



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

MARKET CONDUCT  
EXAMINATION REPORT

OF

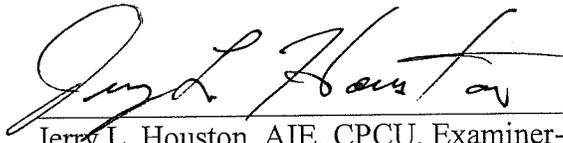
**MERIDIAN SECURITY  
INSURANCE COMPANY**  
INDIANAPOLIS, IN

As of: April 9, 2012  
Issued: May 24, 2012

**BUREAU OF MARKET ACTIONS  
PROPERTY AND CASUALTY DIVISION**

VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 28<sup>th</sup> Day of March , 2012

Mary K White  
Notary Public

MERIDIAN SECURITY INSURANCE COMPANY

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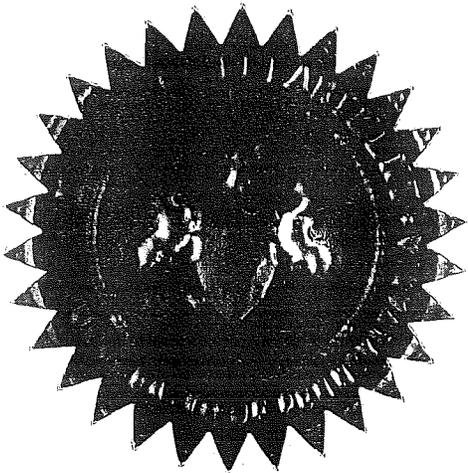
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 27<sup>th</sup> day of April, 2011, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



  
Michael F. Consedine  
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
MERIDIAN SECURITY	:	Section 903(a) of the Insurance
INSURANCE COMPANY	:	Department Act, Act of May 17, 1921,
518 East Broad Street	:	P.L. 789, No. 285 (40 P.S. §323.3)
Columbus, OH 43215	:	
	:	Act 1990-6, Sections 1705(a)(1) and (4),
	:	1731(c)(1), 1734, 1738(d)(1) and (2),
	:	1738(e) and 1791.1(b) (Title 75 Pa.C.S.
	:	1705, 1731, 1734, 1738 and 1791)
	:	
	:	Section 4(h) of the Act of June 11, 1947,
	:	P.L. 538, No. 246 (40 P.S. §§ 1184)
	:	
	:	Sections 2002(c)(3), 2003(d), 2004,
	:	2006(2) and 2006(6) of Act 68 of 1998
	:	(40 P.S. §§991.2002, 991.2003, 991.2004
	:	and 991.2006)
	:	
	:	Sections 5(a)(7)(iii) of the Unfair
	:	Insurance Practices Act, Act of July 22,
	:	1974, P.L. 589, No. 205 (40 P.S. §1171.5)
	:	
Respondent.	:	Docket No. MC12-04-005

CONSENT ORDER

AND NOW, this *24<sup>th</sup>* day of *May*, 2012, this Order is hereby  
issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to  
the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

#### FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Meridian Security Insurance Company, and maintains its address at 518 East Broad Street, Columbus, OH 43215.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience periods from April 1, 2010 through March 31, 2011.
- (c) On April 9, 2012, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on April 27, 2012.

(e) The Examination Report notes violations of the following:

- (i) Section 903 of the Insurance Department Act, 40 P.S. §323.3(a), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;
- (ii) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;
- (iii) Section 1731(c)(1) of Act 1990-6, Title 75, Pa.C.S. § 1731, which states on policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists;

- (iv) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (v) Section 1738(c)(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vi) Section 1738(e) of Act 1990-6, Title 75, Pa.C.S. § 1738, which states the forms described in subsection (d) must be signed by the first named insured and dated to be valid. Any rejection form that does not comply with this section is void;
- (vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (viii) Section 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from

making or issuing a contract or policy with rates other than those approved;

(ix) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. §991.2002), which requires that an insurer supply the insured with a written statement of the reason for cancellation;

(x) Section 2003(d) of Act 68 (40 P.S. §991.2003(d)), which states that an insurer may not cancel or refuse to renew existing policies written through the terminated agent without offering each such insured coverage on a direct basis or offering to refer the insured to one or more new agents in the event the terminated agent could not find a suitable insurer acceptable to the policyholder for such business;

(xi) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;

(xii) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which prohibits a cancellation or refusal to renew from being effective unless the insurer delivers or mails a written notice of the cancellation or refusal to renew, which will include the date, not less than 60 days after the date of mailing or delivery, on which the cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for reasons set forth in Sections 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;

(xiii) Section 2006(6) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage; and

(xiv) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality

or ethnic group, age, sex, family size, occupation, place of residence or marital status.

#### CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Section 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:
  - (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
  - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.
- (c) Respondent's violations of Sections 2002, 2003, 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S.

§ 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

(d) Respondent's violations of Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(e) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) After a period of 18 months from the date of this Order, Respondent shall be re-examined to verify corrective actions have been implemented.

(e) Respondent shall pay Twenty Thousand Dollars (\$20,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(f) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Market Conduct, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

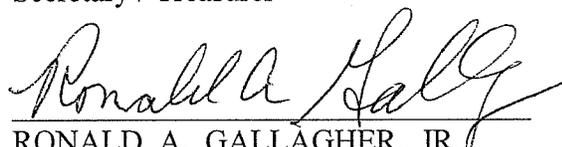
11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegate is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: MERIDIAN SECURITY INSURANCE  
COMPANY, Respondent

  
\_\_\_\_\_  
President / Vice President

  
\_\_\_\_\_  
Secretary / Treasurer

  
\_\_\_\_\_  
RONALD A. GALLAGHER, JR.  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## *I. INTRODUCTION*

The Market Conduct Examination was conducted at Meridian Security Insurance Company, hereinafter referred to as “Company”, at its office located in Mechanicsburg, Pennsylvania, from August 1, 2011 to September 9, 2011. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

The Pennsylvania Market Conduct Examination Report, hereinafter referred to as “Report”, generally notes only those items to which the Department, after review, takes exception. However, the 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 those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to “error ratio.” This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with 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 personnel to discuss

the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

The following examiners participated in this examination and in preparation of the Report.

Constance L. Arnold  
Market Conduct Division Chief

Jerry L. Houston, AIE, CPCU  
Market Conduct Examiner

June A. Coleman  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Meridian Security Insurance Company's office in Mechanicsburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 [40 P.S. §§323.3 and 323.4] of the Insurance Department Act and covered the experience period of April 1, 2010 through March 31, 2011, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile

- Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
- Rating - Proper use of all classification and rating plans and procedures.

2. Forms

### III. COMPANY HISTORY AND LICENSING

Meridian Security Insurance Company was incorporated on July 27, 1967, under the laws of Indiana and began business on October 2, 1967, as the Meridian Standard Insurance Company. The Company changed its name to the present title in January 1984. On May 31, 2001, Meridian Mutual Insurance Company was merged into State Automobile Mutual Insurance Company.

#### LICENSING

Meridian Security Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2012. The Company is licensed in the District of Columbia, Arizona, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, North Dakota, Ohio, Pennsylvania, South Dakota, Tennessee, Utah, Virginia, Washington and Wisconsin. The Company's 2010 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$15,924,546. Premium volume related to the areas of this review was: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto Liability \$7,707,444 and Private Passenger Physical Damage \$6,188,967.

#### IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following finding was made:

*1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]*

*Act 68, Section 2003 [40 P.S. §991.2003]*

Prohibits unfairly discriminating by means of making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of age. States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of age. The violation noted was based on the Company's guidelines which stated the most preferred risks for youthful operators have at least 3 years driving experience with no accidents or violations.

## V. UNDERWRITING

### A. Private Passenger Automobile

#### 1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

From the universe of 158 private passenger automobile files identified as being cancelled in the first 60 days of new business, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted was based on one (1) file, resulting in an error ratio of two percent (2%).

The following finding was made:

*1 Violation Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]*

*Adjudications: Tampa v. State Farm (P91-06-01, 1991)*

*Gorba v. Allstate (P92-02-92, 1993)*

Requires that an insurer supply the insured with a written statement of the reason for cancellation. The file noted was a

policy cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

## 2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under which action by the insurer is prohibited, and Section 2006 [40 P.S. §991.2006], which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 3,130 private passenger automobile policies which were cancelled during the experience period, 200 files were selected for review. In addition to the 200 files selected, one (1) additional file was selected that was terminated midterm. This additional file was the subject of a consumer complaint to the Department. All 201 files requested were received and reviewed. The 49 violations noted were based on 41 files, resulting in an error ratio of 20%.

The following findings were made:

### *3 Violations Act 68, Section 2004 [40 P.S. §991.2004]*

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor

vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The three (3) files noted were cancelled for other than permitted reasons.

*39 Violations Act 68, Section 2006(2) [40 P.S. §991.2006(2)]*

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The 39 violations noted resulted in cancellation notices that did not provide the required notice of days from the date of mailing.

*1 Violation Act 68, Section 2006(6) [40 P.S. §991.2006(6)]*

Requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage. The violation noted resulted from the Company not providing the correct date of cancellation to the Department of Transportation.

*6 Violations Act 68, Section 2006(6) [40 P.S. §991.2006(6)]*

*Insurance Department Act, Section 903(a) [40 P.S. §323.3]*

Requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage. Requires every company subject to examination to keep all records and any or all computer or other recordings relating to its property in such manner and for such time periods as the Department may require to ascertain whether the company has complied with the laws of this Commonwealth. The six (6) files noted resulted in the Company not maintaining its records of notifying the Department of Transportation that the insurance was cancelled or nonrenewed.

### 3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under which action by the insurer is prohibited, and Section 2006 [40 P.S. §991.2006], which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 45 private passenger automobile files identified as nonrenewals by the Company, 20 files were initially selected for review. All 20 files requested were received and reviewed. The five (5) violations noted were based on five (5) files, resulting in an error ratio of 25%.

The following findings were made:

*2 Violations Act 68, Section 2003(d) [40 P.S. §991.2003(d)]*

States that an insurer may not cancel or refuse to renew existing policies written through the terminated agent without offering each such insured coverage on a direct basis or offering to refer the insured to one or more new agents in the event the terminated agent could not find a suitable insurer acceptable to the policyholder for such business. The two (2) files noted were the results of nonrenewal notices being issued for an improper reason.

*3 Violations Act 68, Section 2006(2) [40 P.S. §991.2006(2)]*

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The three (3) files contained cancellation notices that did not provide the required notice of days from the date of mailing.

## VI. RATING

### **A. Private Passenger Automobile**

#### 1. New Business

New business, for the purpose of this examination, is defined as policies written for the first time by the Company during the experience period.

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company uses an automated system to process and issue personal automobile policies. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Automobile Rating – New Business without Surcharges

From the universe of 777 private passenger automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files were received and reviewed. The 14 violations were based on 11 files, resulting in an error ratio of 11%.

The following findings were made:

*10 Violations Act 246, The Casualty and Surety Rate Regulatory Act,  
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. Of the 10 files noted, eight (8) files were rated with an improper territory resulting in an overcharge of \$45 and undercharges of \$1,196. The remaining two (2) files were rated with a coverage not requested by the insured that resulted in no change in premium.

*1 Violation Title 75, Pa. C.S. §1705(a)(1)&(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The file noted was the

result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

*1 Violation Title 75, Pa. C.S. §1734*

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

*1 Violation Title 75, Pa. C.S. §1738(c)(d)(1)&(2)*

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

*1 Violation Title 75, Pa. C.S. §1738(d)(e)*

The written rejection forms of stacked limits for uninsured and underinsured motorist coverage must be signed by the first named insured and dated to be valid. The Company did not provide the rejection form signed by the first named insured for the file noted.

Auto Rating – New Business with Surcharges

From the universe of 430 private passenger automobile policies identified as new business with surcharges by the Company, 75 files were selected for

review. All 75 files were received and reviewed. The nine (9) violations noted were based on nine (9) files, resulting in an error ratio of 12%.

The following findings were made:

*8 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. Of the eight (8) files noted, seven (7) files were rated with an improper territory which resulted in undercharges of \$1,396. The remaining file was rated with an incorrect vehicle symbol resulting in an undercharge of \$49.

*1 Violation Title 75, Pa. C.S. §1734*

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company uses an automated system to process and issue personal automobile policies. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

#### Private Passenger Automobile – Renewals without Surcharges

From the universe of 4,151 private passenger automobile policies identified as renewals without surcharges by the Company during the experience period, 100 files were selected for review. All 100 policy files requested were received and reviewed. The 15 violations were based on four 14 files, resulting in an error ratio of 14%.

The following findings were made:

*9 Violations Act 246, The Casualty and Surety Rate Regulatory Act,  
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The nine (9) files were rated with an improper territory resulting in overcharges of \$399 and undercharges of \$447.

*6 Violations Title 75, Pa. C.S. §1731(c)(1)*

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The six (6) policy renewals did not reflect the prominent notice as required.

The following concern was noted:

**CONCERN:** Of the 100 files that were reviewed, eight (8) policies were written by one agency. Of these eight (8) policies, seven (7) policies were rated in an incorrect territory. The Company should ensure that its producers are selecting the correct territory for each insured's disclosed garaging location.

### Private Passenger Automobile – Renewals with Surcharges

From the universe of 1,358 private passenger automobile policies identified as renewals with surcharges, 100 files were selected for review. All 100 policy files requested were received and reviewed. The 20 violations were based on 19 files, resulting in an error ratio of 38%.

The following findings were made:

#### *12 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. Of the 12 files noted, ten (10) files were rated with an improper territory resulting in overcharges of \$156 and undercharges of \$2,224. The remaining two (2) files were rated without a discount which resulted in overcharges of \$42.

#### *8 Violations Title 75, Pa. C.S. §1731(c)(1)*

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The eight (8) policy renewals did not reflect the prominent notice as required.

The following concern was noted:

**CONCERN:** The Company listed discounts on the premium notice that were not applied when rating the policy. The Company should list on the premium notice only those discounts that were applied to rate the policy.

## VII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 [40 P.S. §477b], Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting files were also reviewed to verify compliance with Act 165 of 1994 [18, Pa. C.S. §4117(k)(1)] and Title 75, Pa. C.S. §1822 which require all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following finding was made:

*1 Violation Title 75, Pa. C.S §1791.1(b)*

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance.

The Company did not provide the required wording on the Notice of Tort Options disclosure form.

## VIII. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. On policies in which either uninsured or underinsured coverage has been rejected, the policy renewal must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(c)(1) do not occur in the future.
2. The Company must review Title 75, Pa. C.S. §1791.1(b) violation to ensure that the wording of the standardized notice of availability of two alternatives of full tort insurance and limited tort insurance is correct when given to the insured at the time of application as noted in the Report.
3. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.
4. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

5. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.
6. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
7. The Company must revise underwriting procedures to ensure that the first named insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1)& (2) and (e) do not occur in the future.
8. The Company must review Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)] and Act 68, Section 2003[40 P.S. §991.2003] to ensure that the violation relative to discrimination based on age noted in the Report does not occur in the future.
9. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Section 2006 [40 P.S. §991.2006] and maintaining records and documents in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that the violations noted in the Report do not occur in the future.

10. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2002, 2003, 2004 and 2006 [40 P.S. §991.2002, 2003, 2004 and 2006], so that the violations noted in the Report do not occur in the future.

**IX. COMPANY RESPONSE**

April 27, 2012

Delivered via email to [carnold@pa.gov](mailto:carnold@pa.gov)

Constance Arnold  
P&C Market Conduct Chief  
Pennsylvania Insurance Department  
1227 Strawberry Square  
Harrisburg, PA 17120

Re: Company response to final report – Meridian Security Insurance Company

Dear Ms. Arnold:

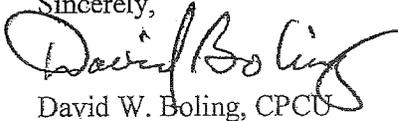
Thank you for the opportunity to respond to the final report of the Department's recent examination of Meridian Security Insurance Company. Please find enclosed our response for your review and consideration.

State Auto appreciates the professionalism and approach of the entire exam team throughout the review.

If you have any questions or concerns, please contact me directly.

Thank you.

Sincerely,



David W. Boling, CPCU  
Compliance Assurance Manager  
(614) 917-5258

## IX. COMPANY RESPONSE

1. On policies in which either uninsured or underinsured coverage has been rejected, the policy renewal must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. Section 1731 (c) (1) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. This change went into production on December 20, 2011. Documentation will be separately provided.

2. The company must review Title 75, Pa. C.S. Section 1791.1(b) violation to ensure that the wording of the standardized notice of availability of two alternatives of full tort insurance and limited tort insurance is correct when given to the insured at the time of application as noted in the Report.

**Company Response:** The Company acknowledges this recommendation. The form, AU614 has been corrected to add lead-in language that the Commonwealth of Pennsylvania gives the insured the right to choose either of the two tort options. Documentation will be separately provided.

3. The company must review Title 75, Pa. C.S. Section 1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.

**Company Response:** The Company acknowledges this recommendation. Existing procedures will be reinforced to ensure that the agents are aware of the need to sign a request for lower limits of liability for uninsured and underinsured motorists coverage and to keep a copy in the appropriate files. In addition, an instructional warning will now display at the point of sale if lower Uninsured or Underinsured Motorists limits are selected.

4. The premium overcharges noted in the rating section of the report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

**Company Response:** The Company acknowledges this recommendation. Please note that premium has been refunded for these isolated instances and documentation of the refunds has been provided to the department.

5. The Company must review ACT 246, Section (4)(a) and (h) (40 P.S. 1184) and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. The Company has changed the territory assignment system to now use zip code definitions. This change went effective on January 24, 2012. As an existing policy renews, the new territory definitions will be applied to the policy.

6. The company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75 Pa. C.S. 1705 (a) (1) (4) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. This violation resulted from an isolated error where the information inputted to the system did not match the selection on the form. ACORD 61PA is used at the point of sale by the agent, allowing the insured to make the appropriate tort selection. State Auto Business practice is that the ACORD 61PA is to be maintained in the appropriate file in the agent's office. Files are audited annually to ensure that the forms are being properly completed. The company will emphasize to its agents the importance of ensuring that the selections match the completed forms and this issue will be reviewed during audits.

7. The company must revise underwriting procedures to ensure that the first named insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S., and Section 1738 (d)(1) & (2) and (e) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation and has taken action to emphasize to its agents the importance of ensuring that the selections match the completed forms and this issue will be emphasized during audits. The company will continue to utilize the ACORD 60PA and ACORD 62PA for the waiver of stacked limits. While an isolated error, its importance is not diminished; this issue will be reinforced with the agency force.

8. The Company must review ACT 205, Section 5(a)(7)(iii) {40 P.S. Section 1171.5(a)(7)(iii) and Act 68, Section 2003 (40 P.S. section 991.2003) to ensure that the violation relative to discrimination based on age noted in the Report does not occur in the future.

**Company Response:** The Company acknowledges this recommendation and has revised the rule to eliminate reference to age. The Company would note that it does not agree that the section in the manual noted in the report violated the above

reference statute numbers because the noted section has no bearing on eligibility for any program. Thus the guideline was in no way discriminating based on age.

9. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of ACT 68, Section 2006 {40P.S. Section 991.2006 } and maintaining records and documents in accordance with Insurance Department Act, Section 903(a) {40 P.S. Section 323.3), so that the violations noted in the Report do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. All timing issues were proactively identified and corrected prior to the initiation of the Examination. Regarding the notification to the Department of Transportation, the system was verified and modified to assure that the date that appears on the cancellation notice is the same date as the notice of cancellation sent to the Department of Transportation. In addition, the system has been adjusted to maintain 5 years of the data records of the information that is sent to the Department of Transportation.

10. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of ACT 68, Section 2002, 2003, 2004 and 2006 }40 P.A. Section 991.2002, 2003, 2004, and 2006}, so that the violations noted in the Report do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. Training with the underwriting department has been completed regarding this issue. To ensure future compliance with the state requirements, notices will be monitored by the Underwriting Manager and audited by the Compliance area of Personal Insurance.