

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**CENTRE COUNTY MUTUAL FIRE  
INSURANCE COMPANY**

Bellefonte, Pennsylvania

**AS OF  
February 2, 2009**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: March 5, 2009**

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 14 Day of January, 2009

  
Notary Public

COMMONWEALTH OF PENNSYLVANIA  
NOTARIAL SEAL  
THERESA M. SENECA, Notary Public  
City of Harrisburg, Dauphin County  
My Commission Expires Aug. 15, 2010

# CENTRE COUNTY MUTUAL FIRE INSURANCE COMPANY

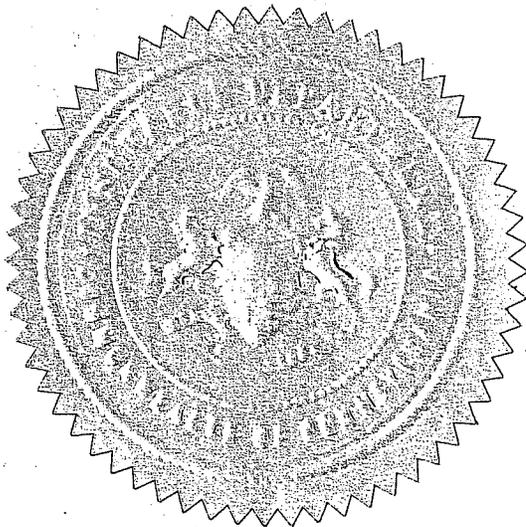
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
CENTRE COUNTY MUTUAL	:	Section 671-A of Act 147 of 2002
FIRE INSURANCE COMPANY	:	(40 P.S. §§ 310.71)
3555 Benner Pike, Suite 100	:	
Bellefonte, PA 16823	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Sections 1 and 3(a)(6) of the Act of
	:	July 3, 1986, P.L. 396, No. 86 (40 P.S.
	:	§§ 3401 and 3403)
	:	
	:	Section 5(a)(9)(ii) 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, Section
	:	146.6
	:	
	:	
Respondent.	:	Docket No. MC09-02-003

CONSENT ORDER

AND NOW, this *5<sup>th</sup>* day of *MARCH*, 2009, 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 Centre County Mutual Fire Insurance Company, and maintains its address at 3555 Benner Pike, Suite 100, Bellefonte, Pennsylvania 16823.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2007 through June 30, 2008.
- (c) On February 2, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on February 18, 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 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;
  - (iv) 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;

(v) 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; and

(vi) 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.

#### 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 1 and 3 of Act 86 (40 P.S. §§ 3401 and 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)(9)(ii) 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 Ten Thousand Dollars (\$10,000.00) 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, 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.

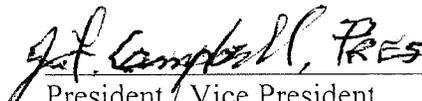
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

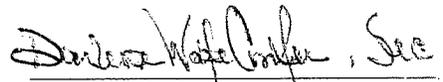
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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: CENTRE COUNTY 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 Centre County Mutual Fire Insurance Company's office located in Bellefonte, Pennsylvania, from June 14, 2008, through June 24, 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.

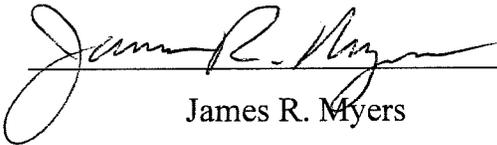
The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

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 Arnold

Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Centre County Mutual Fire Insurance Company, hereinafter referred to as "Company," at their office located in Bellefonte, 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, 2007, through June 30, 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 declinations.
  - Rating – Proper use of all classification and rating plans and procedures.
2. Commercial Property
  - Underwriting – Appropriate and timely notices of midterm cancellations, renewals and declinations.
3. Claims
4. Forms
5. Advertising
6. Complaints
7. Licensing

### III. COMPANY HISTORY AND LICENSING

Centre County Mutual Fire Insurance Company was founded 131 years ago when it was difficult to obtain fire insurance in rural Centre County. Its founders were all members of the Centre County Pomona Grange and their names appear on the charter issued in February 2, 1877. Some of the current policyholders are 5<sup>th</sup> & 6<sup>th</sup> generation relatives of the original signers on the company charter. As the Company grew it expanded its writings outside of Centre County and now provides property insurance throughout Pennsylvania.

In the beginning, the Company records and operations were held in the home of the company secretary. In 1999 the Company's operations moved out of the secretary's residence and into leased premises at 502 Benner Pike, Bellefonte, PA and 5 years later in July of 2004 the Company built a home office located at 3555 Benner Pike, Bellefonte, PA. The Company continues to write personal lines property that includes Homeowners, Mobile-Homeowners, Churches, Farms, Camps and also writes some small commercial policies through 21 independent agencies.

On January 31, 2007 the Company was issued a charter by the Pennsylvania Insurance Department to issue non-assessable policies.

#### LICENSING

Centre County Mutual Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on February 2, 1877. The Company is licensed in Pennsylvania. The Company's 2007 annual statement reflects Direct

Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$1,869,526. Premium volume related to the areas of this review were: Fire \$604,438; Homeowners Multiple Peril \$966,343; Inland Marine \$27,501.

#### **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.

No violations were noted.

## V. UNDERWRITING

### A. Property

#### 1. 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 114 property policies which were cancelled midterm during the experience period, 37 files were selected for review. The property policies consisted of homeowners, tenant homeowners, mobile homeowners and owner occupied dwelling fire. All 37 files were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 19%.

The following findings were made:

*7 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 7 files noted.

## 2. 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 4 homeowner policies which were nonrenewed during the experience period was selected for review. All 4 files were received and reviewed. No violations were noted.

## 3. 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, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

The universe of 2 homeowner files which were identified as declinations by the Company during the experience period was selected for review. Both files were received and reviewed. No violations were noted.

## **B. Commercial Property**

### **1. 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 40 commercial property policies cancelled midterm during the experience period, 28 files were selected for review. The commercial property files consisted of commercial inland marine, commercial fire and tenant occupied dwelling fire. All 28 files were received and reviewed. The 21 violations noted were based on 21 files, resulting in an error ratio of 75%.

The following findings were made:

#### *21 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 an offer of loss information on the notice as required for the 21 files noted.

## 2. 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 defines unfair methods of competition and unfair or deceptive acts or practices

The universe of 1 commercial fire file identified as a declination by the Company was selected for review. The file was received and reviewed. No violations were noted.

## 3. 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 236 commercial property policies renewed during the experience period, 40 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire and commercial inland marine. All 40 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 15%.

The following findings were made:

*6 Violations 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 for the 6 files 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 203 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 138 violations noted were based on the universe of 203 files, resulting in an error ratio of 68%.

The following findings were made:

*138 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 improperly rated policies with Endorsement ML-55, Replacement Cost Coverage on Contents. The Company's rating rule states that the basic policy premium shall be increased by 5% and increase Coverage C from 50% to 70% of Coverage, subject to a minimum charge of \$25. The additional increase in Coverage C shall be charged at \$2.00 per \$1,000 of insurance. These violations resulted in undercharges of \$6,141.19.

## 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 1,841 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 756 violations noted were based on the universe of 1,841 files, resulting in an error ratio of 41%.

The following findings were made:

*756 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 improperly rated policies with Endorsement ML-55, Replacement Cost Coverage on Contents. The Company's rating rule states that the basic policy premium shall be increased by 5% and increase Coverage C from 50% to 70% of Coverage, subject to a minimum charge of \$25. The additional increase in Coverage C shall be charged at \$2.00 per \$1,000 of insurance. These violations resulted in undercharges of \$34,753.32. The Company reviewed all losses paid during the experience period involving this issue and found 1 claim which resulted in an additional payment of \$16,198.80.

**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.

#### Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 23 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. The 5 violations noted were based on 5 files, resulting in an error ratio of 50%.

The following findings were made:

#### *5 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 rated the 5 policies incorrectly, resulting in overcharges of \$85.

#### 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 58 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.

### **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.

Dwelling Fire Rating – New Business

From the universe of 28 dwelling fire policies written as new business during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

Dwelling Fire Rating – Renewals

From the universe of 59 dwelling fire policies renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The violation noted 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 rated the policy incorrectly, resulting in an overcharge of \$23.

## 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 146 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

*4 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 a timely status letter for the 4 claims noted.

**B. Tenant Homeowner Claims**

The universe of 1 tenant homeowner claim reported during the experience period was selected for review. The file was received and reviewed. No violations were noted.

**C. Dwelling Fire Claims**

From the universe of 43 dwelling fire claims reported during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were 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, all claims forms and all renewals of coverage.

No violations were noted.

## *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 2 pieces of advertising in use during the experience period, which included a newspaper and booklet. Internet advertising was 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 complaints 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.

No violations were noted.

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

•	3	Claims Related	100%
	<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.

Dennis E. Leonard – T/A Leonard Insurance 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 Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation 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 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 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 violations relating to status letters, as noted in the Report, do 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 provide proof of the additional payment made on the claim reported by the Company and noted in the Homeowner Rating Renewals Without Surcharge section of the exam.

**XIII. COMPANY RESPONSE**

# CENTRE COUNTY MUTUAL FIRE INSURANCE CO., P. OF H.

3555 Benner Pike – Suite 100  
Phone: 814 355 4855  
Fax: 814-355-4835

Bellefonte, PA  
16823-8474  
E-mail: [ccmfic@comcast.net](mailto:ccmfic@comcast.net)

February 12, 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: Company Response to Examination Warrant Number: 08-M22-016  
Report of Market Conduct Examination

Dear Mr. Derk:

This is our response to your Report of Examination dated February 2, 2009. The recommendations listed at the end of the report have all been reviewed, researched and corrective action has been taken through refinement of systems and procedures, staff training and increased internal audits. Additionally, all of the examiner's findings and initial summaries have been responded to and resolved to the best of our ability. The majority of the examiner's findings presented in the summaries were corrected immediately! In those situations where R/P's were due insureds, those monies have been paid.

The specific response to each recommendation follows:

- 1- The company's management and staff reviewed ACT 205 Section 5(a)(9) [40 P.S. § 1171.5(a)(9)] as soon as the initial summary was given to us. We have refined systems and procedures for cancellations, to be sure adequate mailing times are afforded our insureds. Although the formal cancellation notice had been mailed late for those policyholders discovered by the examiner, in fact the insured had already received a "10-day reminder" of premium due that asks for prompt payment. This was sent out at least 15 days before the Cancellation Notice.
- 2- The company's staff and management has thoroughly reviewed ACT 86 Section 3 [40 P.S. § 3403] and made the necessary modifications in the Cancellation and Non-Renewal forms to be sure they go out with the proper Important Notices.

E-mail: [ccmfic@comcast.net](mailto:ccmfic@comcast.net)

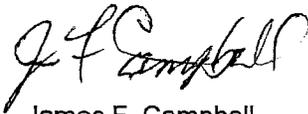
- 3- As above the staff and management has thoroughly reviewed ACT 86 Section 1 [40 P.S. § 3401] and developed the form letters and procedures to be sure the commercial insureds receive their renewal + 30 days prior to the renewal or in lieu of that, have received an appropriate notification letter concerning their premium change + 30 days prior to their renewal.
- 4- When we received the examiner's summary relative to rate filings, an exhaustive search effort was made to find the filings that had to have been done prior to October 2001 and specifically the filings relative to the ML-55 contents coverage. When we could not locate the specific filing requested, our response was immediate and aggressive in that we provided a duplicate of the missing filing that was approved by the PA Insurance Department in October 2009. Our response also stated that our insureds were always considered first as evidenced by the increase in premiums that would have resulted in direct compliance with the examiners findings. Furthermore, we have notified our agents to maximize the Coverage C affected by the minimum premium charge and to review and offer full contents coverage to meet the individual insureds needs.
- 5- The return premiums on 8 policies with a total amount of \$86.00 have all been returned to the insureds. Evidence has been supplied under separate cover.
- 6- Upon notification of the examiner's findings on the four claim files the staff involved and management reviewed Chapter 146 of Title 31, Pennsylvania Code and the procedures in place to notify the insured when claims cannot be settled in 30 days. Two of the 4 claims reviewed were being handled by outside adjustors and communication with the insured had been continuous throughout the period of the open claim. One claim had been closed exactly 30 days after it was opened. The insured was not responding to our inquires and it was discovered the claim damage amount was actually less than the insured's deductible. The last claim was a late mailing of the 30 day letter. However, to insure compliance with the notification timeline we have refined and enhanced the system and procedures to be certain the diary notice on the status of the claim goes out on time!
- 7- Both the manager and the licensing CSR have reviewed the requirements of Insurance Department Act 147 Section 671-A[40 P.S. §310.7] relating to licensing agencies with the company. We will be conducting monthly audits of active agents, report new and cancelled or retired agents and do a thorough audit of the annual Insurance Department billing which shows all licensed producers as of year end 12-31-0X of the prior year. These efforts will prevent a licensed producer from writing with the company without notification made to the Pennsylvania Insurance Department.

8- This recommendation was complied with and report sent under separate cover, in compliance with privacy act mandates.

We found Mr. James R. Myers, Market Conduct Examiner, to be courteous, expedient, fair and a consummate professional. His communications and explanation of his finding were clear and helpful.

Conclusion: CCMIC, the company is in the process of transitioning to a new policy issuance system with considerably less redundancy and reliance on manual handling procedures. We expect that the automated diary in the system will speed compliance of insurance department regulations which surfaced in the examination. Through the efficiencies of automation, the management and staff will find more time to do internal audits to verify quality of our output and help eliminate the errors found in this examination.

Sincerely,

A handwritten signature in black ink, appearing to read "J F Campbell". The signature is written in a cursive, flowing style.

James F. Campbell  
President

Cf: Executive Committee of the Board of Directors