

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**AEGIS SECURITY INSURANCE COMPANY
Harrisburg, Pennsylvania**

**AS OF
March 5, 2008**

COMMONWEALTH OF PENNSYLVANIA

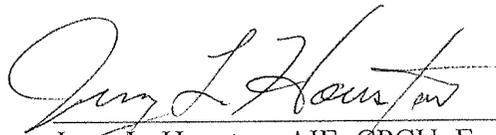


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 24, 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).

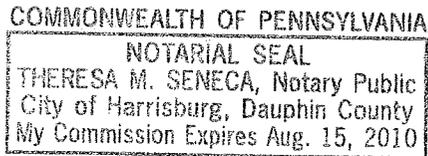


Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 25 Day of February, 2007


Notary Public



AEGIS SECURITY INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, in accordance with
Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921,
P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy
Insurance Commissioner, to consider and review all documents relating to the market
conduct examination of any company and person who is the subject of a market conduct
examination and to have all powers set forth in said statute including the power to enter
an Order based on the review of said documents. This designation of authority shall
continue in effect until otherwise terminated by a later Order of the Insurance
Commissioner.





Joel S. Ario
Insurance Commissioner

Aegis Security Insurance Company
Market Conduct Examination as of the
close of business on March 5, 2008

Docket No.
MC08-03-024

ORDER

A market conduct examination of Aegis Security 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 July 1, 2006 through June 30, 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:

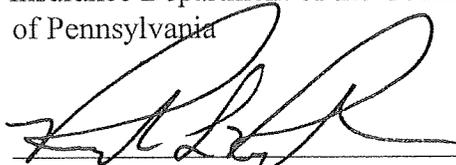
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania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

3. Respondent shall comply with the recommendation 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



(April 24, 2008)

Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Aegis Security Insurance Company's office located in Harrisburg, Pennsylvania, from December 10, 2007, through December 21, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

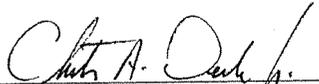
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

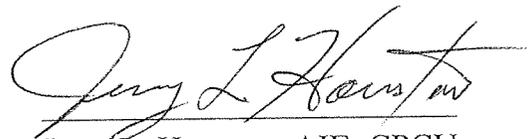
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

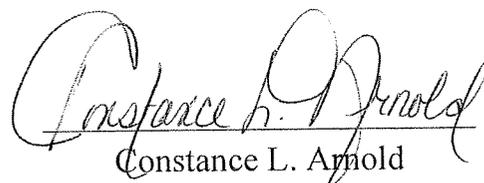
The undersigned participated in this examination and in preparation of this Report.



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



Jerry L. Houston, AIE, CPCU
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Aegis Security Insurance Company, hereinafter referred to as “Company,” at their office located in Harrisburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2006, through June 30, 2007, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Automobile
 - Underwriting – Appropriate and timely notices of midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Property
 - Underwriting – Appropriate and timely notices of midterm cancellations, 60-day cancellations and renewals.
4. Claims
5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Aegis Security Insurance Company was incorporated under the laws of Pennsylvania on May 25, 1977, and began business on August 4, 1977.

LICENSING

Aegis Security Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on August 4, 1977. The Company is licensed in all states and the District of Columbia. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$12,090,671. Premium volume related to the areas of this review were: Fire \$152,060; Homeowners Multiple Peril \$4,432,904; Commercial Multiple Peril (Non-liability portion) \$1,010,271; Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$1,028,919 and Private Passenger Auto Physical Damage \$1,000,950.

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 Pennsylvania automobile product guides were furnished for automobile, homeowners and dwelling fire. 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. Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

The universe of 1 automobile file identified as being cancelled in the first 60 days of new business was selected for review. The file was received and reviewed. No violations were noted.

2. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

The universe of 27 automobile files identified as midterm cancellations by the Company was selected for review. All 27 files were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

Aegis Security Insurance Company is designated as a “miscellaneous vehicle only writer” for buy out purposes in accordance with Section 53(c) of the Pennsylvania Assigned Risk Plan. Aegis only writes motor homes, golf carts and motorcycles in the Commonwealth of Pennsylvania.

C. 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 79 property policies which were cancelled within the first 60 days of new business, 44 files were selected for review. The policies consisted of homeowner and tenant homeowner. All 44 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 1,234 property policies which were cancelled midterm during the experience period, 88 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 88 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 1 homeowner policy which was nonrenewed during the experience period was selected for review. The file was 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, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

The universe of 5 personal property files identified as declinations by the Company was selected for review. All 5 files were received and reviewed. No violations were noted.

5. Rescissions

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

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

The universe of 15 homeowner policies identified as rescissions was selected for review. All 15 files were received and reviewed. No violations were noted.

D. 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 1 tenant occupied dwelling fire policy that was identified by the Company as being cancelled in the first 60 days of new business was selected for review. The file was received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 30 tenant occupied dwelling fire policies cancelled midterm during the experience period, 15 files were selected for review. All 15 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 27%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide an offer of loss information on the notice as required for the 4 files noted.

3. Renewals

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

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 324 tenant occupied dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

VI. RATING

A. Automobile

1. New Business

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

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Automobile – New Business Without Surcharges

The universe of 16 motor home/recreational policies identified as new business without surcharges was selected for review. All 16 files were received and reviewed. No violations were noted.

Automobile - New Business With Surcharges

The universe of 1 motor home policy identified as new business with surcharges by the Company was selected for review. The file was 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 measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies

were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Automobile – Renewals Without Surcharges

From the universe of 184 motor home/recreational vehicle 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.

B. Private Passenger Automobile – Assigned Risk

Aegis Security Insurance Company is designated as a “miscellaneous vehicle only writer” for buy out purposes in accordance with Section 53(c) of the Pennsylvania Assigned Risk Plan. Aegis only writes motor homes, golf carts and motorcycles in the Commonwealth of Pennsylvania.

C. 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 1,650 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to rate the policies in accordance with their filed and approved rating plan, which resulted in overcharges of \$52.

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 14,349 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.

Homeowner Rating – Renewals With Surcharges

The universe of 1 homeowner policy renewed with surcharges during the experience period was selected for review. The file was received and reviewed. The violation noted resulted in an error ratio of 100%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to rate the policy in accordance with their filed and approved rating plan which resulted in an overcharge of \$59.

The following concern was made:

Concern: The Broad Homeowners (HO 2) policy is 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.

D. 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

The universe of 4 tenant homeowner policies written as new business without surcharges during the experience period was selected for review. All 4 files were received and reviewed. No violations were noted.

2. Renewals

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

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

Tenant Homeowner Rating – Renewals Without Surcharges

The universe of 6 tenant homeowner policies renewed without surcharges during the experience period was selected for review. All 6 files were received and reviewed. No violations were noted.

E. 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 7 dwelling fire policies written as new business without surcharges was selected for review. The 7 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 185 dwelling fire policies renewed during the experience period, 15 files were selected for review. All 15 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. Automobile Comprehensive Claims
- B. Homeowner Claims
- C. Tenant Homeowner Claims
- D. Dwelling Fire

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

A. Automobile Comprehensive Claims

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

B. Homeowner Claims

From the universe of 750 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

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

C. Tenant Homeowner Claims

From the universe of 39 tenant homeowner claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

D. Dwelling Fire Claims

The universe of 13 dwelling fire claims reported during the experience period was selected for review. All 13 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 23%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.6

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

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to reference specific policy provisions in the denial letter for the 2 claims 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)] and Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following finding was made:

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on a theft-burglary claim form.

IX. ADVERTISING

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

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

The Company provided 18 pieces of advertising in use during the experience period, which included brochures, agent's kits and mail solicitation. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 10 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 10 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 complaint registers for 2002, 2003, 2004 and 2005 were incomplete. The registers did not show the total number of complaints, their classification by line of insurance, the nature of each complaint and the disposition of each complaint.

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 cancelled the policy midterm due to a credit report.

The following synopsis reflects the nature of the 10 complaints that were reviewed.

•	7	Underwriting	70%
•	3	Claims	30%
	<hr/>		<hr/>
	10		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:

4 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.

Bortz Insurance Agency
Crossroads Ins. Agency, Inc. (c/o Forward National Company)

Family Mobile Homes, Inc.
Jones L. Calvin & Company

21 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.

Arnold & Fogg Insurance Agency, LLC
Berish Agency, Inc.
Brett Insurance Agency, Inc.
Brown & Associates, Inc.
Dinnin & Parkins Associates, Inc.
Fumanti, Joseph J.
Grigson Insurance Agency, Inc.
Hrenko Insurance Agency, Inc.
Independent Insurance Associates, Inc.
Kerr-Bartolac & Associates, Inc.
Kerstetter HC Co., Inc.
Kindelberger, Ralph H.
Little and Nelson, Inc.
Livingston Cleon Agency, Inc.
Muir-Hershberger Insurance Agency
Mullins, Harry A. Insurance Agency, Inc.
Rodgers-Oliver-Polley, Inc.
Scheeren Insurance Group
Sechler Insurance Agency
Strausser Insurance Agency, Inc.
Watson Insurance 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 violation regarding the requirement for a cancellation notice, as noted in the Report, does not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation 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 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the homeowner rating violations listed in the report do not occur in the future.
4. The premium overcharges noted in the rating section of this report must be refunded to the insured and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.
5. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.

6. The Company must ensure all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

7. 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.

8. The Company must ensure that all claim forms contain the required fraud warning notice.

XIII. COMPANY RESPONSE



2407 PARK DRIVE / P.O. BOX 3153, HARRISBURG, PENNSYLVANIA 17105
TELEPHONE (717) 657-9671 / (800) 233-2160 FAX (717) 657-0340

March 27, 2008

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

RE: Examination Warrant Number: 07-M19-041

Dear Mr. Derk:

This will acknowledge receipt of the Pennsylvania Department of Insurance's Report of Examination of Aegis Security Insurance Company. This Examination covers the period July 1, 2006 through June 30, 2007.

Aegis firmly believes that the Market Conduct Examinations do serve a very useful purpose for all companies to ensure that the rules and regulations are adhered to. Aegis strives to provide the best service to our agents and customers and at the same time strive for 100% compliance with all issues as provided.

As I reviewed all eight (8) categories examined and in all categories except licensing, either no violations were noted or in some cases several, which were corrected when brought to our attention. In reference to Aegis' Customer Complaint Log, the recommendation by the Department to change the format for the register profile has been accomplished and provided.

The licensing issue representative of our 2,400 producers in Pennsylvania, resulted in the Department indicating that four (4) agencies were identified as not holding a Pennsylvania producer license, although individuals within their respective agencies did have a license. We have ensured, after advisement, that these four (4) agencies are now licensed appropriately in Pennsylvania.

Mr. Chester A. Derk, Jr.
March 27, 2008
Page Two

The Department identified twenty-one (21) agencies that were properly licensed in Pennsylvania but did not have a company appointment. All of the twenty-one (21) identified agencies have, upon notification, received appointments by Aegis.

The recommendations as made by the Department for corrective measures have all been addressed by Aegis. Each of the individuals involved in those respective areas have been addressed to ensure that although mistakes can occur the expectation of the company is always to strive for 100% compliance in relation to all activities within our business.

In relation to licensing and appointment, all agencies and producers have and will continue to have an ongoing review process as is normally our SOP to ascertain that the licenses are renewed and updated for those issuing or soliciting any new business on behalf of Aegis. In relation to the appointment process, we do understand that although an agency may have its principal as the licensed and appointed entity that the agency also must have a concurrent license and appointment unless a DBA is involved and the commissions are sent to the individuals or the principal's social security number. We are reviewing and will continue to review each and every producer in Pennsylvania to make certain that the appointment process is continually reviewed for complete compliance.

Aegis Security Insurance Company has been a Pennsylvania domiciled company for 31 years and we take seriously our responsibility to our clients, the insured, and at the same time our responsibility to assure that all compliance issues are adhered to.

We would like to thank your staff for their efforts during this examination.

Sincerely,

A handwritten signature in black ink, appearing to read "Darleen J. Fritz", with a long horizontal flourish extending to the right.

Darleen J. Fritz
President

/a