

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**1ST CHOICE AUTO INSURANCE
COMPANY, INC.
Everett, Pennsylvania**

**AS OF
May 30, 2008**

COMMONWEALTH OF PENNSYLVANIA

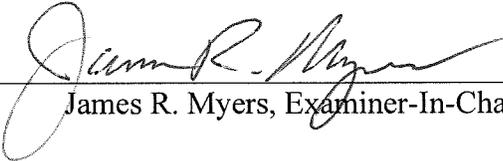


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 2, 2008

VERIFICATION

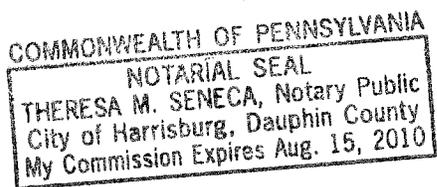
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 15 Day of May, 2008


Notary Public



1st CHOICE AUTO INSURANCE COMPANY, INC.

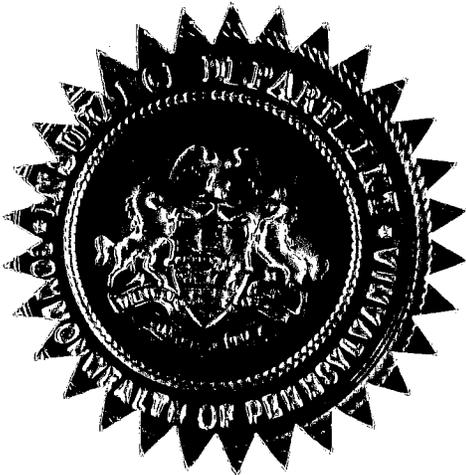
TABLE OF CONTENTS

Order	
I.	Introduction..... 1
II.	Scope of Examination..... 3
III.	Company History/Licensing..... 4
IV.	Underwriting Practices and Procedures..... 5
V.	Underwriting
	A. Automobile..... 6
	B. Private Passenger Automobile – Assigned Risk..... 9
	C. Commercial Automobile..... 9
VI.	Rating
	A. Automobile..... 14
	B. Private Passenger Automobile – Assigned Risk..... 25
VII.	Claims..... 26
VIII.	Forms..... 32
IX.	Advertising..... 33
X.	Consumer Complaints..... 34
XI.	Licensing..... 35
XII.	Recommendations..... 38
XIII.	Company Response..... 43

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, 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 Randolph L. Rohrbaugh, 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.





Joel S. Ario
Insurance Commissioner

CONSENT ORDER

AND NOW, this 2nd day of July, 2008, 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 1st Choice Auto Insurance Company, Inc., and maintains its address at 10591 Lincoln Highway, Everett, Pennsylvania 15537.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2006 through June 30, 2007.

- (c) On May 20, 2008, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on June 16 2008.

- (e) The Examination Report notes violations of the following:
 - (i) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

 - (ii) Sections 4(a) and 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;

- (iii) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;
- (iv) Section 1725 of Act 1990-6, Title 75, Pa.C.S. § 1725, which requires every motor vehicle insurance policy to contain a notice whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters;
- (v) 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;

- (vi) 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;
- (vii) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages;
- (viii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

- (ix) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;
- (x) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;
- (xi) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(4)), which prohibits unfair methods of competition and unfair or deceptive acts or practices;
- (xii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given

a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

- (xiii) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;
- (xiv) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;
- (xv) Section 7(c) of Act 86 (40 P.S. § 3407), which states that this act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

- (xvi) Title 31, Pennsylvania Code, Section 61.10(c), which states the 60 day period is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An individual who has been cancelled by an insurer during this 60-day period may obtain from the insurer the reasons for the action of the insurer and may request a review the the Insurance Department;

- (xvii) Title 31, Pennsylvania Code, Section 69.22(c), which requires the insurer, when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill;

- (xviii) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;

- (xix) Title 31, Pennsylvania Code, Section 69.53(a), which states a Peer Review Organization shall contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter;

- (xx) Title 31, Pennsylvania Code, Section 146.5(d), which requires every insurer, upon receiving notification of a claim, to provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer;

- (xxi) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;

- (xxii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;

- (xxiii) Section 1161(a) and (b) of Title 75, Pa. C.S., which states an insurer who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle; and

- (xxiv) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

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 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 4(a) and (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.

(d) Respondent's violations of Section 5(a)(4) 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).

- (f) Respondent's violations of Section 2008 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).

- (g) Respondent's violations of Act 86, Sections 1, 3 and 7 (40 P.S. §§ 3401, 3403 and 3407) are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:
 - (i) Order that the insurer cease and desist from the violation.
 - (ii) Impose a fine or not more than \$5,000 for each violation.

- (h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5, 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

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) Respondent shall pay Fifteen Thousand Dollars (\$15,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Ginny Marquart, Administrative Assistant, Bureau of Enforcement, 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.

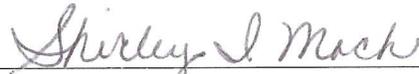
11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

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

BY: 1st CHOICE AUTO INSURANCE
COMPANY, INC., Respondent



President / ~~Vice-President~~



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at 1st Choice Auto Insurance Company, Inc.'s office located in Everett, Pennsylvania, from December 6, 2007, through January 4, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review 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%.

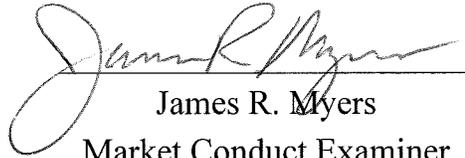
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel 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.

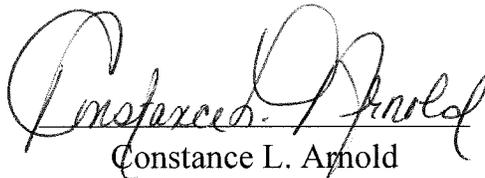
The undersigned participated in this examination and in preparation of this Report.



Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on 1st Choice Auto Insurance Company, Inc., hereinafter referred to as “Company,” at their office located in Everett, 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 July 1, 2006, through June 30, 2007, 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, 60-day cancellations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Commercial Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and renewals.
3. Claims
4. Forms
5. Advertising
6. Complaints
7. Licensing

III. COMPANY HISTORY AND LICENSING

1st Choice Auto Insurance Company, Inc. was incorporated in Pennsylvania on March 29, 2000.

LICENSING

1st Choice Auto Insurance Company, Inc.'s Certificate of Authority to write business in the Commonwealth was issued on August 30, 2000. The Company is licensed in Pennsylvania and Indiana. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,288,902. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$224,881; Other Private Passenger Auto Liability \$691,006 and Private Passenger Auto Physical Damage \$907,283; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$28,770; Other Commercial Auto Liability \$298,944 and Commercial Auto Physical Damage \$138,018.

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. Agency bulletins and underwriting guides were furnished for private passenger automobile and commercial 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.

No violations were noted.

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.

The universe of 3 private passenger automobile policies cancelled within the first 60 days of new business was selected for review. All 3 files were received and reviewed. The violation noted resulted in an error ratio of 33%.

The following finding was made:

1 Violation Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance

Commissioner that he review the action of the insurer in refusing to write a policy for the applicant.

AND

Title 31, Pa. Code, Section 61.10(c)

The 60 day period is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An individual who has been cancelled by an insurer during this 60-day period may obtain from the insurer the reasons for the action of the insurer and may request a review by the Insurance Department. The Company did not provide a specific reason for cancellation.

2. Midterm Cancellations

A midterm 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 73 private passenger automobile policies cancelled midterm during the experience period, 40 files were selected for review. All 40 files were received and reviewed. No violations were noted.

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.

The universe of 4 private passenger automobile policies identified as nonrenewals by the Company was selected for review. All 4 files were received and reviewed. No violations were noted.

4. Rescissions

A rescission is any policy, which was void *ab initio*.

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. The review also determined compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

The universe of 1 private passenger automobile file identified as a rescission was selected for review. The file was received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

C. Commercial 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 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

The universe of 3 commercial automobile policies cancelled within the first 60 days of new business was selected for review. All 3 files were received and reviewed. The violation noted resulted in an error ratio of 33%.

The following finding was made:

1 Violation Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The Company failed to provide 30 days notice of cancellation.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

From the universe of 38 commercial automobile policies cancelled midterm during the experience period, 15 files were selected for review. All 15 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 40%.

The following findings were made:

6 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide the offer of loss information on the cancellation notice for the 6 files noted.

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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

The universe of 2 commercial automobile policies nonrenewed during the experience period was selected for review. Both files were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 100%.

The following findings were made:

2 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to

the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide the offer of loss information on the nonrenewal notice for the 2 files noted.

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a nonrenewal notice which required supporting business.

4. 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 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 315 commercial automobile policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium.

5. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices.

The universe of 1 commercial automobile declination reported by the Company during the experience period was selected for review. The file was received and reviewed. No violations were noted.

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 that 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 processes and issues personal automobile policies using an automated system. 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 – New Business Without Surcharges

From the universe of 237 private passenger automobile policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 948 violations noted were based on the universe of 237, resulting in an error ratio of 100%.

The following findings were made:

237 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations in boldface capital letters.

237 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical

benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the itemized invoice listing the minimum coverages at the time of application.

237 Violations 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 proper notice of tort options to the insured at the time of application.

237 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan at the time of application.

Private Passenger Automobile - New Business With Surcharges

From the universe of 43 private passenger automobile policy identified as new business with surcharges by the Company, 20 files were selected for review. All 20 files were received and reviewed. The 216 violations noted were based on the universe of 43 files, resulting in an error ratio of 100%.

The following findings were made:

43 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations in boldface capital letters.

43 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical

benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the itemized invoice listing the minimum coverages at the time of application.

43 Violations 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 proper notice of tort options to the insured at the time of application.

43 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan at the time of application.

43 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the surcharge disclosure statement specifying the manner in which the surcharge was made and identifying the amount of the surcharge.

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 failed to provide the signed rejection form of stacked limits for uninsured and underinsured motorist coverage.

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 processes and issues personal automobile policies using an automated system. 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 1,108 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 4,434 violations noted were based on the universe of 1,108 files, resulting in an error ratio of 100%.

The following findings were made:

1,108 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental

vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations in boldface capital letters.

2 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 Company failed to provide the notice in prominent type that the policy renewal does not provide protection against damages caused by uninsured and underinsured motorist coverage for the 2 files noted.

1,108 Violations 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 failed to provide the proper notice of tort options at the time of renewal.

1,108 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge

information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan at the time of renewal.

1,108 Violations Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning at renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 265 private passenger automobile policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 1,325 violations noted were based on the universe of 265 files, resulting in an error ratio of 100%.

The following findings were made:

265 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental

vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations in boldface capital letters.

265 Violations 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 failed to provide the proper notice of tort options at the time of renewal.

265 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan at the time of renewal.

265 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record

point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the surcharge disclosure statement specifying the manner in which the surcharge was made and identifying the amount of the surcharge.

265 Violations Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning at renewal.

Private Passenger Automobile – Renewals In a Higher Plan

The universe of 6 private passenger automobile policies renewed in a higher plan was selected for review. All 6 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 33%.

The following findings were made:

*2 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 Company surcharged the 2 files noted twice on renewal with a change in tier in addition to a safe driver insurance plan point which resulted in overcharges of \$327.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

A. Automobile Property Damage Claims

From the universe of 69 private passenger automobile property damage claims reported during the experience period, 20 files were selected for review. All 20 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 10%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 2 claims noted.

B. Automobile Comprehensive Claims

From the universe of 153 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 67 private passenger automobile collision claims reported during the experience period, 20 files were selected for review. All 20 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 47 private passenger automobile total loss claims reported during the experience period, 20 files were selected for review. All 20 files were received and reviewed. Of the 20 files reviewed, 3 were duplicate claim files. The 6 violations noted were based on 5 files, resulting in an error ratio of 29%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to advise the first-party claimant of the acceptance or denial of the claim within 15 working days after receipt by the insurer of properly executed proof of loss.

5 Violations Title 75, Pa. C.S. §1161(a)&(b) – Certificate of Salvage Required.

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined in Section 1702 (relating to definitions), who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the

Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. Of the 5 violations noted, the Company failed to have the insured show evidence of the issued certificate of salvage before paying the vehicle replacement value to the insured in one claim file. The remaining files noted did not reflect a salvage title was obtained.

E. Automobile First Party Medical Claims

From the universe of 30 private passenger automobile first party medical claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. The 16 violations noted were based on 8 files, resulting in an error ratio of 53%.

The following findings were made:

5 Violations Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the medical bills within 30 days.

5 Violations Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is

overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on 5 claims that were not paid within 30 days.

1 Violation Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill. The Company did not provide notice of exhausted limits to the provider and the insured.

5 Violations Title 31, Pa. Code, Section 146.5(d)

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The Company failed to send the application for benefits form to the first party claimant within 10 working days after receiving notification of the claim.

E. Automobile First Party Medical Claims Referred to a PRO

The Company was asked to provide a list of all private passenger automobile first party medical claims that were referred to a peer review

organization during the experience period. The Company did not report any claims. The Company was also asked to provide copies of any written contracts with the peer review organization it has contracted. The Company advised that they did not have any written contracts in place with a peer review organization.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 69.53(a)

A Peer Review Organization shall contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter. The Company failed to have a written contract in place with a peer review organization.

VIII. 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 and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822, which requires 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. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning on the application for benefits claim form.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 10 pieces of advertising in use during the experience period, which included brochures and agent's kits. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company did not report any complaints during the experience period.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

No violations were noted.

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following findings were made:

17 Violations Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

- (a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the

insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

BellEme, Inc.
Brown & Walters Ins. Agency, Inc.
Central Insurers Group
Central PA Insurance Group, Inc.
Cover Insurance Agency, Inc.
Deibler, Straub & Troutman, Inc.
Hawk Insurance Agency LLC
Hurley, Alexis
Insurance Office, Inc.
Insurance Offices Ltd.
Insurance Services United, Inc.
Mary & Gooder Agency
Myers & Lynch Insurance, Inc.

Reed, Wertz and Roadman
Ruhl Insurance
Smith, Margaret
Wenger & Myers Agency

XII. 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. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2008 [40 P.S. §§991.2003], so that the violation noted in the Report does not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 7 [40 P.S. §§3403 and 3407], so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
4. The Company must review Title 75, Pa. C.S. §1791.1(a) to ensure that an itemized invoice listing minimum coverages is provided at the time of application, as noted in the Report, and does not occur in the future.
5. The Company must review Title 75, Pa. C.S. §1791.1(b) violations to ensure that tort options are provided at the time of application and every renewal thereafter as noted in the Report and do not occur in the future.

6. The Company must review Title 75, Pa. C.S. §1725 to ensure that a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage shall be printed on the first page of the policy in boldface capital letters.
7. When a surcharge is imposed on a private passenger automobile policy the Company must specify the manner in which the surcharge was made and clearly identify the amount of the surcharge and give notice to the insured. 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. §1799.3(d) do not occur in the future.
8. The Company must revise underwriting procedures to ensure that the 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 violation noted under Title 75, Pa. C.S. §1738(c)(d)(1) and (2) does not occur in the future.
9. 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.

10. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and renewal, as noted in the Report, do not occur in the future.
11. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.
12. 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.
13. 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.
14. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to providing claim forms, status letters and claim acceptance and denials as noted in the Report do not occur in the future.
15. The Company must review Title 31, Pa. Code, Section 69.53(a) with its claim staff to ensure that a written contract is in place with an approved peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for the purpose of

confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary.

16. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
17. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
18. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the provider and insured are properly notified that first-party medical benefits have been exhausted.
19. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
20. The Company must ensure all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

21. The Company must ensure that all renewals and claim forms contain the required fraud warning notice.

XIII. COMPANY RESPONSE



June 13, 2008

Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1227 Strawberry Square
Harrisburg, PA 17120

RE: Examination Warrant Number: 07-M22-043
1st Choice Auto Insurance Company, Inc.

Dear Mr. Derk:

The management of 1st Choice Auto Insurance Company has reviewed the May 20, 2008 Market Conduct Report of Examination. Since we desire to conduct our business so that no policyholder would be adversely affected, we have made the recommendations a top priority of our underwriting, claims, and IT staff during the last few months. On behalf of the management, I thank you for the opportunity to respond to this exam. The following company response lists each section where findings were made and answers the Recommendations.

V. Underwriting

A. Private Passenger Automobile 60-Day Cancellations – 1 violation

The violation in this category was due to the cancellation stating the account was new business to the company and was ineligible to be written due to our underwriting guidelines. We *have changed* our procedure to state the *specific reason* in the guideline that would make a new business account ineligible to be written. For the file noted as a violation, it was due to the insured having a DUI.

C. Commercial Automobile 60-Day Cancellations – 1 violation

We agree that sufficient notice time was not given on the noted file. We inadvertently followed Act 68, instead of Act 86. We are aware that an Act 86 new business account must have a 30-day notice if issued in it's first 59 days of coverage and we *will follow* that procedure.

Midterm Cancellations

These cancellations were issued due to the insureds not paying their policy premium when due. We agree that the loss information wording was not correctly shown on these 6 notices, and we *have amended* our automated commercial auto non-payment notice to include the wording “At the insured’s request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less.”

Nonrenewals - 2 Violations of Act 86, Section 3(a)(6) [40 P. S. §3403 (a)(6)]

Both of these cancellations had information regarding losses; one was non-renewed due to loss history and the dates of all losses, amount paid, and cause of loss were listed on the non-renewal. The other account did not have any losses and that was so stated on the non-renewal. Since both nonrenewals listed the insured’s loss history, we feel neither insured would have received any additional benefit had the separate loss information wording been shown on their nonrenewal. However, we *have amended* our commercial auto nonrenewal notice to include the wording “At the insured’s request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less.”

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

It is not our company practice to non-renew a Commercial Auto Policy when another policy is no longer in good standing. We believe this is an isolated case.

Renewals -Act 86, Section 1 (40 P.S. §3401) 30-Day Advance notice of an increase in renewal premium – 1 violation

We agree that we were short by five days on our advance notice advising this policyholder their policy was increasing \$17 over the prior renewal. Our standard procedure is to timely issue the policy renewal so insured has received their renewal policy at least 30 days prior to the renewal date.

VI. Rating

A. Private Passenger Automobile – New Business Without Surcharges

Title 75, Pa. C.S. §1725

We *have amended* our policy declarations to include the notice of rental vehicle collision coverage on the front page in boldface capital letters.

Title 75, Pa. C.S. §1791.1(a)

We *have amended* our application procedure to include the minimum coverage invoice. The insured did receive this invoice with their new business policy.

Title 75, Pa. C.S. §1791.1(b)

We have amended our application to provide additional notice of tort options to comply with this section.

Title 75, Pa. C. S. §1793 (b)

We have amended our application to provide the surcharge disclosure plan. The insured did receive this plan with their new business policy.

Private Passenger Automobile – New Business With Surcharges

Title 75, Pa. C.S. §1725

We have amended our policy declarations to include the notice of rental vehicle collision coverage on the front page in boldface capital letters.

Title 75, Pa. C.S. §1791.1(a)

We have amended our application procedure to include the minimum coverage invoice. The insured did receive this invoice with their new business policy.

Title 75, Pa. C.S. §1791.1(b)

We have amended our application to provide additional notice of tort options to comply with this section.

Title 75, Pa. C. S. §1793 (b)

We have amended our application to provide the surcharge disclosure plan. The insured did receive this plan with their new business policy.

Title 75, Pa. C.S. §1799.3 (d)

We have amended our policy issuance and printing to include the surcharge disclosure statement specifying the manner in which the surcharge was made and identifying the amount of the surcharge.

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

Our company procedure is to obtain waiver of stacked limits for uninsured and underinsured motorist coverage by having the named insured sign written rejection forms, however we agree that this policy did not have the appropriate form included with the application. The policy has been cancelled by the insured's request after the experience period, so is no longer in effect. We feel this is an isolated case that the waiver was not signed.

Renewals

Private Passenger Automobile – Renewals Without Surcharges

Title 75, Pa. C.S. §1725

We have amended our policy declarations to include the notice of rental vehicle collision coverage on the front page in boldface capital letters.

Title 75, Pa. C.S. §1731 (c)(1)

We have corrected our policy printing to include notice in prominent type when uninsured or underinsured coverage has been rejected.

Title 75, Pa. C.S. §1791.1(b)

We *have amended* our policy renewal printing process to provide additional notice of tort options to comply with this section.

Title 75, Pa. C. S. §1793 (b)

We *have amended* our policy renewal printing process to provide the surcharge disclosure plan.

Title 75, Pa. C. S. §1822

We have amended our policy declarations to include the fraud warning on renewals.

Private Passenger Automobile – Renewal With Surcharges

Title 75, Pa. C.S. §1725

We *have amended* our policy declarations to include the notice of rental vehicle collision coverage on the front page in boldface capital letters.

Title 75, Pa. C.S. §1791.1(b)

We *have amended* our policy renewal printing process to provide additional notice of tort options to comply with this section

Title 75, Pa. C. S. §1793 (b)

We *have amended* our policy renewal printing process to provide the surcharge disclosure plan.

Title 75, Pa. C.S. §1799.3 (d)

We have amended our policy issuance and printing to include the surcharge disclosure statement specifying the manner in which the surcharge was made and identifying the amount of the surcharge.

Title 75, Pa. C. S. §1822

We have amended our policy declarations to include the fraud warning on renewals.

Private Passenger Automobile – Renewals in a Higher Plan

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

We have endorsed the two policies noted as violations in this section and returned the overcharged premium to the policyholders. We provided the Department with

a copy of the insured's return premium checks as attached to our letter dated February 13, 2008. We have reviewed our internal procedure on applying safe driver insurance plan points versus tier changes.

VII. Claims

A. Automobile Property Damage Claims

Title 31, Pa. Code, Section 146.6 – the Company did not provide timely status letter for two claims notes.

We note that the adjuster had annotated verbal communication, written communication was not accomplished. In the future we will make every effort to ensure enforcement of timely written communication of status to claimants per the requirement of Title 31.

D. Automobile Total Loss Claims

Title 31, Pa. Code, Section 146.7(a)(1) One violation that the Company failed to advise the first-party claimant of the acceptance or denial of the claim within 15 working days after receipt by the insurer of a properly executed proof of loss. We have reviewed our procedures and will make every effort to comply with the 15 working days.

Title 75, Pa. C. S. §1161(a)& (b) Certificate of Salvage Required

Procedural changes have been implemented to ensure certificate of title retained within the claim file and that payment on the vehicle will be accomplished once evidence of the issued certificate of salvage is shown.

E. Automobile First Party Medical Claims

Title 31, Pa. Code, Section 69.52(b) – The Company did not pay the medical bills within 30 days.

Three of these bills were sent for re-pricing and reported to not be received from the re pricing agency, which added to them not being paid within 30 days, however we have reviewed our procedure, tightened the diary dating for reviewing and will make every effort to comply with the 30 day period.

Title 75, Pa. C. S. §1716- The Company did not pay interest on 5 claims that were not paid within 30 days.

We reviewed these files and made interest payments on each as appropriate reflecting the interest due the providers. Any future medical payments that would fall outside the 30-day requirement would be paid with interest. We note the interest due for these five files ranged from \$2.12 to \$54.11.

Title 31, Pa Code Section 69.22 (c) The Company did not send an exhaustion of limits letter to the provider and the insured. Procedural changes have been implemented to ensure compliance to the requirement.

Title 31, Pa. Code Section 146.5 (d)
The Company failed to send the application for benefits form to the first party claimant within 10 working days after receiving notification of claim. Verbal communication to the first party claimant was accomplished. Procedural changes have been implemented to ensure written communication is accomplished within the required time frame.

E. Automobile First Party Medical Claims Referred to a PRO

Title 31, Pa. Code, Section 69.53(a) – The Company failed to have a written contract in place with a peer review organization.

While we have a contract in place for medical bill re-pricing under Act 6, we understand that if bills are submitted for peer review, a written contract must be in place. We hadn't submitted any bills for peer review. However, to fully comply with Title 31, we have since put a written contract in place. A copy of the contract was provided to the Department as attached to our letter dated February 13, 2008.

VIII. Forms

Title 75, Pa. C. S. §1822.

The Company did not provide the fraud warning on the application for benefits claim form.

We believe this to be an isolated case as the applications for benefits form that was given to the examiner was an old original master form within the master file before the warning was placed on it. This form is being updated to have the fraud statement directly on the form. It should be noted that the claims correspondence letter that accompanies the benefits claims form included the fraud statement.

XI. Licensing

For the 17 violations listed, two producers had been appointed as of 7-1-2007, one day out of the experience period for this exam, 4 were appointed in January 2008 and the remaining 11 were appointed prior to May 31, 2008.

In the course of this exam, the Department requested the Company appoint all corporate entities of two group agencies. The reason these corporations had not been appointed was the Company is not contracted with these entities to write

business. Nonetheless, to comply with the request of the Department, we have appointed all these corporate entities, 11 of which were listed as violations. The remaining were appointed prior to May 31, 2008.

XII. Recommendations

The Company's response to the Department's recommendations follows.

1. The Company has reviewed and revised internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2008. We will list the specific reason for cancellation when notice is issued within the first 60 days of coverage.
2. The Company has reviewed and revised internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 7. We have added the required notice of loss information to our midterm and nonrenewals notices. Since the two nonrenewals did state either all the insured's losses, or that they had no loss history, we do not feel the policyholders were adversely affected, however the required notice of loss information is now "hard coded" to all Act 86 notices, thus the insured will receive this notice in all cases, as well as the specific cancellation or nonrenewal reason applicable to their policy.
3. The Company has reviewed Act 86, Section 1. Our normal procedure is to issue the renewal in a time frame that delivers the policy to the insured not less than 30 days before it's expiration. We feel this violation was an isolated case, but we have reinforced the importance of the timely issuance of renewal policies with our underwriting staff.
4. The Company has reviewed Title 75, Pa. C.S §1791.1 (a) and has implemented the procedure to provide an itemized invoice listing minimum coverages at the *time of application*.
5. The Company has reviewed Title 75, Pa. C.S.§1791.1(b) and has implemented the procedure to provide the tort option at *time of application and every renewal* thereafter.
6. The Company has reviewed Title 75, Pa. C.S §1725 and has incorporated the collision damage to rental vehicles notice on the first page of the policy in boldface capital letters.
7. The Company has implemented giving notice to the insured and clearly identifying the amount of surcharge and the manner in which it was made. The recommendations indicate the procedure must be implemented within 30 days of the Report issue date; we are pleased to report that it was

implemented during May 2008.

8. The Company has reviewed underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. We feel this violation is an isolated case as we make every effort to comply with this provision.
9. The Company has implemented notice in prominent type on those policies in which either uninsured or underinsured coverage has been rejected. The recommendations indicate the procedure must be implemented within 30 days of the Report issue date; we are pleased to report that it was implemented during May 2008.
10. The Company has reviewed Title 75, Pa. C.S. 1793(b) to provide the insured with a surcharge disclosure plan at the time of application and renewal. We have implemented this procedure. We had in place to provide the surcharge disclosure plan at time of renewal, however we inadvertently did not print the actual notice. We have reviewed and corrected our internal procedures regarding this procedure.
11. The Company has reviewed Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that we are not determining one account is not in good standing, based on non-compliance of company recommendations of another account for the policyholder. We feel this is an isolated case.
12. The Company has reviewed Act 246, Section 4(a) and (h) and we have reviewed and revised our internal procedures. These include giving notice to the insured and clearly identifying the amount of surcharge and the manner in which it was made, as well as a review of the application of the Safe Driver Insurance Plan and changing to higher tiers.
13. The two premium overcharges noted in the rating section have been refunded to the insureds and proof of such refunds was provided to the Insurance Department. A copy of the insured's return premium checks, issued 1/18/2008, were attached to our letter dated February 13, 2008, showing proof that \$178 was returned to one policyholder and \$149 to the other.
14. The Company has reviewed and revised internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146 so future violations relating to providing claim forms, status letters, and claim acceptance and denials do not occur in the future.

15. The Company now has a written contract in place with an approved peer review organization. A copy of that contract was attached to our letter to the Insurance Department, dated February 13, 2008.
16. The Company has reviewed Title 31, Pa. Code, Section 69.52(b) with the claims staff and every effort will be made to ensure the first party medical bills are paid within 30 days. This has been our practice and we will continue to monitor.
17. The Company has reviewed the first party medical claims, which have not been paid within 30 days. Proof of interest paid was sent to the Insurance Department in our letter dated February 13, 2008. A copy of each interest check was attached to this letter.
18. The Company has reviewed Title 31, Pa. Code, section 69.22 with its claims staff to ensure the provider and insured are properly notified that first-party medical benefits have been exhausted.
19. The Company has reviewed Title 75, Pa. C. S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
20. The Company makes every effort to ensure that all producers are properly appointed. It is our practice to accept business only from producers who are properly licensed and appointed. As of May 2008, to comply with the Department's request, we appointed all corporate entities of our two group agencies, even though they do not have a contract to write business.
21. Concerning the benefits claim form, as indicated above, we believe this to be an isolated case. However, this form is being updated to include the fraud statement directly on the form. Please note the claims correspondence letter that accompanies the benefits claims form included the fraud statement. Regarding the policy declarations, as of May 2008, we have amended it to include the required fraud warning notice.

The Company Management wants to thank the Insurance Department staff for their guidance given during the course of this examination. We also thank them for the professional courtesies extended as we work together to benefit 1st Choice Auto Insurance Co. Pennsylvania policyholders.

Sincerely yours,



Shirley I. Mock, CPCU
Secretary/Vice President Underwriting