

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

Bridgeton, New Jersey

**AS OF
July 14, 2008
COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 15, 2008

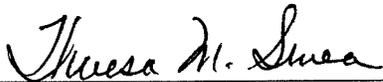
VERIFICATION

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


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

Sworn to and Subscribed Before me

This 30 Day of June, 2008



Notary Public

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

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

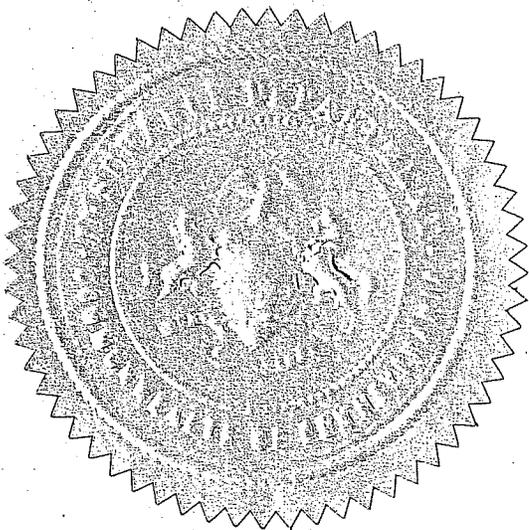
TABLE OF CONTENTS

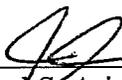
Order	
I.	Introduction..... 1
II.	Scope of Examination..... 3
III.	Company History/Licensing..... 5
IV.	Underwriting Practices and Procedures..... 6
V.	Underwriting
	A. Property..... 7
	B. Commercial Property..... 10
VI.	Rating
	A. Homeowners..... 14
	B. Tenant Homeowners..... 16
	C. Dwelling Fire..... 19
VII.	Claims..... 21
VIII.	Forms..... 23
IX.	Advertising..... 24
X.	Consumer Complaints..... 25
XI.	Licensing..... 27
XII.	Recommendations..... 30
XIII.	Company Response..... 32

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

Cumberland Mutual Fire Insurance Company
Market Conduct Examination as of the
close of business on July 14, 2008

Docket No.
MC08-07-029

ORDER

A market conduct examination of Cumberland Mutual Fire Insurance Company (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, *et seq.*, for the period January 1, 2007 through December 31, 2007. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

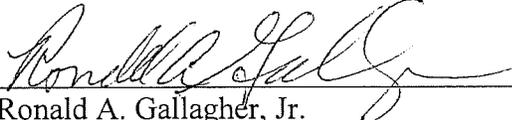
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with the recommendations contained in the attached Report.

4. 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.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania



Ronald A. Gallagher, Jr. (August 15, 2008)
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Cumberland Mutual Fire Insurance Company's office located in Coatesville, Pennsylvania, from May 9, 2008, through June 9, 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%.

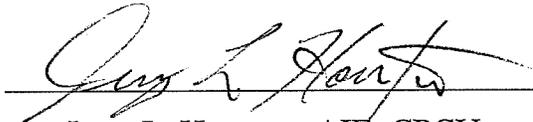
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

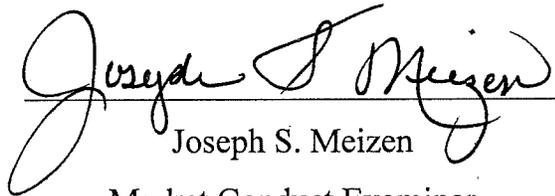
The undersigned participated in this examination and in preparation of this Report.



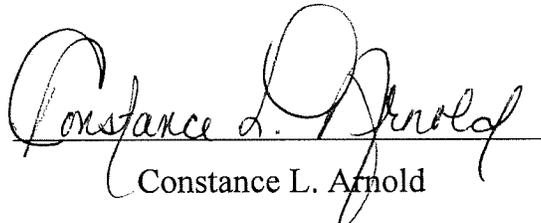
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Jerry L. Houston, AIE, CPCU
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Cumberland Mutual Fire Insurance Company, hereinafter referred to as “Company,” at their office located in Coatesville, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2007, through December 31, 2007, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Property

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

2. Commercial Property

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and renewals.

3. Claims

4. Forms

5. Advertising

6. Complaints

7. Licensing

III. COMPANY HISTORY AND LICENSING

Cumberland Mutual Fire Insurance Company was incorporated on February 23, 1844, under the laws of New Jersey and commenced business on May 1, 1844. The Company owns 100% of the stock of Cohanzick Holding Company, Inc., which was formed on August 16, 1982, to acquire all of the stock of Cumberland Insurance Company.

LICENSING

Cumberland Mutual Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2008. The Company is licensed in Delaware, Maryland, New Jersey, Ohio and Pennsylvania. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$16,229,453. Premium volume related to the areas of this review were: Fire \$301,535; Homeowners Multiple Peril \$11,283,615; Commercial Multiple Peril (Non-liability portion) \$2,299,362; Commercial Multiple Peril (Liability portion) \$1,121,847 and Inland Marine \$353,278.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guidelines were furnished for personal and commercial property. 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. 60-Day Cancellations

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

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

From the universe of 410 property policies which were cancelled within the first 60 days of new business, 55 files were selected for review. The policies consisted of homeowner, tenant homeowner and dwelling fire. All 55 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 2,499 property policies which were cancelled midterm during the experience period, 85 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 85 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 2%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company cancelled the 2 files noted for an increase in hazard which was not substantiated.

3. Nonrenewals

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

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

From the universe of 112 property policies which were nonrenewed during the experience period, 51 files were selected for review. The property policies consisted of homeowner and owner occupied dwelling fire. All 51 files were received and reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 18%.

The following findings were made:

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

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

approved by the Commissioner. The Company nonrenewed the 9 files noted for reasons associated with the umbrella endorsement.

B. Commercial Property

1. 60-Day Cancellations

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

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

From the universe of 47 commercial property policies that were identified by the Company as being cancelled in the first 60 days of new business, 28 files were selected for review. The policies consisted of commercial package and tenant occupied dwelling fire. All 28 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 421 commercial property policies cancelled midterm during the experience period, 43 files were selected for review. The commercial property files consisted of commercial package and tenant occupied dwelling fire policies. All 43 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 5%.

The following findings were made:

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

Requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination. The Company did not provide at least 60 days notice of cancellation for the 2 files noted.

3. Nonrenewals

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

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

From the universe of 41 commercial property policies nonrenewed during the experience period, 26 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial

fire and commercial package. All 26 files were received and reviewed. No violations were noted.

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 2,303 commercial property policies renewed during the experience period, 60 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and commercial package. All 60 files were received and reviewed. No violations were noted.

5. Declinations

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

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

From the universe of 337 commercial property declinations reported by the Company during the experience period, 31 files were selected for review. All 31 files requested were received and reviewed. The violation noted was resulted in an error ratio of 3%.

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company refused to write a policy due to no supporting business.

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 2,056 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. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Homeowner Rating – New Business With Surcharges

From the universe of 121 homeowner policies written as new business with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 15,309 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review.

All 25 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Homeowner Rating – Renewals With Surcharges

From the universe of 136 homeowner policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Tenant Homeowner Rating – New Business With Surcharges

The universe of 5 tenant homeowner policies written as new business with surcharges during the experience period was selected for review. All 5 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 894 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowners policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 Without Surcharges

The universe of 11 dwelling fire policies written as new business without surcharges was selected for review. All 11 files were received and reviewed. No violations were noted.

2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

Dwelling Fire Rating – Renewals Without Surcharges

From the universe of 178 dwelling fire policies renewed without surcharges, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

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 1,046 homeowner claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

B. Tenant Homeowner Claims

The universe of 12 tenant homeowner claims reported during the experience period was selected for review. All 12 files were received and reviewed. The violation noted resulted in an error ratio of 8%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

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

C. Dwelling Fire Claims

The universe of 16 homeowner claims reported during the experience period was selected for review. All 16 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 and all claims forms.

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).

The Company provided 10 pieces of advertising in use during the experience period, which included brochures, agent's kits, novelties, radio and television, mail solicitation and a newsletter. The Company's internet web site was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 25 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 25 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.

The following findings were made:

4 Violations Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]

Requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint. The Company did not maintain complete complaint registers for 2003, 2004, 2005 and 2006. The registers failed to include the classification by line of insurance.

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

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

The following synopsis reflects the nature of the 25 complaints that were reviewed.

•	14	Claims Related	56%
•	6	Claims	24%
•	5	Miscellaneous	20%
	<hr/>		<hr/>
	25		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 findings were made:

*1 Violation 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 producer was found to be writing and/or soliciting policies but was not found in Insurance Department records as holding a Pennsylvania producer license.

Balliet Insurance Agency, Inc.

16 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.

Affolder & Associates, Inc.
AIS Insurance Group, Inc.
Business Insurance Services, Inc.
Deiley Insurance Services, Inc.
DLW Enterprises-The Insurance Agency Connection
Dunhour Agency, Inc.
GJH Insurance Center, Inc.
Goins & Hewitt, LLP
Gooder Agency, Inc.
Grigson Insurance Agency, Inc.
Knies Insurance Group, Inc.
New Castle Insurance, LTD
Reiner, Warren G., Inc.
Trident Insurance Agency Company
Thomas H. Heist Insurance Agency, Inc.
Nottingham Agency, Inc.

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 and nonrenewal notices, as noted in the Report, do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.
4. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violation relating to status letters, as noted in the Report, does not occur in the future.
5. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)], to ensure that the violations relative to complaint records noted in the Report does not occur in the future.

6. 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.

XIII. COMPANY RESPONSE



Established 1844

THE CUMBERLAND INSURANCE GROUP

August 8, 2008

DHL OVERNIGHT DELIVERY

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

**RE: Cumberland Mutual Fire Insurance Company
Examination Warrant Number: 08-M19-003**

Dear Mr. Derk,

We are in receipt of the Report of Examination of Cumberland Mutual Fire Insurance Company covering the period January 1, 2007 through December 31, 2007. Enclosed you will find our response to the recommendations noted. As you can see from our responses, we have implemented or are in the process of implementing the necessary corrective actions to avoid any future violations.

We would like to thank Jerry Houston, Joe Meizen, and Constance Arnold for the professionalism they displayed during this examination.

Please feel free to contact me should you have any questions concerning our responses.

Sincerely,

Richard M. Ritter
Executive Vice President

cc: Lisa C. Koelln, Vice President Underwriting

XII. COMPANY RESPONSE

Recommendation #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 and nonrenewal notices, as noted in the Report, do not occur in the future.

Response #1

There were two violations noted for improper cancellation of owner-occupied private residential properties due to increase in hazard which were not substantiated. Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] was reviewed with the underwriters to ensure proper understanding of the cancellation laws in Pennsylvania.

In addition, nine violations were noted for improper nonrenewal reasons. The Company nonrenewed nine files due to reasons associated with the umbrella endorsement. The Company ceased sending nonrenewal notices due to reasons associated with the umbrella endorsement in May 2007 when we first became aware of our violation of Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]. We are currently working on programming and filing a stand-alone personal umbrella policy. Implementation date is tentatively set for end of the first quarter of 2009.

Recommendation #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.

Response #2

There were two violations noted for failure to provide at least 60 days advance notice of cancellation to the insured. These violations were both due to human error. We are currently working on automating the process for cancellation due to underwriting reasons which will eliminate clerical errors.

Recommendation #3

The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.

Response #3

There was one violation for refusal to write due to lack of supporting business. Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] – Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined was reviewed with the underwriters.

Recommendation #4

The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violation relating to status letters, as noted in the Report, does not occur in the future.

Response #4

One violation was noted for failure to provide a 30-day status letter. This practice has been reviewed with the claims adjusters and they are regularly reminded about the importance of timely status letters.

Recommendation #5

The Company must review Act 205, Section 5(a)(11) {40 P.S. §1171.5(a)(11)}, to ensure that the violations relative to complaint records noted in the Report does not occur in the future.

Response #5

Four violations were noted due to incomplete complaint registers for failure to include the classification by line of insurance. All complaint logs have been updated to include the line of business.

Recommendation #6

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.

Response #6

One violation was noted for a producer found to be writing and/or soliciting policies but the producer was not found in Insurance Department records as holding a Pennsylvania producer license. In addition, 16 violations were noted due to producers being licensed but not having an appointment with the Company.

The Company has evaluated its licensing procedures and implemented safeguards to ensure all agencies and producers are properly appointed with the Company. With respect to the first violation, the agent has submitted a name change to the Department. With respect to the other 16 violations, all but one of the producers has been appointed with the Company. We are still waiting for documentation from the producer regarding a trade name and will appoint them upon receipt of the appropriate paperwork.

Concern

The Report also noted a concern with respect to homeowners policies and a surcharge disclosure plan. Please note that the Company has implemented such a plan and it is currently being attached to all homeowners policies.