

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

CONTINENTAL CASUALTY COMPANY
Chicago, Illinois

**AS OF
June 16, 2009**

COMMONWEALTH OF PENNSYLVANIA

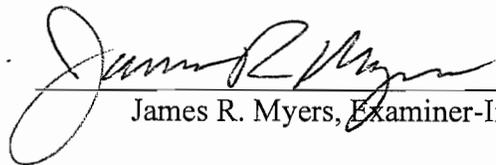


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 12, 2009

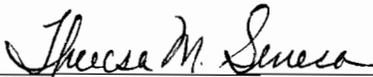
VERIFICATION

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 11 Day of May, 2009


Notary Public

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

CONTINENTAL CASUALTY COMPANY

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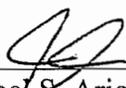
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND 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:
: :
CONTINENTAL CASUALTY : Sections 641.1-A and 671-A of Act
COMPANY : 147 of 2002 (40 P.S. §§ 310.41 and
333 South Wabash Avenue : 310.71)
Chicago, IL 60604 : :
: Section 903(a) of the Insurance Department
: Act, Act of May 17, 1921, P.L. 789,
: No. 285 (40 P.S. §323.3)
: :
: Sections 1, 2, 3(a)(1), 3(a)(2), 3(a)(3)(ii),
: 3(a)(5), 3(a)(6), 4(a) and 4(b) of the Act
: of July 3, 1986, P.L. 396, No. 86 (40
: P.S. §§ 3401, 3402, 3403 and 3404)
: :
: Title 31, Pennsylvania Code, Section
: 113.88
: :
Respondent. : Docket No. MC09-07-003

CONSENT ORDER

AND NOW, this 12th day of August, 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 Continental Casualty Company, and maintains its address at 333 South Wabash Avenue, Chicago, Illinois 60604.
- (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 June 10, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on July 16, 2009.
- (e) The Examination Report notes violations of the following:

- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);

- (ii) 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).

- (iii) Section 903(a) of the Insurance Department Act (40 P.S. §323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

- (iv) 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;

- (v) Section 2 of Act 86 (40 P.S. § 3402), which states canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section;

- (vi) 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;

- (vii) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination;

- (viii) Section 3(a)(3)(ii) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination;

- (ix) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying 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;

- (x) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or nonrenewal 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;
- (xi) Section 4(a) of Act 86 (40 P.S. § 3404), which requires that unearned premium must be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer;
- (xii) Section 4(b) of Act 86 (40 P.S. § 3404), which requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured; and
- (xiii) 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.

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 Sections 641.1-A and 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 1, 2, 3 and 4 of Act 86 (40 P.S. §§ 3401, 3402, 3403 and 3404), 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.

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 Twenty Thousand Dollars (\$20,000.00) 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 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 it 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 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.

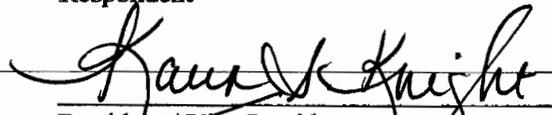
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

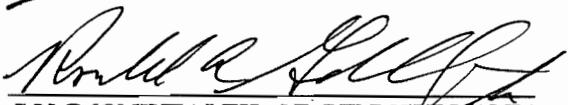
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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: CONTINENTAL CASUALTY COMPANY,
Respondent



President / Vice President
and Chief Compliance Officer

Secretary / Treasurer


COMMONWEALTH OF PENNSYLVANIA
By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Continental Casualty Company's office located in Chicago, Illinois, from November 3, 2008, through December 12, 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%.

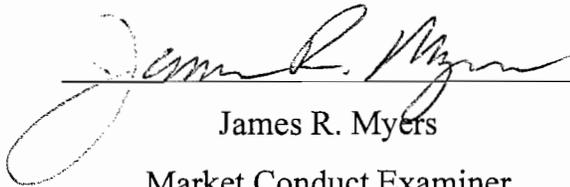
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel.

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.



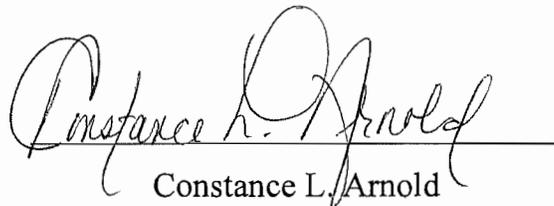
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Continental Casualty Company, hereinafter referred to as “Company,” at their office located in Chicago, Illinois. 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. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, renewals and declinations.
2. Commercial Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, renewals and declinations.
3. Workers’ Compensation
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.
4. Medical Malpractice
 - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellations.
5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Continental Casualty Company was incorporated under the laws of Illinois, in 1948, under the temporary title of Concasco Casualty Insurance Company to act as the vehicle for the transfer of the corporate domicile of the Continental Casualty Company from Indiana to Illinois. The predecessor Company was incorporated under the laws of Indiana and began business under the title Continental Assurance Company of North American in 1897. The present title was adopted November 1, 1900.

LICENSING

Continental Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2009. The Company is licensed in all states, District of Columbia, Puerto Rico and U.S. Virgin Islands. It is also licensed in all Canadian provinces and territories. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$150,391,547. Premium volume related to the areas of this review were: Fire \$1,146; Commercial Multiple Peril (Non-liability portion) \$3,127,518; Commercial Multiple Peril (Liability portion) \$2,293,184; Inland Marine \$33,377,807; Medical Malpractice \$4,930,748; Workers' Compensation \$7,141,291; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$44,034; Other Commercial Auto Liability \$3,274,723 and Commercial Auto Physical Damage \$820,579.

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 commercial automobile, commercial property, workers' compensation and medical malpractice. 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. 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 60th day unless the policy provides for a longer period of notification.

The universe of 2 commercial package policies cancelled within the first 60 days, 6 files were 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 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 213 commercial property policies cancelled midterm during the experience period, 27 files were selected for review. The

commercial property files consisted of commercial package, commercial inland marine and commercial fire. All 27 files were received and reviewed. The 18 violations noted were based on 16 files, resulting in an error ratio of 59%.

The following findings were made:

1 Violation Act 86, Section 2 [40 P.S. §3402]

Grounds for cancellation. Cancelling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The file noted was cancelled for “failure to provide underwriting information”.

3 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.

AND

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

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company produced incomplete files. There was no documentation in the 3 files noted to indicate a notice of cancellation was mailed to the insured, reason for cancellation

or if the notice met format requirements.

2 Violations Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a cancellation notice shall state the specific reasons for 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. The Company did not provide a specific reason for cancellation for the 2 files noted.

5 Violations Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not return the unearned premium to the insured within 10 business days after the effective date of termination for the 5 files noted.

7 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the 7 files noted.

2. 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.

From the universe of 90 commercial property policies nonrenewed during the experience period, 40 files were selected for review. The commercial property policies consisted of commercial fire, commercial inland marine and commercial package. All 40 files were received and reviewed. The 11 violations noted were based on 8 files, resulting in an error ratio of 20%.

The following findings were made:

4 Violations 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 did not provide a specific

reason for nonrenewal for the 4 files noted. Reasons included: “unfavorable loss experience, adverse loss ratio and underwriting reasons”.

7 Violations Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company produced incomplete files. There was no documentation in the 7 files noted to indicate a notice of nonrenewal was mailed to the insured, reason for nonrenewal or if the notice met format requirements.

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 2,131 commercial property policies renewed during the experience period, 60 files were selected for review. The commercial property policies consisted of commercial fire, commercial inland marine and commercial package. All 60 files were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 13%.

The following findings were made:

8 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 8 files noted.

4. Declinations

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

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

From the universe of 5,032 commercial property files identified as declinations by the Company, 60 files were selected for review. All 60 files were received and reviewed. The policies consisted of commercial fire, commercial inland marine and commercial package. Of the 60 files requested, 10 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The Company needs to retain documentation for risks that are declined.

B. Commercial Automobile

1. 60-Day Cancellations

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

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

The universe of 5 commercial automobile policies cancelled within the first 60 days was selected for review. All 5 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 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 80 commercial automobile policies cancelled midterm during the experience period, 4 files were selected for review. All 4 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

The 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.

From the universe of 47 commercial automobile policies nonrenewed during the experience period, 16 files were selected for review. All 16 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 25%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal for the file noted.

3 Violations 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 did not provide a specific reason for nonrenewal for the 3 files noted. Reasons included: “The risk no longer meets our underwriting guidelines, adverse loss experience and loss experience”.

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 911 commercial automobile policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

4. Declinations

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

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

From the universe of 39 commercial automobile files identified as declinations by the Company, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

C. Workers' Compensation

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 purpose of the review was to determine compliance with Insurance Company Law, Section 653 (40 P.S. §813), which prohibits cancellation with exceptions for nonpayment of premium or by request of the insured.

The universe of 17 workers' compensation policies cancelled within the first 60 days of new business was selected for review. All 17 files were received and reviewed. All 17 files were identified as midterm cancellations. The 8 violations noted were based on 6 files, resulting in an error ratio of 35%.

The following findings were made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such

manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company produced an incomplete file. There was no documentation on termination within the file.

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal.

6 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the 6 files noted.

2. Midterm Cancellations

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

The purpose of the review was to determine compliance with Insurance Company Law, Section 653 (40 P.S. §813), which prohibits midterm cancellation with exceptions for nonpayment of premium or by request of the insured.

The universe of 63 workers' compensation policies identified as midterm cancellations was selected for review. All 63 files were received and reviewed. The 34 violations noted were based on 34 files, resulting in an error ratio of 54%.

The following findings were made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company provided an incomplete file. There was no documentation in the file to determine compliance.

33 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]
Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the 33 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

The universe of 9 workers' compensation policies nonrenewed during the experience period was selected for review. All 9 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 22%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal.

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 did not provide a specific

reason for nonrenewal. The reason for nonrenewal was “potential exposures for loss are too great and no longer meets underwriting criteria”.

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 1,022 workers’ compensation policies which were renewed 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 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 4 files noted.

D. Medical Malpractice

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 64 medical malpractice policies cancelled midterm during the experience period, 2 files were selected for review. All 2 files were received and reviewed. The violation noted resulted in an error ratio of 50%.

The following finding was made:

1 Violation Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the file noted.

2. 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.

From the universe of 30 medical malpractice policies nonrenewed during the experience period, 15 files were selected for review. All 15 files were received and reviewed. Of the 15 files reviewed, 4 were identified as midterm cancellations. The 12 violations noted were based on 11 files, resulting in an error ratio of 73%.

The following findings were made:

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

Requires that a cancellation or 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 cancellation or nonrenewal was mailed to the insured, the reason for termination or that it met format requirements.

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

Requires that a cancellation or nonrenewal 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 8 files noted.

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

Requires that a Midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company failed to provide at least 15 days notice for nonpayment of premium.

VI. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting files were 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.

No violations were noted.

VII. 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 246 pieces of advertising in use during the experience period which included 70 print advertisements, 61 online advertisements and 115 trade magazine advertisements. Internet advertising was also reviewed. No violations were noted.

VIII. 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 13 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 13 complaint 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.

No violations were noted.

The following synopsis reflects the nature of the 13 complaints that were reviewed.

•	7	Claims	54%
•	4	Nonpayment Cancellations	31%
•	2	Premium Related	15%
	<hr/>		<hr/>
	13		100%

IX. LICENSING

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

The following findings were made:

2 Violations Insurance Department Act, No. 147, Section 641.1A

[40 P.S. §310.41a]

(a) Any insurance entity or licensee accepting applications or orders for insurance from any person or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

The following producers were found to be writing and/or soliciting policies but were not found in Insurance Department records as holding a Pennsylvania producer license.

BFIA/UPS-MBE
Skinner Robinson Agency, LLC

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

(40 P.S. §310.71)

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

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

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

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

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

Amwins Insurance Brokerage of CA
BCC Facilities, Inc.
C & M First Services, Inc.
Capacity Coverage CO. of NJ, Inc.
Insurance Incorporated
Pennsylvania Insurance Alliance
Property Risk Services, Inc.

X. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2, 3 and 4 [40 P.S. §§3402, 3403 and 3404], so that the violations noted in the Report do not occur in the future.
2. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that 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 ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

XI. COMPANY RESPONSE



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CNA Law Department

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July 16, 2009

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

RE: Market Conduct Examination Warrant: 08-M22-017
(Report of Examination)

Cc: Constance Arnold & James R. Myers

Dear Mr. Derk:

This document serves as Continental Casualty Company's ("CCC") written submission and response to the above referenced Market Conduct Exam Report ("Exam Report") received on June 16,, 2009. The examination covered CCC's operations in commercial property, commercial automobile, workers' compensation, medical malpractice, forms, advertising, complaints and licensing during the period of July 1, 2007 through June 30, 2008.

Throughout the course of the examination, CCC reviewed applicable files for the items cited and provided timely responses to each item. As a result of CCC's efforts, it is our position that all of the issues cited have been or will be successfully addressed. At this time, we would like to take the opportunity to comment on the findings listed in Sections V, X and IX of the report.

SECTION V – UNDERWRITING

A. COMMERCIAL PROPERTY

Midterm Cancellations

The examiners selected 27 out of 213 commercial property policies that were cancelled midterm to review and 18 violations were noted. The examiner cited 1 violation pursuant to 40 PS 3402 for not using a cancellation reason enumerated in this section. This was an inadvertent error and we have reminded employees that they need to use enumerated cancellation reasons.

The examiners also cited 3 Violations pursuant to 40 PS 3401 and 40 PS 323.3 for failure to deliver cancellation notices via registered or first class mail and for not maintaining documents for review. It is our normal business practice to send all notices by registered or first class mail and we reinforced the need to maintain documentation of the same in the underwriting files.

The examiners also cited 2 violations pursuant to 40 PS 3403(a)(5) for failure to provide a specific reason for cancellation. We respectfully disagree and maintain our position that the reasons provided reasonably sufficient information for the insured to correct the deficiency in accordance with regulatory requirements.

The examiners also cited 5 violations pursuant to 40 PS 3404(a) and 7 violations pursuant to 40 PS 3404(b) for failure to timely return premium to the insured upon midterm cancellation of a policy. Our goal is to always treat our insureds in a fair and compliant manner.

To this end, the timely return of premium is an important process. If a return is due, it is either paid directly to the insured or made available to the producer for further disbursement depending on the type of payment/billing plan selected by the insured. If the insured has an outstanding balance, we exercise our right of offset and apply the funds to the insured's account. In light of the examination findings, we are reviewing our procedures to identify ways to improve our refund process when a policy is cancelled midterm. It should be noted that in some instances, the policy was cancelled and reinstated so no return premium was actually due to insured.

Non-renewals

The examiners selected 40 out of 90 commercial property policies that were non-renewed to review and 11 alleged violations pursuant to 40 PS 3404(a)(5) and Title 31 Pa C.S. 113.88 were cited. Of the policies reviewed, the examiners cited 4 policies for not having nonrenewal notices that were specific enough for the average person to understand. While we maintain our position that we did not violate the applicable rules and regulations identified in this section, we will follow up with employees to make sure they understand these requirements.

The examiners also cited 7 violations pursuant to 40 PS 323.3 for lack of documentation. We maintain our position that several of the policies were multi-location large property policies with several participating insurers. In circumstances where a sophisticated insured decides to restructure its insurance program, thus eliminating a participating insurer from the account, there is no need of a notice because this is an insured initiated act. In fact, even if a nonrenewal notice were needed it is our position that the rules and regulations of the primary risk state would be controlling. It is our opinion that a non-renewal notice is not required when the insured initiates changes or revises its insurance needs directly or through its broker. Notwithstanding this, we are viewing methods to determine efficiently maintain records to confirm insured initiated requests.

Renewals

The examiners selected 60 out of 2131 commercial property renewal policies to review and 8 alleged violations were noted pursuant to 40 PS 3401 for not providing 30 days notice of increase in renewal premium.

Most of the policies at issue are large property policy for sophisticated insureds managed by knowledgeable brokers. Policies of this nature are handled by the insured's broker. Thus locations, values and other variables that impact the premium are often changed, at the insured's request, up until the week prior to the renewal. Changes to the locations and values at renewal for policies of this nature, at the last minute, are normal industry practices large accounts of this nature. In this situation, it is virtually impossible to send a definitive 30 day notice.

B. COMMERCIAL AUTO

Non-renewals

The examiners selected 16 of the 47 commercial auto policies that were non-renewed and 4 alleged violations were noted. 1 violation was cited pursuant to 40 PS 3401 for not providing at least 60 days notice of non-renewal and 3 violations were cited pursuant to 40 PS 3403(a)(5) and Title 31 Pa C.S. 113.88 for failure to provide a specific reason for non-renewal. It was an inadvertent error that timely notice was not given for 1 policy. We will reinforce the need to provide timely notice of non-renewal and to include a specific nonrenewal reason on each notice.

C. WORKERS COMPENSATION

60 Day Cancellations

The examiners selected 17 of the 17 workers' compensation policies to review and 8 alleged violations were noted. 1 violation was cited pursuant to 40 PS 323.3 for lack of documentation, 1 violation was cited pursuant to 40 PS 3403(a)(2) for not providing at least 60 days notice of non-renewal. These 2 separate violations were both unintentional human errors.

The examiners cited 6 violations for not returning the unearned premium to the insured within 30 days after policy termination. Our goal is to always treat our insureds in a fair and compliant manner. To this end, the timely return of premium is an important process. If a return is due, it is either paid directly to the insured or made available to the producer for further disbursement depending on the type of payment/billing plan selected by the insured. If the insured has an outstanding balance, we exercise our right of offset and apply the funds to the insured's account. In light of the examination findings, we are reviewing our procedures to identify ways to improve our refund process when a policy is cancelled midterm. It should be noted that in some instances, the policy was cancelled and reinstated so no return premium was actually due to insured.

Midterm Cancellations

The examiners selected 63 of the 63 workers' compensation policies that were cancelled midterm and 34 violations were noted. One alleged violation pursuant to 40 PS 323.3 for lack of documentation, and 33 violations pursuant to 40 PS 3404(b) for not returning the unearned premium to the insured within 30 days after policy termination.

Our goal is to always treat our insureds in a fair and compliant manner. To this end, the timely return of premium is an important process. If a return is due, it is either paid directly to the insured or made available to the producer for further disbursement depending on the type of payment/billing plan selected by the insured. If the insured has an outstanding balance, we exercise our right of offset and apply the funds to the insured's account. In light of the examination findings, we are reviewing our procedures to identify ways to improve our refund process when a policy is cancelled midterm. It should be noted that in some instances, the policy was cancelled and reinstated so no return premium was actually due to insured.

Non-renewals

The examiners selected 9 of the 9 workers' compensation policies that were non-renewed and 2 violations were noted. 1 violated was cited pursuant to for not providing at least 60 days notice of non-renewal and 1 violation pursuant to 40 PS 3403(a)(5) and Title 31 Pa C.S. 113.88 for failure to provide a specific reason for non-renewal. Again, we believe 1 violation for each policy was an inadvertent mistake. We will reinforce the need to provide timely notice of non-renewal and to include a specific nonrenewal reason on each notice has been reiterated.

Renewal

The examiners selected 25 of the 1022 workers' compensation policies that were renewed to review and 4 alleged violations were noted pursuant to 40 PS 34031 for failure to provide the insured with at least 30 days advance notice on an increase in renewal premium. It is our normal procedures to provide notice within the requisite time and we believe that failure to provide such notice in this instance was due to unintended oversight.

D. MEDICAL MALPRACTICE

Midterm Cancellations

The examiners selected 2 of the 64 med mal policies that were cancelled within the first 60 days and 1 violation was noted pursuant to 40 PS 3404(b) for not returning the unearned premium within the requisite time period. It is our position that failure to provide the unearned premium in a timely manner for 1 policy was an unintentional mistake. In addition, the examiners conclusion of 50% error ratio is an unrealistic picture of our compliance.

Non-renewals

The examiners selected 15 of the 30 med mal policies that were non-renewed and 12 violations were noted. Three (3) violations were noted pursuant to 40 PS 3404(a)(1) for not providing documentation demonstrating that notice was mailed to the insured, that the reasoning for non-renewal was sufficient, and that regulatory formatting was met.

We respectfully disagree and maintain our position that when an account is not domiciled or contains a location in the State of Pennsylvania, that we do not need to provide a Pennsylvania cancellation notice.

SECTION IX – LICENSING

The examiners reviewed a list of all producers that were active or terminated during the examination time period to verify proper producer licensing and appointments pursuant to 40 PS 310.41(a) and 40 PS 310.71.

Two (2) violations were noted pursuant to 40 PS 310.41(a) and 7 violations were noted pursuant to 40 PS 310.71. Section 40 P.S. §310.71 does not require an appointment of the insurance producer not acting as a representative of an insurer in the State of Pennsylvania. In addition, the producers in question were brokers acting on behalf of the insured.

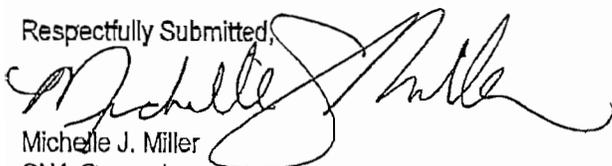
SECTION X – RECOMMENDATIONS

We appreciate the recommendations outlined by the Pennsylvania Department of Insurance. We set high standards at our company and one of our goals is to excel in our ability to operate within regulatory compliance. We are also a customer focused organization and we believe the timely communication with customers is a key component for long lasting business relationships. Accordingly, we will revisit our internal processes and procedures to address your recommendations. Lastly, while we appreciate the examiners observations and recommendations we are excited to know that the issues identified in this examination has not significantly impacted our customers in the State of Pennsylvania. There were less than 15 complaints filed within the experience period and the examiners did not identify any violations as noted in Section VIII of the report. We have started and will continue reviews of our internal procedures. We will also revise our procedures as needed to ensure compliance with the measures presented.

CONCLUSION

We are committed to providing outstanding insured service and ensuring compliance with all state rules and regulations. We will continue to work diligently to improve our processes, procedures and programs in order to better serve the State of Pennsylvania. Pennsylvania is an important state for CNA. We appreciate the opportunity to provide our comments to the current market conduct examination. If you have any questions or concerns, please feel free to contact me.

Respectfully Submitted,



Michelle J. Miller
CNA Counsel