payment, supporting documentation, general claims handling, adjuster licensing, and compliance with Texas statutes and regulations.

Claims With Payments:

22. In 3% (3 of 97) of the claim payments reviewed, First Chicago failed to provide, or provide timely, the claimant with the required Notice of Rights regarding Repair of Motor Vehicle.
23. In 21% (20 of 97) of the claim payments reviewed, First Chicago failed to adopt and implement reasonable standards for prompt investigations of a claim. In three instances, First Chicago did not follow up on the claim for over 120 days.

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24. In 7% (6 of 97) of the claim payments reviewed, First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement when liability was reasonably clear. In four instances, First Chicago delayed presenting a settlement offer to a claimant for more than 60 days after a settlement offer amount was determined.
25. In 5% (5 of 97) of the claim payments reviewed, First Chicago failed to commence any investigation of the claim. In two instances, First Chicago did not perform any investigation of the claim until receiving a complaint from TDI.
26. In 7% (7 of 97) of the claim payments reviewed, First Chicago failed to request all items, statements, and forms from the claimant within 15 days. In six instances, First Chicago delayed the claim more than 60 days before attempting to request required documentation.
27. In 4% (4 of 97) of the claim payments reviewed, First Chicago failed to notify the claimant in writing of the acceptance of the claim not later than the 15th business day it was made.
28. In 7% (7 of 97) of the claim payments reviewed, First Chicago failed to pay the claim within five business days after the date notice is made. Upon notification, in each instance, First Chicago paid interest for a total of \$367.08.
29. In 3% (3 of 97) of the claim payments reviewed, First Chicago did not notify the insured in writing of an initial offer to settle a claim against the insured.
30. In 17% (18 of 97) of the claim payments reviewed, First Chicago did not notify the insured in writing of a claim settlement against the insured.

Total Loss Claims Payments:

31. In 4% (1 of 25) of the total loss claim payments reviewed, First Chicago failed to provide the claimant with the required Notice of Rights Regarding Repair of Motor Vehicle.
32. In 64% (16 of 25) of the total loss claim payments reviewed, First Chicago failed to adopt and implement reasonable standards for the prompt investigation of a claim. Delays in claim investigations ranged from 28 days to four months.

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33. In 8% (2 of 25) of the total loss claim payments reviewed, First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement when liability was reasonably clear. In each instance, First Chicago delayed more than 30 days after receiving requested documentation to pay the claim.
34. In 12% (3 of 25) of the total loss claim payments reviewed, First Chicago failed to notify the claimant in writing of the acceptance of the claim not later than the 15th business day.
35. In 24% (6 of 25) of the total loss claim payments reviewed, First Chicago failed to pay the claim within five business days after the date notice is made. Upon notification, in each instance, First Chicago paid interest for a total of \$1,847.79.
36. In 16% (4 of 25) of the total loss claim payments reviewed, First Chicago did not notify the insured in writing of an initial offer to settle a claim against the insured.
37. In 12% (3 of 25) of the total loss claim payments reviewed, First Chicago did not notify the insured in writing of a claim settlement against the insured.
38. After an inquiry by TDI, First Chicago refunded a total of \$2,550.52 in storage fees on two claims and paid \$482.77 plus \$34.56 interest on a claim that was incorrectly settled.

Denied Claims or Closed without Claim Payment:

39. In 30% (15 of 50) of the denied or closed without payment claims reviewed, First Chicago failed to adopt and implement reasonable standards for the prompt investigation of a claim. In three instances, First Chicago did not investigate the claim for over 180 days. In seven instances, First Chicago did not investigate the claim for over 90 days.
40. In 6% (3 of 50) of the denied or closed without payment claims reviewed, First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement when liability was reasonably clear. In the three instances, First Chicago delayed presenting a settlement offer for nearly three months after approving an offer amount. The claims were originally closed without payment due to lack of interest and later reopened for further investigation and settlement.

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41. In 4% (2 of 50) of the denied or closed without payment claims reviewed, First Chicago failed to acknowledge receipt of the claim not later than the 15th day.
42. In 2% (1 of 50) of the denied or closed without payment claims reviewed, First Chicago failed to notify the claimant in writing of the rejection of the claim not later than the 15th business day.

Pending Claims:

43. In 7% (2 of 30) of the pending claims reviewed, First Chicago failed to adopt and implement reasonable standards for prompt investigation of a claim. In one instance, First Chicago took three months to follow up on the claim. In the other instance, First Chicago failed to follow up on the claim.
44. In 3% (1 of 30) of the pending claims reviewed, First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement of a claim when liability was reasonably clear. First Chicago delayed presenting the claimant with a settlement offer approximately three months after a settlement offer amount was determined.
45. In 3% (1 of 30) of the pending claims reviewed, First Chicago failed to acknowledge receipt of the claim not later than the 15th day.

Complaints:

46. TDI staff sampled complaints First Chicago received in 2022 and 2023 to determine compliance with TEX. INS. CODE §§ 38.001, 542.005; 28 TEX. ADMIN. CODE § 21.203(6), 21.2501-21.2507; and other Texas statutes and rules.
47. TDI staff reviewed 49 complaints and 34 (69%) were considered confirmed.
48. In 61% (30 of 49) of the complaints reviewed, First Chicago failed to adopt and implement reasonable standards for the prompt investigation of a claim. In 12 instances, First Chicago stated they were experiencing a high volume of incoming claims and were gravely understaffed due to unexpected turnover. First Chicago pursued all means to address the increased claim volume, including hiring temporary adjusters.

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49. In 12% (6 of 49) of the complaints reviewed, First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement when liability was reasonably clear.
50. In 2% (1 of 49) of the complaints reviewed, First Chicago failed to notify the claimant of the acceptance of the claim not later than the 15th business day.
51. In 4% (2 of 49) of the complaints reviewed, First Chicago paid the claim later than the 5th business day. In both instances, First Chicago sent interest for a total of \$271.06 to the insureds.

Internal Control Observations:

52. First Chicago's internal controls and governance structure were ineffective to meet its obligations.
53. In 17% (17 of 100) of the issued policies reviewed, the agent listed on the declarations page did not file an assumed name certificate.
54. In 3% (3 of 100) of the issued policies reviewed, the points for each driver listed on the declaration page did not match the points in First Chicago's policy system. First Chicago stated in each case there was a system issue that they were unaware of prior to the examination review. TDI examiners were able to verify that the discrepancy did not affect the premiums charged and there was no harm to the insured.

Subsequent Remedial Action

55. On October 2, 2024, First Chicago accepted TDI's final market conduct examination report.
56. First Chicago represents that many of the issues noted stemmed from staffing shortages and have taken steps to correct their staffing problems. First Chicago is in the process of revising its MGA agreement and policy forms to meet the requirements of Texas insurance laws. Finally, First Chicago represents it has created staffing initiatives for the purpose of expanding qualified staff and improving customer service.

Conclusions of Law

1. The commissioner has jurisdiction over this matter under TEX. INS. CODE §§ 82.051–82.055, 84.021–84.044, and chapters 751, 861, 862, and 982.
2. The commissioner has the authority to informally dispose of this matter as set forth in TEX. GOV'T CODE § 2001.056, and TEX. INS. CODE §§ 36.104 and 82.055.
3. First Chicago has knowingly and voluntarily waived all procedural rights to which it may have been entitled regarding the entry of this order, including, but not limited to, issuance and service of notice of intention to institute disciplinary action, notice of hearing, a public hearing, a proposal for decision, rehearing by the commissioner, and judicial review.
4. First Chicago violated 28 TEX. ADMIN. CODE § 19.1204(b)(7) because its MGA contract failed to state that an MGA may not bind reinsurance or retrocessions on behalf of the insurer, may not commit the insurer to participation in insurance or reinsurance syndicates, and may not collect a payment from reinsurer or commit the insurer to a claim settlement with a reinsurer without prior written approval. The contract must state that, if prior approval is given, the MGA must promptly forward a report to the insurer.
5. First Chicago violated 28 TEX. ADMIN. CODE § 19.1204(b)(11) because its MGA contract failed to state that the MGA shall be prohibited from ceding reinsurance on behalf of the insurer to a company that would not qualify for reinsurance credit under the Insurance Code.
6. First Chicago violated 28 TEX. ADMIN. CODE § 19.1204(b)(12) because its MGA contract failed to provide that the MGA shall not be required to return, as commission or return commission, monies greater than the total commission paid or otherwise payable to the MGA.
7. First Chicago violated 28 TEX. ADMIN. CODE § 19.1204(b)(21) because its MGA contract failed to state that the MGA must notify the insurer in writing within 30 days if there is a change in ownership of 10% or more of the outstanding stock of the MGA, any principal officer of the MGA, or any director of the MGA.
8. First Chicago did not perform its required 2022 annual MGA audit in violation of 28 TEX. ADMIN. CODE § 19.1204(b)(19)(B).

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9. First Chicago used agents that were not appointed to issue or service new policies, in violation of TEX. INS. CODE § 4001.201.
10. First Chicago did not prominently display the Notice of Toll-Free Telephone Numbers and Information and Complaint Procedures on the first, second, or third page of policy documents, in violation of 28 TEX. ADMIN. CODE § 1.601(a)(2)(A).
11. First Chicago violated TEX. INS. CODE § 1952.152 by issuing an insurance policy without personal injury protection coverage and not obtaining a complete rejection in writing from the insured prior to issuing the policy.
12. First Chicago did not apply the correct rating factor when issuing a policy, in violation of TEX. INS. CODE § 2251.101.
13. First Chicago did not refund the total amount of unearned premium or refund the unearned premium not later than the 15th business day, in violation of TEX. INS. CODE § 558.002(d).
14. First Chicago failed to provide, or provide timely, a claimant with the required Notice of Rights Regarding Repair of Motor Vehicle, in violation of TEX. INS. CODE § 1952.305 and 28 TEX. ADMIN. CODE § 5.501.
15. First Chicago failed to adopt and implement reasonable standards for the prompt investigation of a claim, in violation of TEX. INS. CODE § 542.003(b)(3).
16. First Chicago did not attempt in good faith to effect a prompt, fair, and equitable settlement when liability was reasonably clear, in violation of TEX. INS. CODE § 542.003(b)(4).
17. First Chicago failed to acknowledge receipt of a claim not later than the 15th business day, in violation of TEX. INS. CODE § 542.055(a).
18. First Chicago failed to commence any investigation of a claim, in violation of TEX. INS. CODE § 542.055(a)(2).
19. First Chicago failed to request all items, statements, and forms from a claimant within 15 days, in violation of TEX. INS. CODE § 542.055(a)(3).

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20. First Chicago failed to notify claimants in writing of the acceptance or rejection of the claim not later than the 15th business day, in violation of TEX. INS. CODE § 542.056(a).
21. First Chicago failed to pay a claim within five business days after the date notice is made, in violation of TEX. INS. CODE § 542.057(a).
22. First Chicago did not notify an insured in writing of an initial offer to settle a claim against the insured, in violation of TEX. INS. CODE § 542.153(a).
23. First Chicago did not notify an insured in writing of a claim settlement against the insured, in violation of TEX. INS. CODE § 542.153(b).
24. First Chicago issued policies where the agent listed on the declarations page did not file an assumed name certificate in accordance with 28 TEX. ADMIN. CODE § 19.902(a).

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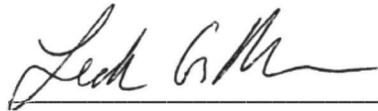
Order

It is ordered that First Chicago Insurance Company pay an administrative penalty of \$150,000 within 30 days from the date of this order. The administrative penalty must be paid as instructed in the invoice, which TDI will send after entry of this order.

Signed by:

FC5D7EDDFFB4F8...
Cassie Brown
Commissioner of Insurance

Recommended and reviewed by:



Leah Gillum, Deputy Commissioner
Fraud and Enforcement Division

/s/Erik Huhn

Erik Huhn, Staff Attorney
Enforcement

Affidavit

STATE OF ILLINOIS §
§
COUNTY OF COOK §

Before me, the undersigned authority, personally appeared ON April 2, 2025
who being by me duly sworn, deposed as follows:

"My name is JAMES KELLY. I am of sound mind, capable of making this statement, and have personal knowledge of these facts which are true and correct.

I hold the office of CEO & TREASURER and am the authorized representative of First Chicago Insurance Company. I am duly authorized by said organization to execute this statement.

First Chicago Insurance Company has knowingly and voluntarily entered into the foregoing consent order and agrees with and consents to the issuance and service of the same by the commissioner of insurance of the state of Texas."

[Signature]
Affiant

SWORN TO AND SUBSCRIBED before me on April 2, 2025

(NOTARY SEAL)



Diane Marie McGinty
Signature of Notary Public

Diane Marie McGinty
Printed Name of Notary Public