

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**CANONSBURG MUTUAL FIRE INSURANCE  
COMPANY**

Canonsburg, Pennsylvania

**AS OF  
November 13, 2009**

**COMMONWEALTH OF PENNSYLVANIA**

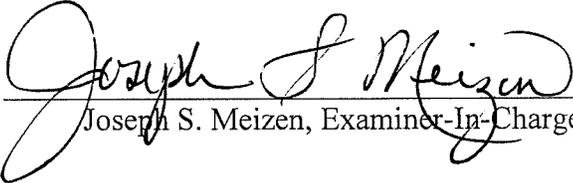


**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: January 5, 2010**

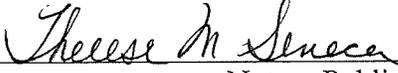
VERIFICATION

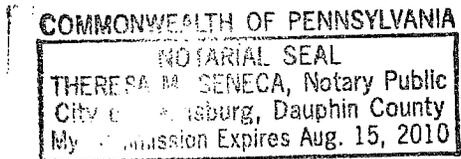
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

  
Joseph S. Meizen, Examiner-In-Charge

Sworn to and Subscribed Before me

This 2 Day of November, 2009

  
Notary Public



# CANONSBURG MUTUAL FIRE INSURANCE COMPANY

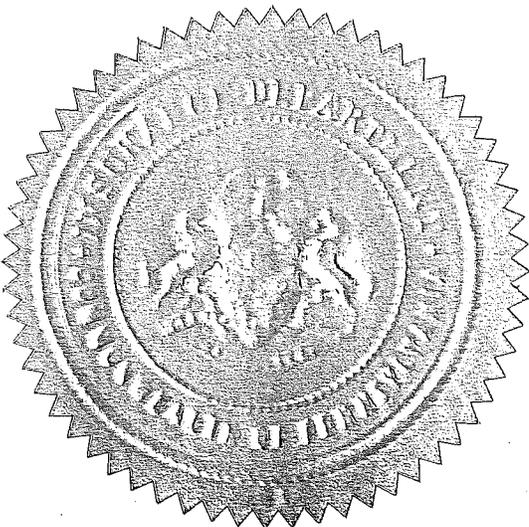
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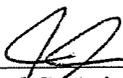
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22<sup>ND</sup> day of July, 2008, 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.



  
\_\_\_\_\_  
Joel S. Ario  
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
CANONSBURG MUTUAL FIRE	:	Section 671-A of Act 147 of 2002
INSURANCE COMPANY	:	(40 P.S. § 310.71)
950 South Central Avenue	:	
Canonsburg, PA 15317	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Sections 3(a)(1) and 3(a)(5) of the Act
	:	of July 3, 1986, P.L. 396, No. 86 (40
	:	P.S. §§ 3403)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(ii), 5(a)(9)(iv) and 5(a)(9)(v) of
	:	the Unfair Insurance Practices Act, Act
	:	of July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	113.88 and 146.6
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC09-12-002

CONSENT ORDER

AND NOW, this 5<sup>th</sup> day of JANUARY, 2010, 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 Canonsburg Mutual Fire Insurance Company, and maintains its address at 950 South Central Avenue, Canonsburg, Pennsylvania 15317.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2008 through December 31, 2008.
- (c) On November 13, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on December 9, 2009.
- (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 3(a)(1) of Act 86 (40 P.S. § 3403), which states the midterm cancellation notice shall be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds;

- (iv) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice state the specific reasons for the nonrenewal, identifying the condition, factor or loss experience which caused the nonrenewal;
  
- (v) 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;
  
- (vi) 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;
  
- (vii) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which prohibits cancellation of any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has

been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued;

- (viii) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (ix) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer;
- (x) Section 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(9)(v)) requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under The PA Fair Plan Act;
- (xi) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;

- (xii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot 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; and
  
- (xiii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

#### 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 Sections 3(a)(1) and 3(a)(5) of Act 86 (40 P.S. §§ 3403) 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.
- (e) Respondent's violations of Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iv) and 5(a)(9)(v) 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.
- (f) 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).

- (g) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 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 described 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 Sharon L. Fraser, Manager, 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.

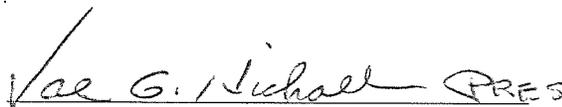
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

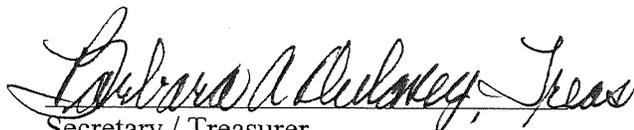
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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 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: CANONSBURG MUTUAL FIRE  
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 Canonsburg Mutual Fire Insurance Company's office located in Canonsburg, Pennsylvania, from August 10, 2009, through August 21, 2009. 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%.

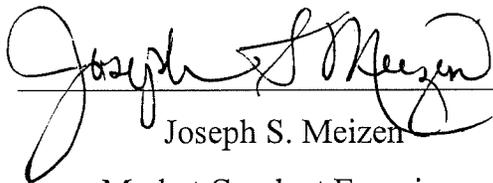
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

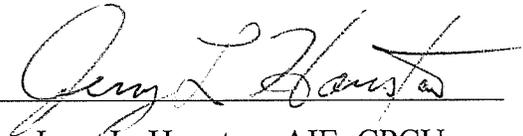
The undersigned participated in this examination and in preparation of this Report.



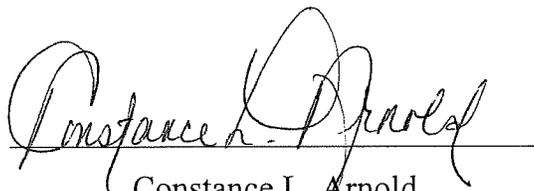
Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief



Joseph S. Meizen  
Market Conduct Examiner



Jerry L. Houston, AIE, CPCU  
Market Conduct Examiner



Constance L. Arnold  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Canonsburg Mutual Fire Insurance Company, hereinafter referred to as “Company,” at their office located in Canonsburg, 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 January 1, 2008, through December 31, 2008, 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. Property
  - 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. Commercial Property
  - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.
3. Claims
4. Forms
5. Advertising
6. Complaints
7. Licensing

### III. COMPANY HISTORY AND LICENSING

Canonsburg Mutual Fire Insurance Company was organized and commenced business on January 20, 1872, as The Farmers Mutual Fire Insurance Company; and was incorporated as The Canonsburg Mutual Fire Insurance Company on May 29, 1914.

The Company was formed and operates on the mutual plan. All persons who insure with the Company are members thereof during the term of their policies and are entitled to attend the annual and/or special meetings of the Company and to vote on any matters coming before such meetings.

In 1977, the Company merged with the Oakdale Mutual Fire Insurance Company. Final approval of the merger was executed by the Pennsylvania Insurance Commissioner on December 28, 1977.

In 1980, the Charter was amended changing the principal office from Oakdale, Pennsylvania to McDonald, Pennsylvania. All changes were properly made and recorded in the necessary courts and offices.

In 1983, the Charter was changed to restate the charter of the Company in one instrument. The new Charter authorized the Company to make insurances of the classes which may be made by fire insurance companies under the provisions of Section 202, of the Insurance Company Law of the Commonwealth of Pennsylvania. The change was approved and recorded.

In 2008, the Charter was amended changing the principal office from McDonald, Pennsylvania to Canonsburg, Pennsylvania.

## LICENSING

Canonsburg Mutual Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on May 29, 1914. The Company is licensed in Pennsylvania. The Company's 2008 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$1,013,693. Premium volume related to the areas of this review were: Fire \$144,354; Farm owners Multiple Peril \$418,589; Homeowners' Multiple Peril \$410,209 and Inland Marine \$8,901.

#### 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 homeowners, dwelling fire and commercial lines. 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 violations were noted:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: 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 race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. Place of residence is an unacceptable risk characteristic for dwelling fire policies. The Company’s dwelling fire guideline lists an unacceptable bullet point which states: “declining neighborhoods as evidenced by vacancies,

reduced market values, influx of commercial or business properties, high crime rates, etc.” Age/occupation is an unacceptable risk characteristic for homeowner policies. The Company’s homeowner guideline lists an unacceptable bullet point which states: “students in dormitories, fraternity, sorority houses or multi-student housing”.

*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 Company’s homeowner policy eligibility requirements state: “We will not write seasonal dwellings unless we also have the insured’s main residence”.

## V. UNDERWRITING

### **A. Property**

#### 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 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

The universe of 2 homeowner policies which were cancelled within the first 60 days of new business was selected for review. Both files were received and reviewed. No violations were noted.

#### 2. Midterm Cancellations

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

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 131 property policies which were cancelled midterm during the experience period, 45 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 45 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 9%.

The following findings were made:

*1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company failed to send a cancellation notice for the file noted.

*3 Violations Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]*

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective.

The Company failed to provide 30 days notice of cancellation for the 3 files noted.

### 3. Nonrenewals

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

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

The universe of 20 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowners, tenant homeowners, commercial fire and owner occupied dwelling fire. 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:

*1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]*

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

*AND*

*Title 31, Pa. Code, Section 113.88*

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company failed to provide a specific reason for nonrenewal for the commercial fire policy noted.

*1 Violation Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]*

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any evidence that a notice of nonrenewal was mailed to the insured for the commercial fire policy noted.

## **B. Commercial Property**

### **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 60<sup>th</sup> day unless the policy provides for a longer period of notification.

The universe of 1 farm owner policy cancelled within the first 60 days was selected for review. The file was received and reviewed. No violations were noted.

## 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 65 commercial property policies cancelled midterm during the experience period, 25 files were selected for review. The commercial property files consisted of commercial inland marine, farm owners and tenant occupied dwelling fire. All 25 files were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

### *2 Violations Act 86, Section 3(a)(1) [40 P.S. §3401]*

The midterm cancellation notice shall be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any documentation in the 2 files noted to indicate a notice of cancellation was mailed to the insured.

### *1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]*

Requires that a cancellation notice shall state the specific

reasons for the cancellation. The reasons shall identify the condition, factor or loss experience, which caused the cancellation. The notice shall provide sufficient information or data for the insured to correct the deficiency.

*AND*

*Title 31, Pa. Code, Section 113.88*

The reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation. The Company did not provide a specific reason for cancellation for the file 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 13 commercial policies nonrenewed during the experience period was selected for review. The commercial files consisted of tenant occupied dwelling fire, commercial fire and farm owner policies. All 13 files were received and reviewed. The violation resulted in an error ratio of 8%.

The following finding was made:

*1 Violation Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]*

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any evidence that a notice of nonrenewal was mailed to the insured.

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 694 commercial property policies renewed during the experience period, 49 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and farm owner policies. All 49 files were received and reviewed. No violations were noted.

## VI. RATING

### **A. Homeowners**

#### 1. New Business

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

#### Homeowner Rating - New Business Without Surcharges

From the universe of 132 homeowner policies written as new business without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The violation resulted in an error ratio of 10%.

The following finding was made:

*1 Violation 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 failed to rate the policy in accordance with their filed and approved rating plan, resulting in an undercharge of \$65.

#### Homeowner Rating – New Business With Surcharges

The universe of 2 homeowner policies reported as new business with surcharges during the experience period was selected for review. Both files were received and reviewed.

During the exam process, it was discovered that the Company did not have a surcharge disclosure plan filed and approved for homeowners and dwelling fire policies. The Company was asked to review and report all homeowner and dwelling fire policies surcharged during October 1, 2008 through September 10, 2009, which was the period of time the Company did not have a surcharge plan filed and approved for homeowners and dwelling fire. The Company also reported a farm owner policy that had an incorrect surcharge.

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. The Company reported 9 homeowner and dwelling fire policies with a surcharge when no filed and approved surcharge disclosure plan was in place, resulting in overcharges of \$778. The Company also reported a farm owners policy that had an incorrect surcharge applied to the policy, resulting in an overcharge of \$109.

## 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 determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

### Homeowner Rating – Renewals Without Surcharges

From the universe of 872 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation resulted in an error ratio of 4%.

The following finding was made:

*1 Violation 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 failed to rate the policy in accordance with their filed and approved rating plan, resulting in an undercharge of \$68.

Homeowner Rating – Renewals With Surcharges

The universe of 14 homeowner policies renewed during the experience with surcharges was selected for review. All 14 files were received and reviewed.

During the exam process, it was discovered that policies were charged an endorsement fee when no request for the endorsement was made. The Company was asked to review and report all their files where this error occurred. The Company reviewed policies from January 1, 2001 through September 9, 2009.

The following findings were made:

*15 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 15 files noted were charged an endorsement fee when no request for the endorsement was made, resulting in overcharges of \$749.

## **B. Tenant Homeowners**

### **1. New Business**

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

From the universe of 18 tenant homeowner policies written as new business without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

### **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 determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

#### Tenant Homeowner Rating - Renewals Without Surcharges

From the universe of 50 tenant homeowner policies renewed without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

#### Tenant Homeowner Rating - Renewals With Surcharges

The universe of 2 tenant homeowner policies renewed with surcharges during the experience period was selected for review. Both files were received and reviewed. After reviewing the two policies, it was determined no surcharge for losses was applied. No violations were noted.

### **C. Dwelling Fire**

#### 1. New Business

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

The universe of 4 dwelling fire policies written as new business during the experience period was selected for review. All 4 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 100%.

The following findings were made:

*4 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 used an improper rate edition for the 4 files noted, resulting in undercharges of \$68.

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 determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require 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.

From the universe of 58 dwelling fire policies renewed without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The 10 violations noted were based on 10 files, resulting in an error ratio of 100%.

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. The Company used an improper rate edition for the 10 files noted, resulting in undercharges of \$119 and an overcharge of \$9.

## 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. Homeowner Claims
- B. Tenant Homeowner Claims
- C. Dwelling Fire Claims

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. Homeowner Claims**

From the universe of 57 homeowner claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

### **B. Tenant Homeowner Claims**

The universe of 2 tenant homeowner claims reported during the experience period was selected for review. Both files were received and reviewed. No violations were noted.

### **C. Dwelling Fire Claims**

The universe of 11 dwelling fire claims reported during the experience period was selected for review. All 11 files were received and reviewed. The violation resulted in an error ratio of 9%.

The following finding was made:

*1 Violation 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 a timely status letter for the claim noted.

### 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)], which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

The following finding was made:

*1 Violation Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]*

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on a proof of loss 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 3 pieces of advertising in use during the experience period. The advertising materials provided included: calendars and a clip board. The Company's internet website 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 identified 3 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 3 files were requested, received and reviewed.

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.

The following findings were made:

*1 Violation Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]*

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The Company failed to advise the insured of their right to request the Insurance Commissioner review the action of the insurer.

*1 Violation Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]*

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The PA Fair Plan Act". The Company did

not advise the insured of his possible eligibility under the Fair Plan for the file noted.

The following synopsis reflects the nature of the 3 complaints that were reviewed.

• 1	Cancellation/Nonrenewal	33%
• 2	Nonpayment	67%
<hr/>		<hr/>
3		100%

## 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 finding was made:

*1 Violation 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 producer was found to be writing policies but was 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.

Tri-County Insurance Group, LLC

## *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 Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do 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, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation requirements of Title 31, Section 113.88, so that the violation noted in the Report does not occur in the future.
4. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the homeowner rating violations listed in the report do not occur in the future.
5. 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.

6. 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 violation relative to status letters, as noted in the Report, does not occur in the future.
7. 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.
8. The Company must ensure that all necessary claim forms contain the required fraud warning notice.
9. 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.
10. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

**XIII. COMPANY RESPONSE**

# Canonsburg Mutual Fire Insurance Co.

P. O. Box 191  
Canonsburg, Pennsylvania 15317  
Tel: (724) 743-4340  
Fax: (724) 743-4342  
www.canonsburgmutual.com

December 4, 2009

Mr. Chester A. Derk Jr., AIE, HIA  
Market Conduct Division Chief  
PENNSYLVANIA INSURANCE DEPARTMENT  
Office of Market Regulation – Bureau of Market Conduct  
1227 Strawberry Square  
Harrisburg PA 17120

RE: Market Conduct Examination  
Examination Warrant Number: 09-M30-008  
Experience Period: 01/01/2008 – 12/31/2008

Dear Mr. Derk:

Following please find our responses to your Report of Examination dated November 13, 2009. The Report has been reviewed and discussed with the staff of Canonsburg Mutual in detail to evaluate all findings. All finding presented in the summary were corrected immediately and have been put in place.

Response to each recommendation follows:

## **UNDERWRITING PRACTICES AND PROCEDURES**

1. ACT 205, Section 5 (a) (7)(iii) [40 P.S. 1171 (a) (7) (iii)] – Unfair Methods of Competition and Unfair or Deceptive Acts of Practices Defined: 2 Violations – Company dwelling fire guidelines lists an unacceptable bullet point which states: “declining neighborhoods as evidenced by vacancies, reduced market values, influx of commercial or business properties, high crime rates, etc.” Age/occupation is an unacceptable risk characteristic for homeowner policies. The Company’s homeowner guidelines list an unacceptable bullet point which states: “students in dormitories, fraternity, sorority house or multi-student housing”. 1 Violation: Company’s Homeowner’s policy eligibility requirements state: “We will not write seasonal dwellings unless we also have the insured’s main residence”.

**RESPONSE** The Company has made total revision of our guidelines, amending and Updating our agent’s manuals, removing these 3 items. Revisions have been sent to all agents.

## PROPERTY

2. Midterm Cancellations - ACT 205, Section 5 – 4 Violations – Company failed to send a cancellation notice for one file and provide 30 day notice of cancellation for 3 files.  
**RESPONSE** Act 205 was thoroughly reviewed and all staff now has the correct understanding of guidelines on the cancellation of policies and all required forms are kept in company files.
3. Nonrenewal – Act 86, Section 3 – 2 Violations - The Company failed to provide a specific reason for nonrenewal for the commercial fire policy and Company did not provide evidence that a notice of nonrenewal was mailed to the insured for the commercial fire policy.  
**RESPONSE:** As above, staff reviewed Act86 and is aware of guidelines for nonrenewal and the proper guidelines are being followed.
4. COMMERCIAL PROPERTIES - Midterm Cancellations Act86, Section 3 - 3 Violations’ – Company did not provide any documentation to indicate a notice of cancellation was mailed to the insured and Company did not provide a specific reason for cancellation.  
**RESPONSE** Discussed with Staff that it is pertinent that all company copies of cancellations be kept in file and that the reason for cancellations be more specific and more detailed.
5. NONRENEWALS - Act 86, Section 3 - 1 Violation –Company did not provide any evidence of a notice of nonrenewal was mailed to the insured.  
**RESPONSE** As stated in Midterm Cancellation, it was reviewed with staff that all necessary paperwork has to be maintained in company’s files.

## RATING

1. Homeowner – New Business Without Surcharges – Act 246, The Casualty and Surety Regulator Act – 1 Violation - The Company failed to rate the policy in accordance with their filed and approved rating plan. Resulting in undercharge of \$65.  
**RESPONSE** Company had mistakenly used an IRPM credit on Homeowners, now made aware that there is not a filing for this credit by the Company. Has removed this from rating files and will not be used until such time as Company has correct filing to be used.
2. Homeowners Rating – New business With Surcharges – Act 246 – 10 Violations - It was discovered that the Company did not have a surcharge disclosure plan file and approved for homeowners and dwelling fire policies.  
**RESPONSE** Company was made aware that they did not have a surcharge filed on homeowners and dwelling. Manager and Staff has removed debits from rating, is aware that policies cannot be surcharged at this time until proper filings have been made. All refunds were immediately sent the Insured’s that were overcharged.

3. Homeowners Rating – Renewals Without Surcharges – Act 246 – 1 Violation The Company failed to rate the policy in accordance with their filed and approved rating plan resulting in an undercharge.

**RESPONSE** As with the New Business without surcharge, Company had mistakenly used an IRPM credit which has not been approved. Rating has been correct and all personnel of company are aware that surcharge is not allowed until filing has been made and approved.

4. Homeowners Rating – Renewals With Surcharges – Act 246 – 15 Violations - 15 files noted were charged an endorsement fee when no request for the endorsement was made – resulting in an overcharge.

**RESPONSE** Company was not aware that they could not apply the endorsement for Actual Cash Value at their discretion. The endorsement has been removed from the Company's files. All return checks were immediately sent to the effected policy holders who were overcharged.

5. Dwelling Fire – New Business – Act 246 - 4 Violations - Dwelling Fire – Renewals – Act 246 – 10 Violations – Company used an improper rate edition, resulting in an undercharge on 13 files and an overcharge on 1 file - New and Renewal Business.

**RESPONSE** Company examined our rating system and manual, plus worked with our Rating vendor and discovered that when a newer rate edition was put in force that one line of coverage was unintentionally omitted at the time of imputing the rates. The Company has immediately verified and updated all rates to the correct version/edition. A refund check was sent immediately on the 1 file that resulted in an overcharge.

#### CLAIMS

1. Dwelling Fire Claims – title 31, Pa. Code Section 146.6 – 1 Violation - the Company did not provide a timely status letter for the claim.

**RESPONSE** Company was using an outside independent claims adjusting firm for all phases of the claim handling and the adjusting firm did not provide the necessary status letter required to the Insured. As of July 2008, we are no longer using this claim source for our claims handling.

#### FORMS

1. Act 165 of 1994 – 1 Violation - Company did not provide the fraud warning on proof of loss form.

**RESPONSE** - All outdated proof of loss forms have been destroyed and Company is using correct forms.

#### CONSUMER COMPLAINTS

1. Act 205, Section 5 – 2 Violations - Company did not advise the insured of their right to request Insurance Commissioner review the action of the insurer and company did not advise the insured of his possible eligibility under the Fair Plan.

**RESPONSE** - Company had used the wrong cancellation form for the policy being cancelled. Company had become aware in late 2008 of correct form to use and the specifics of the form

to be used. Forms that were incorrect have been destroyed and correct cancellation forms are being used, of which states they may be eligible for insurance through "The PA Fair Plan Act".

#### LICENSING

1. Insurance Department Act, No. 147, Section 671-1 - 1 Violation - One producer was found to be writing policies but was 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.

**RESPONSE** The Company had discovered this error and paperwork was submitted to the Insurance Department for licensing for this producer on 1/1/2009.

In conclusion, Canonsburg Mutual Fire Insurance Company wishes to assure you that all recommendations have been complied with, all refunds of overcharges have been paid to the policyholders immediately, and proof of this has been forwarded to the Department at a previous date. All Acts that you have asked us to review, have been done in its entirety, reviewed and discussed with the Staff and also reviewed with the Board Members.

Canonsburg Mutual has made a commitment to better ourselves and work to fullest potentials to satisfy our obligations to the insurance department and to grow into a company in which the department would be pleased to say "a lot was learned by them from their Market Conduct Exam".

In closing, I and our staff want to acknowledge Joseph Neizen and Jerry Houston for the kindness and consideration they gave to us during our exam, their patience and expertise in the teaching field. I, personally, want to thank Constance Arnold for her patience with me on my first experience with this exam. It was a pleasure meeting Constance and you, Mr. Derk, on my exit interview, the kindness shown to me by all of you was greatly appreciated.

Please contact me if there is anything that you may need further explanation on.

Sincerely,



Barbara A Dulaney  
Manager