

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**FARMERS MUTUAL FIRE INSURANCE
COMPANY OF McCANDLESS TOWNSHIP
Wexford, Pennsylvania**

**AS OF
February 2, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: March 15, 2004

Farmers Mutual Fire Insurance Company of McCandless Township

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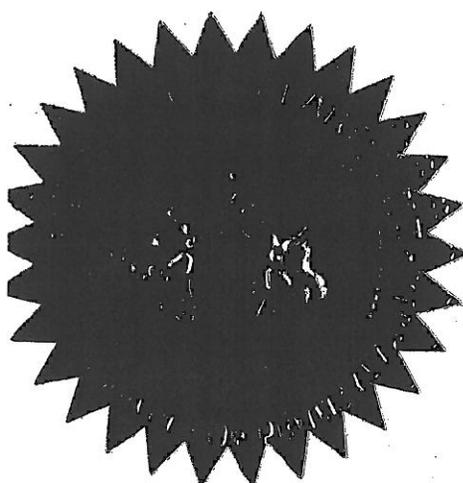
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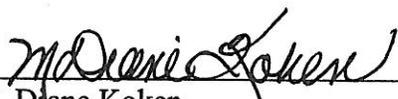
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, 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.





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
FARMERS MUTUAL FIRE	:	Sections 605, 623 and 903(a) of the
INSURANCE COMPANY OF	:	Insurance Department Act, Act of
McCANDLESS TOWNSHIP	:	May 17, 1921, P.L. 789, No. 285
10925 Perry Highway	:	(40 P.S. §§ 235, 253 and 323.3)
Wexford, PA 15090	:	
	:	Sections 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iii)
	:	and 5(a)(11) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Sections 1, 2, 3(a)(3)(ii), 3(a)(5),
	:	3(a)(6), 4(a), 4(b) and 7(c) of the
	:	the Act of July 3, 1986, P.L. 396, No.
	:	86 (40 P.S. §§ 3401, 3402, 3403, 3404
	:	and 3407)
	:	
	:	Section 4 of the Casualty and Surety
	:	Rate Regulatory Act, Act of June 11,
	:	1947, P.L. 538, No. 246 (40 P.S.
	:	§ 1184)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	59.9(b), 146.6 and 146.7(a)(1)
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	
Respondent.	:	Docket No. MC04-02-038

CONSENT ORDER

AND NOW, this 15th day of March, 2004, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is Farmers Mutual Fire Insurance Company, and maintains its address at 10925 Perry Highway, Wexford, Pennsylvania 15090.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2002 through December 31, 2002.

- (c) On February 2, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on February 19, 2004.
- (e) The Examination Report notes violations of the following:
 - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;
 - (ii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;
 - (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

(iv) Section 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancelling 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 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 hazard 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. No cancellation or refusal to renew shall be effective unless a written notice of cancellation or refusal to renew is received by the insured;

(v) Section 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;

(vi) Section 5(a)(9)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancellation or refusal to renew by any person to

be effective unless a written notice is received by the insured, stating the specific reason for such cancellation or refusal to renew;

- (vii) Section 5(a)(9)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires an insurer to maintain a complete record of the consumer 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;

- (viii) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering commercial property or casualty risks shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;

- (ix) Section 2 of Act 86 (40 P.S. § 3402), which requires that canceling in mid-term a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following: insurability, loss of reinsurance, material misrepresentation, fraudulent statements or omissions, nonpayment of premium, insured requested cancellation, or failure to comply with policy terms;

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

- (xi) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation or nonrenewal notice shall state the specific reasons for the cancellation or nonrenewal. The reasons shall identify the condition, factor or loss experience which caused the midterm cancellation or nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency;

- (xii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires the mid-term cancellation notice 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;

- (xiii) Section 4(a) of Act 86 (40 P.S. § 3404), which requires that unearned premium must be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer;

- (xiv) Section 4(b) of Act 86 (40 P.S. § 3404), which requires unearned premium must be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured;

- (xv) Section 7(c) of Act 86 (40 P.S. § 3407), which allows an insurer to cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of termination;

- (xvi) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

- (xvii) 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;
- (xviii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected,
- (xix) Title 31, Pennsylvania Code, Section 146.7(a)(1), requires acceptance or denial of a claim to comply with the following: 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 insurer may not deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to the provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and
- (xx) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k) (Act 165 of 1994), which requires all insurers to issue a specific insurance fraud warning on all applications for insurance and claim forms.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 605 and 623 of the Insurance Department Act (40 P.S. §§ 235 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license.
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
 - (iii) issue an order to cease and desist.
 - (iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Section 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iii) and 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(d) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

(e) Respondent's violations of Sections 1, 2, 3(a)(3)(ii), 3(a)(5), 3(a)(6), 4(a), 4(b) and 7(c) of Act 86 (40 P.S. §§ 3403), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

(i) Order that the insurer cease and desist from the violation.

(ii) Impose a fine or not more than \$5,000 for each violation.

(f) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

(i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;

(ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7(a)(1) are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as cited above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

(a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

(b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

(c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Twenty Thousand Dollars (\$20,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert,

Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square,
Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty
(30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

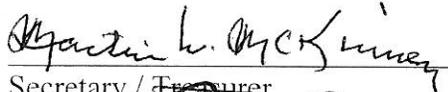
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

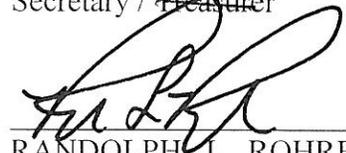
BY: FARMERS MUTUAL FIRE INSURANCE
COMPANY OF McCANDLESS TOWNSHIP,
Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct examination was conducted at Farmers Mutual Fire Insurance Company of McCandless Township, at their offices in Wexford, PA, from July 21, 2003, through August 8, 2003. 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 did not comply with an insurance statute or regulation. Violations contained in this 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



M. Katherine Sutton, A.I.C.
Market Conduct Examiner



Jerry Houston, CPCU
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct examination was conducted on Farmers Mutual Fire Insurance Company of McCandless Township, hereinafter referred to as “Company”, at their offices located at 10925 Perry Highway, Wexford, PA. The examination was conducted pursuant to Sections 903 and 904 (40P.S. § 323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2002, through December 31, 2002, 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. Personal Lines Property

- Underwriting – Appropriate and timely notices of non-renewal, mid-term cancellations and 60-day cancellations.
- Rating – Proper use of all classification and rating plans and procedures.

2. Commercial Lines Property

- Underwriting – Appropriate and timely notices of renewal, non-renewal, mid-term cancellations and 60-day cancellations.

3. Claims

- Standards for prompt, fair and equitable settlements.

4. Forms

5. Advertising

6. Consumer Complaints

7. Licensing

III. HISTORY AND LICENSING

Farmers Mutual Fire Insurance Company of McCandless Township was incorporated under the laws of Pennsylvania and commenced business on April 7, 1876. On October 21, 1988, the Company merged with Triumph Mutual Fire Insurance Company of Beaver County, with Farmers Mutual Fire Insurance Company of McCandless Township as the surviving company. The Company offers Fire, Extended Coverage, Homeowner, Farmowner and Commercial Lines policies in the Commonwealth of Pennsylvania.

LICENSING

The Company is licensed only in Pennsylvania and was originally licensed in the Commonwealth of Pennsylvania on April 7, 1876. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,530,155. Premium volume related to the areas of this review were: Fire \$520,829; Allied Lines \$130,207; Farmowners Multiple Peril \$378,693; and Homeowners Multiple Peril \$1,241,763.

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 guides were furnished for Homeowners, Farmowners, Dwelling Fire and Commercial Lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

V. UNDERWRITING

A. Homeowners

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 a universe of 69 Homeowners policies reported as cancelled within the first 60 days after being written as new business during the experience period, all 69 files were selected and 68 files were received and reviewed. One file was missing. The 65 violations noted were based on 69 files, resulting in an error ratio of 94%.

The following findings were made:

64 Violations Title 31, Pennsylvania Code, Section 59.9(b) Requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination. The Company indicated they sent the notices by regular mail, without proof of mailing, and did not keep any records that would evidence compliance with this requirement. With the exception of 4 files cancelled at the insured's request, the Company was unable to demonstrate compliance with this requirement.

1 Violation The Insurance Department Act, Section 903(a) (40 P.S. §323.3(a))

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. One file was not produced for the examination and compliance could not be determined.

2. Mid-term Cancellations

Mid-term 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 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 a universe of 395 Homeowners policies reported as cancelled midterm during the experience period, 100 files were selected, received and reviewed. The 73 violations noted were based on 62 files, resulting in an error ratio of 62%.

The following findings were made:

6 Violations Act 205, Section 5(a)(9)(iii) (40 P.S. §1171.5(a)(9)(iii)) –

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. (a) “Unfair Methods of Competition” and “Unfair Deceptive Acts or Practices” in the business of insurance means:

(9) No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. Such notice shall:

(iii) State the specific reason or reasons of the insurer for cancellation or refusal to renew.

AND

Title 31, Pennsylvania Code § 59.6(1) – Notice of cancellation or refusal to renew; requirements. Notices of cancellation or refusal to renew shall meet the following requirements:

(1) The reasons given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action. The Company's notices indicated these policies were cancelled due to "noncompliance with recommendations" and did not specify the recommendations nor the increase in hazard. See adjudication: *Fitch/Boyertown, PH97-06-006 (1998)*.

67 Violations Act 205, Section 5(a)(9)(ii) (40 P.S. §1171.5(a)(9)(ii)) Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company indicated they sent the notices by regular mail, without proof of mailing, and did not keep any records that would evidence compliance with this requirement. Additionally, 13 of these files contained evidence indicating less than 30 days notice was given.

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 Company reported 2 policies were nonrenewed during the experience period and these 2 policies were received and reviewed. The violations noted were based on 1 file, resulting in an error ratio of 50%.

The following findings were made:

1 Violation Act 205, Section 5(a)(9) (40 P.S. §1171.5(a)(9)) Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The violation noted resulted because the cancellation reason was not supported in the policy file.

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company indicated they sent the notice by regular mail, without proof of mailing, and did not keep any record that would evidence compliance with this requirement.

B. Farmowners

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) (40P.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 a universe of 3 Farmowner policies cancelled within 60 days after being written as new business during the experience period, all 3 files were selected and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 100%.

The following findings were made:

3 Violations Title 31, Pennsylvania Code, Section 59.9(b) Requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination. The Company indicated they sent the notices by regular mail, without proof of mailing, and did not keep any records that would document compliance with this requirement.

2. Mid Term 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, Section 3 (40 P.S. §3403), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice and Section 4 (a) and (b) (40 P.S. § 3404), which establishes the requirements which must be met regarding return of premium to the insured.

From a universe of 27 policies reported by the Company as cancelled midterm, all 27 files were selected, received and reviewed. The 27 violations noted were based on 27 files, resulting in an error ratio of 100%.

The following findings were made:

27 Violations Act 86, Section 3(a)(3)(ii) (40 P.S. §3403(a)(3)(ii))

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless the insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company indicated they sent the notices by regular mail, without proof of mailing, and did not keep any records that would evidence compliance with this requirement. Additionally, the files contained 3 midterm cancellations that indicated only 30 days' notice rather than the required 60 days.

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 Company reported only 1 policy was nonrenewed during the experience period. The policy was nonrenewed at the insured's request.

No violations were noted.

C. Dwelling Fire

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 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 as well as compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons, Section 3 (40 P.S. §3403), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice and Section 4 (a) and (b) (40 P.S. § 3404), which establishes the requirements which must be met regarding return of premium to the insured.

From a universe of 52 Dwelling Fire Policies reported as cancelled within the first 60 days of new business, all 52 policies were received and reviewed. Of these

policies, 7 were cancelled mid-term. The 36 violations noted were based on the 45 files which were 60-day cancellations, resulting in an error ratio of 80%.

The following findings were made:

35 Violations Act 86, Section 7(c)(40 P.S. §3407(c)) Requires an insurer to provide at least 30 days notice of the termination. The files reviewed which were cancelled by the Company, contained cancellation notices with a date of mailing and an effective date of cancellation, however they were sent by regular mail without any proof of mailing. The Company indicated they do not have any records to document the date of mailing. Compliance could not be determined.

1 Violation Act 86, Section 4(b)(40 P.S. §3404(b)) – Return of Unearned Premium.
(b) Cancellation initiated by the insured. Unearned premium must be returned to the insured not later than 30 days after effective date of termination where commercial property or casualty risks are cancelled mid-term by the insured. The file reflected a mid-term cancellation where unearned premium was not returned within 30 days of cancellation.

2. Mid Term 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 as well as compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons, Section 3 (40 P.S. §3403), which establishes

the requirements which must be met regarding the form and conditions of the cancellation notice and Section 4 (a) and (b) (40 P.S. § 3404), which establishes the requirements which must be met regarding return of premium to the insured.

From a universe of 232 policies reported by the Company as cancelled midterm, 75 files were selected, received and reviewed. The 246 violations noted were based on the universe of 232 files, resulting in an error ratio of 100%.

The following findings were made:

232 Violations Act 86, Section 3(a)(3)(ii) (40 P.S. §3403(a)(3)(ii))

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless the insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company indicated they sent the notices by regular mail, without proof of mailing, and did not keep any records that would document compliance with this requirement. Additionally, there were 4 midterm cancellations that indicated 30 days notice given rather than the required 60 days.

11 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 11 files noted were absent evidence of compliance with this requirement.

1 Violation Act 86, Section 4(a) (40 P.S. §3404(a))

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled midterm by the Company. The Company did not refund the unearned premium within 10 working days as required.

2 Violations Act 86, Section 2 (40P.S. § 3402) Grounds for cancellation. Cancelling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The files noted were cancelled for reasons not supported by the policy file.

D. Commercial Lines

1. 60 day cancellations

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

The purpose of the review was to determine compliance with 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 a universe of 15 Commercial policies reported as being cancelled within the first 60 days during the experience period, all 15 policies were selected, received and reviewed. The files consisted of Businessowners and Artisan Package policies. The 17 violations noted were based on 15 files, resulting in an error ratio of 100%.

The following findings were made:

14 Violations Act 86, Section 7(c) [40 P.S. §3407(c)] This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The 14 files noted did not give at least 30 days' notice of termination to the insured.

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

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless the insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company indicated they sent cancellation notices by regular mail without proof of mailing. The Company did not keep any records that would evidence the date a notice was mailed and compliance could not be determined.

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

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

Title 31, Pa. Code, Section 113.88 The reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as

“losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation. The file noted was absent any evidence of compliance with this requirement.

1 Violation Act 86, Section 2 (40P.S. § 3402) Grounds for cancellation. Cancelling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. Further, it is not permissible to extend the expiration date of a policy to meet the 60 day notice requirement. The file noted was not in compliance with this requirement.

2. Midterm Cancellations

A midterm cancellation is any policy that is cancelled after the first 60 days of initial issue and other than the normal 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 a universe of 98 Commercial policies reported as being cancelled midterm during the experience period, 25 policies were selected, 24 policies were received and reviewed. The files consisted of Commercial Fire and Businessowners Package Policies. One file was missing and could not be produced by the Company. The 105 violations noted were based on the universe of 98 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless the insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company indicated they sent cancellation notices by regular mail without proof of mailing. The Company did not keep any records that would evidence the date a notice was mailed. Therefore, compliance could not be determined.

6 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 6 files noted were absent any evidence of compliance with this requirement.

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

(a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The file was not provided for review and compliance could not be determined.

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 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.

The Company reported only 1 policy was nonrenewed during the experience period. The file was reviewed.

No violations were noted.

VI. RATING

A. Homeowner

1. New Business

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

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

The Company processes and issues Homeowner 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 territory assignments, fire protection classifications, premium groups, dwelling construction, applicable surcharges and/or credits, and base premiums, the examiners were able to determine compliance with the Company's filed and approved rating plans. The Company's application for a Homeowner policy did not request information regarding protective devices such as smoke detectors, fire or burglary alarms. The discounts were allowed in the Company's approved rates and rules, however, were being given in isolated cases and only when indicated on applications furnished by agents.

From a universe of 895 Homeowners policies reported as new business during the experience period, 100 files were selected, received and reviewed. The 16 violations noted were based on 16 files, resulting in an error ratio of 16%.

The following findings were made:

16 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 files did not evidence correct credits given as required, resulting in overcharges in the amount of \$239.00.

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 primary purpose of this portion of the review was to measure compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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.

The Company processes and issues Homeowner 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 territory assignments, fire protection classifications, premium groups, dwelling construction, applicable surcharges and/or credits, and base premiums, the examiners were able to determine compliance with the Company's filed and approved

rating plans. The Company's application for a Homeowner policy did not request information regarding protective devices such as smoke detectors, fire or burglary alarms. The discounts were allowed in the Company's approved rates and rules, however, were being given in isolated cases and only when indicated on applications furnished by agents.

From a universe of 2,940 Homeowners policies reported as renewal business during the experience period, 100 files were selected, received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 6%.

The following findings were made:

6 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 files did not evidence correct credits given as required, resulting in overcharges in the amount of \$71.00.

B. Farmowners

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 primary purpose of this portion of the review was to measure compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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.

From a universe of 65 Farmowner policies reported by the Company as new business during the experience period, 25 files were selected, received and reviewed. The 36 violations noted were based on 21 files, resulting in an error ratio of 84%.

The following findings were made:

36 Violations Act 246, The Casualty and Surety Rate Regulatory Act. Section 4

(40 P.S. §1184) Rate Filings (a) Every insurer shall file with the Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any of the foregoing which it proposes to use in this Commonwealth.

(h) beginning 90 days after the effective date of this Act no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect for said insurer as provided in this Act or in accordance with subsection (f) or (g) of this section.

The files examined contained a 50% deviation from the filed rates for Coverages E, F and G, resulting in undercharges. The Company acknowledged this deviation as their business practice.

Additionally, 14 files noted discounts for Partial Protection as provided in the filed rates were not applied, resulting in overcharges on Coverages E, F and G in the amount of \$167.00.

Two files contained errors in the computation of Coverage E, resulting in undercharge of premium in the amount of \$461.00.

One file contained errors in the computation of Coverage C, Replacement Cost Contents, resulting in an overcharge of premium in the amount of \$194.00.

2. Renewals

Renewal business is considered to be any policy, which was previously written by the company and renewed on the normal twelve-month anniversary date.

The primary purpose of this portion of the review was to measure compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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.

From a universe of 379 Farmowner policies reported by the Company as renewal business during the experience period, 50 files were selected, received and reviewed. The 53 violations noted were based on 17 files, resulting in an error ratio of 34%.

The following findings were made:

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

(a) Every insurer shall file with the Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any of the foregoing, which it proposes to use in this Commonwealth.

(h) beginning 90 days after the effective date of this Act no insurer shall make or issue a contract or policy except in accordance with filings or

rates which are in effect for said insurer as provided in this Act or in accordance with subsection (f) or (g) of this section.

The files examined contained a non-approved 50% deviation from the filed rates for Coverages E, F and G, resulting in undercharges. The Company acknowledged this deviation as their business practice.

Additionally, 17 files noted discounts for Partial Protection as provided in the filed rates were not applied, resulting in overcharges in the amount of \$137.00.

One file contained errors in the computation of the liability/medical payments premium, resulting in an overcharge of premium in the amount of \$34.00.

Two files noted contained errors in the computation of Coverage E resulting in undercharge of premium in the amount of \$86.00.

C. Dwelling Fire

1. New Business

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

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

The Company processes and issues Dwelling Fire policies using an automated system. The Company acknowledged their Dwelling Fire business was written using the rules, rates, and forms of the Farm Properties Manual.

From a universe of 535 Dwelling Fire Policies reported as new business during the experience period, 50 files were selected, received and reviewed. The 535 violations noted were based on the universe of 535 files, resulting in an error ratio of 100%.

The following findings were made:

535 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184) Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company used the Farm Properties rates, rules and forms of AAIS which were not approved for use with Dwelling Fire Policies.

2. Renewal Business

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 primary purpose of this portion of the review was to measure compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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.

The Company processes and issues Dwelling Fire policies using an automated system. The Company indicated their entire book of Dwelling Fire business was written using the rules, rates, and forms of the Farm Properties Manual.

From a universe of 1,394 Dwelling Fire Policies reported as renewal business during the experience period, 100 files were selected, received and reviewed. The 1,394 violations noted were based on the universe of 1,394 files, resulting in an error ratio of 100%.

The following findings were made:

1,394 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184) Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company used the Farm Properties rates, rules and forms of AAIS which were not approved for use with Dwelling Fire Policies.

D. Commercial Lines

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 a universe of 180 Commercial Renewals consisting of Businessowners and Artisan Package Policies, reported by the Company as renewals during the experience

period, 25 files were selected, received and reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 36%.

The following findings were made:

9 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The files noted failed to comply with the Act. Policies renewing with an increase in premium were issued a renewal certificate without any processing or issue date, and the Company did not keep records of premium increases for each renewal policy, therefore, compliance could not be determined.

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 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 (40P.S. § 1171.5)

From a universe of 375 claims reported during the experience period, 185 files were selected, received and reviewed. The 20 violations noted were based on 18 files, resulting in an error ratio of 10%.

The following findings were made:

9 Violations Title 31, Pa Code, Section 146.6 Standards for prompt investigation of claims. If the investigation could not 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 files noted did not evidence the Company sent status letters as required.

11 Violations Title 31, Section 146.7(a)(1) Standards for prompt, fair and equitable settlements applicable to insurers (a) Acceptance or denial of a claim shall comply with the following:

(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.

An insurer may not deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to the provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The files examined did not evidence compliance with these requirements.

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 (40P.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 Title 18 Pa. C.S. § 4117 (k)(1) which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

2 Violations Title 18 Pa. C.S. §4117(k)(1) Two claim documents did not contain the required fraud notice.

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 (40P.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 51.4.

The Company did not report any advertising, sales material or internet advertisements during the experience period.

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 11 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 11 complaint files selected were received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40P.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 evidence 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.

There were 14 Consumer Complaints identified in the Department's records as being made during the experience period. Of these complaints, the Company produced 8 complaint files. The remaining 6 complaints were handled by telephone between the Department and the consumer and not forwarded to the Company.

The following findings were made:

1 Violation Act 205, Section 5(a)(11) (40P.S. §1171). Requires an insurer to maintain a complete record of the consumer 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 violation noted was the result of the Company not maintaining a complete consumer complaint record as described in this Act.

The following violations are noted as a result of the Company's actions leading to the complaint.

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

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company's notice on the files indicated the policies were cancelled due to "noncompliance with recommendations" and "condition of property" and did not specify the increase in hazard. See adjudication: *Fitch/Boyertown, PH97-06-006 (1998)*.

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The violation was due to a cancellation notice in the complaint file that did not provide the required thirty days.

The following synopsis reflects the nature of the 14 consumer complaints reviewed.

12	Cancellation/Nonrenewal	86%
2	Claims	14 %
<hr/>		<hr/>
14		100%

XI. AGENT LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. The list provided was compared with Insurance Department records. In addition to the list provided, individual policies were checked to verify the agent.

13 Violations Insurance Department Act, Section 623 (40 P. S. §253) Doing Business with Unlicensed Brokers. Any entity or the appointed agent of any entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following producers could not be verified as having a Certificate of Qualification or a Broker's License.

Matson Insurance Agency
Citizens Insurance Group
Riverview Agency
Insurance Development Services
West Penn Insurance Express
Robert Dinger
Patricia Dognon
Kelly Duffy
Donna Ishman
Cori Kennedy
Paul Lefko

Cheryl Vannuys

Janis Young

39 Violations Insurance Department Act, Section 605 (40 P.S. §235) Appointment.

- (a) No agent shall do business on behalf of any entity without a written appointment from that entity.
- (b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.
- (c) Insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
- (d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The following agents or agencies were shown on the Company's active appointed agents/agencies list but are not shown as appointed in Insurance Department records.

Michael Andresky

Ed Belveny

Sam Black

Tim Bogaczyk

Cindy Bowner

Brenda Brier

Dana Brier

Carla Campbell

Stephen Day

Robert Dinger

Kelly Duffy

Judith Edsall
Ken Loker
Lou Jean Lorenz (not P&C Qualified)
Ken Martin
Donald Pidanich
Pannucci Rocco
Francis Sneizek
Cheryl Vannuys
Paul Wicks
Wilbur Miller
Beverly Wilson
Kennedy-Meeder Insurance Inc.
Matson Insurance Agency
William H. Thompson Agency
Citizens Insurance Group
GDK Incorporated
Cowher, Negrig & Company
Liberty Insurance Agency
Williamson Agency
Barron Insurance Services
Riverview Agency
Blair Insurance Services
Swift Kennedy Insurance Group
Insurance Development Services
Nova Insurance Services
H. C. Kerstetter Company
Kellar Insurance Agency
Janis Young

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 ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 (40 P.S. § 235) and Section 623 (40 P.S. § 253) of the Insurance Department Act, prior to accepting any business from an agent or broker.
2. The Company must review cancellation requirements of Act 205, Section 5(a)(9) (40 P.S. § 1171.5) to ensure that violations of the types noted in the Report do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 86, Section 3(a)(3)(ii) (40 P.S. § 3403 (a)(3)(ii)) so that the violations noted in the Report do not occur in the future.
4. The Company must review and revise internal control procedures regarding computer generated rates to insure compliance with Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. § 1184), so that the violations noted in the Report do not occur in the future. Overcharges must be refunded within 30 days of the Report issue date and proof of such refunds be provided to the Department.
5. The Company must either use the American Association of Insurance Services (AAIS) Dwelling program for rating Dwelling Fire policies or make a Company filing for Dwelling Fire rates to ensure compliance with Act 246, The Casualty and Surety

Rate Regulatory Act, Section 4 (40 P.S. § 1184) so that the violations noted in the Report do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance with renewal premium notice requirements of Act 86, Section 1 (40 P.S. § 3401) so that the violations noted in the Report do not occur in the future

7. 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 and ensure the violations noted in the Report do not occur in the future.

8. The Company must revise the Application for new property policies to include questions regarding protective devices to ensure the appropriate discounts are in place and in compliance with Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. § 1184) so that violations of the types noted in the Report do not occur in the future.

9. The Company must ensure policy applications and claim forms contain the fraud warning required in Title 18, Pa.C.S. 4117 (k)(l) so that violations of the types noted in the Report do not occur in the future.

10. The Company must review and revise internal control procedures for the maintenance of consumer complaint logs to be in compliance with Act 205, Section 5(a)(11) (40 P.S. § 1171.5) and ensure that violations of the types noted in the Report do not occur in the future.

XIII. COMPANY RESPONSES

FARMERS MUTUAL FIRE INSURANCE COMPANY
OF MCCANDLESS TOWNSHIP
10925 PERRY HIGHWAY
WEXFORD, PA 15090
724-935-2940

February 16, 2004

Chester Derek Jr.
Bureau of Enforcement
Penna. Insurance Department
1321 Strawberry Square
Harrisburg, PA 17120

Dear Chet:

This letter is to acknowledge your letter of February 2, 2004, on the Market Conduct Examination, covering the period of January 1, 2002 to February 2, 2004.

In response, I will address each issue that you have found to be in violation.

A: On Underwriting, (Cancellations)

All of the violations are that we cannot provide proof of mailing. We have installed in our computer system a report and will be generated whenever we produce a cancellation, and that list will be stamped by the Post Office to verify that they were mailed on that day.

B: Commercial Cancellations

The cancellations in section D. The 14 cancellations that we did not give at least 30 days notice, I have no response for. They do not provide me with any policy numbers to check on.

Same as response as above, is provided for all the other cancellations as far as not having proof of mailing.

A: Rating

Some violations were determined as a result of a credit for smoke detectors that we on the Accord Application. We will make sure that they given on any future applications.

Farmowners:

We have a deviation on our Farm Outbuildings that have been given since I started here 15 years ago. I do not know if a formal filing was ever made for these deviations, but I have since filed for this and it has been approved.

Dwelling Fire:

We have always used the Farm Property Fire rates for the dwelling and this was found to be in violation. We have since changed to the AAIS Dwelling Fire program and are changing all the policies at renewal. I have checked the rates for both lines of business and have found that the rating for the dwelling was the same regardless of which manual was used, so that the policies were in fact not over or under charged.

Commercial:

We now have the processing date printed on all of you policies.

A: Claims

We are now sending out 30 & 45-day notices and have made our denial letters more specific.

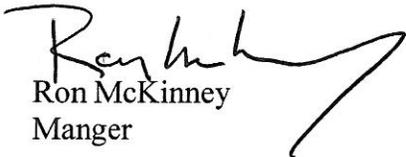
A: Consumer Complaints

We now have a log with a list of the complaints.

A: Agents Licensing

We have reviewed the agent's licenses and will change the name on the policy to match the copy of the license. To the best of my knowledge all of the agents are licensed but the agents names did not match the license.

Sincerely


Ron McKinney
Manger