

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

GREAT NORTHERN INSURANCE COMPANY
Minneapolis, Minnesota

**AS OF
October 7, 2005**

COMMONWEALTH OF PENNSYLVANIA

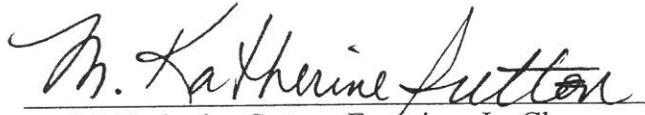


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: December 7, 2005

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).

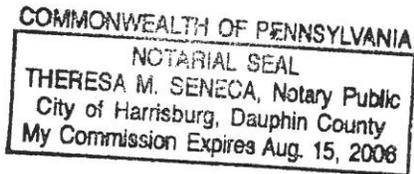

M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 3 Day of October, 2005



Notary Public



GREAT NORTHERN INSURANCE COMPANY

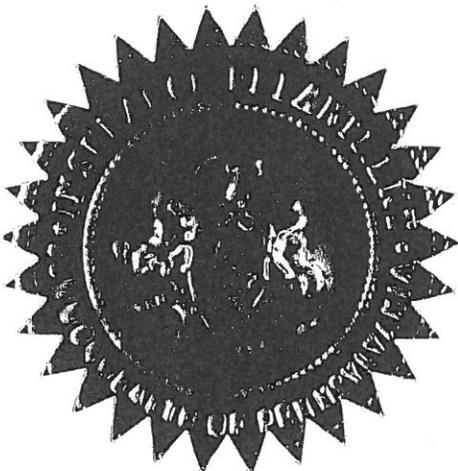
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
GREAT NORTHERN INSURANCE	:	Sections 641.1-A and 671-A of Act 147
COMPANY	:	of 2002 (40 P.S. §§ 31-.41 and 310.71)
15 Mountain View Road	:	
Warren, NJ 07061	:	Act 1990-6, Sections 1705(a)(1) & (4),
	:	1734 and 1738(c)(d)(1) and (2) (Title
	:	75, Pa.C.S. §§ 1705, 1734 and 1738)
	:	
	:	Sections 1, 3(a)(5) and 4(b) of the Act
	:	of July 3, 1986, P.L. 396, No. 86,
	:	(40 P.S. §§ 3401, 3403 and 3404)
	:	
	:	Sections 4, 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(i), 5(a)(9)(iii) and 5(a)(9)(iv) of
	:	the Unfair Insurance Practices Act, Act
	:	of July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.4 and 1171.5)
	:	
	:	Sections 2006(2), 2006(6), 2006(7)
	:	and 2008(b) of Act 68 of 1998 (40 P.S.
	:	§§991.2006 and 991.2008)
	:	
	:	Section 506.1 of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 636.1)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	59.6(5) and (6), 69.52(a), 146.5(a),
	:	and 146.6
	:	
	:	
Respondent.	:	Docket No. MC05-10-023

CONSENT ORDER

AND NOW, this 7th day of *December*, 2005, 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 Great Northern Insurance Company, and maintains its address at 15 Mountain View Road, Warren, New Jersey 07061.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.

(c) On October 7, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on November 7, 2005.

(e) After consideration of the November 7, 2005 response, the Insurance Department has modified the Examination Report as attached.

(f) The Examination Report notes violations of the following:

(i) Section 641.1-A of Act 147 of 2002 (40 P.S. § 310.41a), which prohibits a person from acting as or performing the duties of an insurance producer in this Commonwealth without being licensed in accordance with this act;

(ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

- (iii) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (iv) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which provides a named insured may request in writing the issuance of coverages under Section 1731 in amounts to or less than the limits of liability for bodily injury;

- (v) Section 1738(c)(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;

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

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

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

- (ix) Section 4 of Act 205 (40 P.S. § 1171.4), which states no person shall engage in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance, pursuant to this Act;

- (x) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;

- (xi) Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits discrimination with regard to underwriting standards and practices or eligibility requirements by reason of age;
- (xii) Section 5(a)(9) of Act 205 (40 P.S. §1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 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 whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. 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 whether at the address shown in the policy or at a forwarding address;

- (xiii) Section 5(a)(9)(i) of Act 205, which requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use.
- (xiv) Section 5(a)(9)(iii) of Act 205, which requires that a nonrenewal notice state the specific reason or reasons for cancellation;
- (xv) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a notice of cancellation or refusal to renew to advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intent not to renew, that the Insurance Commission review the action of the insurer;
- (xvi) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;
- (xvii) Section 2006(6) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage;

- (xviii) Section 2006(7) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice clearly state that when coverage is to be terminated due to nonresponse to a citation imposed under 75 Pa.C.S. § 1533, or nonpayment of a fine or penalty imposed under that section, coverage shall not terminate if the insured provides the insurer with proof that the insured has responded to all citations and paid all fines and penalties and that he has done so on or before the termination date of the policy;
- (xix) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of the refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;
- (xx) Section 506.1 of the Insurance Company Law (40 P.S. § 635.1), which requires basic property insurance to be continued 180 days after the death of the named insured on the policy or until the sale of the property, whichever occurs first, provided that the premiums are paid;
- (xxi) Title 31, Pennsylvania Code, Section 59.6(5) and (6), which requires 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;

(xxii) Title 31, Pennsylvania Code, Section 69.52(a), which requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral;

(xxiii) Title 31, Pennsylvania Code, Section 146.5(a), which requires every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice; and

(xxiv) Title 31, Pennsylvania Code, Section 146.6, requires that 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.

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 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;

- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 1, 3(a)(5) and 4(b) of Act 86 (40 P.S. §§ 3401, 3403 and 3404), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

- (i) Order that the insurer cease and desist from the violation.
- (ii) Impose a fine or not more than \$5,000 for each violation.

(d) Respondent's violations of Sections 4, 5(a)(4), (a)(7) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.4 and 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.

(e) 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).
- (f) Respondent's violations of Sections 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated 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 must revise its Agent Binding Guidelines and Company Underwriting Guidelines to remove all references to supporting coverage, specific references to age, and all references to driving experience or minimum number of years licensed.
- (e) Respondent shall pay Fifty Thousand Dollars (\$50,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (f) 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, 1227 Strawberry Square,
Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty
(30) days after the date of this Order.

6. In the event the 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.

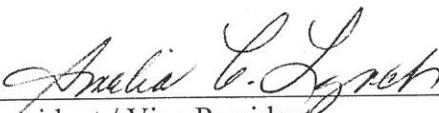
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

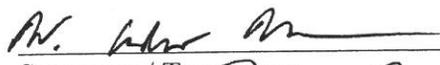
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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.

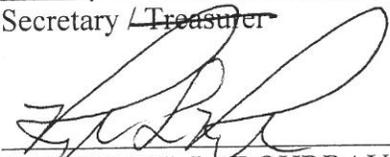
BY: GREAT NORTHERN INSURANCE
COMPANY, Respondent



~~President~~ / Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Great Northern Insurance Company's offices located in Whitehouse Station, New Jersey; Chesapeake, Virginia and Philadelphia, Pennsylvania, from June 27, 2005, through July 29, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

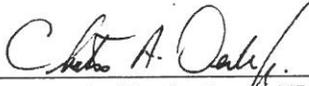
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

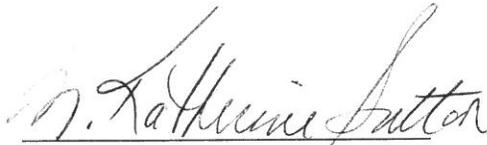
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

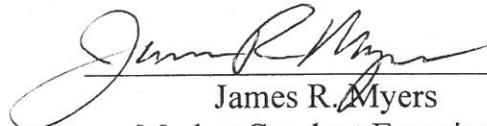
The undersigned participated in this examination and in preparation of this Report.



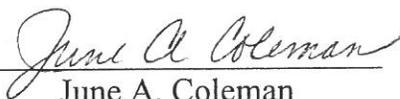
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



M. Katherine Sutton, AIC
Market Conduct Examiner



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Great Northern Insurance Company, hereinafter referred to as "Company," at their offices located in Whitehouse Station, New Jersey; Chesapeake, Virginia and Philadelphia, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2004, through December 31, 2004, 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. Private Passenger Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating - Proper use of all classification and rating plans and procedures.
2. Personal Lines Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Automobile
 - Underwriting – Appropriate and timely notices of nonrenewals, declinations and renewals.
4. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, declinations and renewals.

5. Workers' Compensation

- Underwriting – Appropriate and timely notices of nonrenewals.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Great Northern Insurance Company was incorporated in 1952 under the laws of Minnesota to become the successor to Underwriters at Lloyds of Minneapolis, effective August 1, 1952.

All of the outstanding capital stock of the Company has been held since December 1960 by Federal Insurance Company. Ownership was acquired through an exchange of stock. Federal Insurance Company in turn is owned by The Chubb Corporation, Warren, New Jersey. Administration of the Company's affairs is under the same general management as the parent, Federal Insurance Company.

LICENSING

Great Northern Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in all states and the District of Columbia. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$86,101,511. Premium volume related to the areas of this review were: Homeowners multiple peril \$44,845,546; Commercial multiple peril (non-liability portion) \$8,790,867; Commercial multiple peril (liability portion) \$3,302,491; Inland Marine \$9,317,564; Workers' Compensation \$1,871,894; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Automobile No-Fault (personal injury protection) \$644,406; Other Private Passenger Automobile Liability \$4,558,573 and Private Passenger Automobile Physical Damage \$4,856,419; Commercial Automobile Direct Written Premium was reported as Commercial Automobile No-Fault (personal injury protection) \$72,963; Other Commercial Automobile Liability \$755,801 and Commercial Automobile Physical Damage \$395,013.

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 private passenger automobile, personal property and commercial risks. 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.

The following findings were made:

2 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company’s guidelines used occupation and age as a basis for imposing additional underwriting standards and practices.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's underwriting guidelines required supporting coverage, which is prohibited.

V. UNDERWRITING

A. Private Passenger 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 6 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 6 files selected were 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.

From the universe of 403 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. The 10 violations noted were based on 5 files, resulting in an error ratio of 5%.

The following findings were made:

5 Violations Act 68, Section 2006(6) [40 P.S. §991.2006(6)]

Requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage. The Company did not provide the required information on the cancellation notice for the 5 files noted.

5 Violations Act 68, Section 2006(7) [40 P.S. §991.2006(7)]

Requires that a cancellation notice clearly state that when coverage is to be terminated due to nonresponse to a citation imposed under 75 Pa. C.S. §1533 (relating to suspension of operating privilege for failure to respond to a citation) or nonpayment of a fine or penalty imposed under that section, coverage shall not terminate if the insured provides the insurer with proof that the insured has responded to all citations and paid all fines and penalties and that he has done so on or before the termination date of the policy. The

Company did not provide the required information on the cancellation notice for the 5 files noted.

3. Nonrenewals

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

The 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 21 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 21 files selected were received and reviewed. The violation resulted in an error ratio of 5%.

The following finding was made:

1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 15 days notice of nonrenewal.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

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.

The universe of 1 private passenger automobile file identified as being declined by the Company during the experience period was selected for review. The file requested was received and reviewed. The violation noted resulted in an error ratio of 100%.

The following finding was made:

1 Violation Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The Company did not provide any documentation to indicate written notice of the refusal to write was mailed to the insured.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

C. Personal Lines 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 141 personal lines property policies, which were cancelled within the first 60 days of new business, 50 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 50 files selected were received and reviewed. Of the 50 files reviewed, 9 files were identified as midterm cancellations. The 3 violations noted were based on 3 files, resulting in an error ratio of 6%.

The following findings were made:

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer.

The Company did not provide the required information on the cancellation notice for the 3 files noted.

2. Midterm Cancellations

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

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

From the universe of 2,093 personal lines property policies, which were cancelled midterm during the experience period, 200 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 200 files requested were received and reviewed. The 34 violations noted were based on 34 files, which resulted in an error ratio of 17%.

The following findings were made:

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer.

The Company did not provide the required information on the cancellation notice for the 34 files noted.

3. Nonrenewals

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

The 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 69 personal lines property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowners, tenant homeowners and inland marine. All 69 files were received and reviewed. The 34 violations noted were based on 31 files, resulting in an error ratio of 45%.

The following findings were made:

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

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

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

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

increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner.

AND

Adjudication: Mohanal/Lebanon Mutual, P95-08-048 (1998)
When the insurer notifies its agent of an allegedly hazardous condition on the insureds' property together with recommendations to correct the condition but does not notify the insureds, a cancellation based upon a failure to comply with the recommendations violates Act 205. The Company nonrenewed the policies based on failure to comply with critical recommendations, but did not make the insured aware that if they did not comply with the recommendations it would result in a nonrenewal.

3 Violations Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a nonrenewal notice shall state the specific reason or reasons of the insurer for cancellation.

AND

Title 31, Pa. Code, Section 59.6(5) & (6)
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 did not

provide specific, clear and complete reasons for nonrenewal in the 3 files noted.

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

Requires that a nonrenewal notice be approved as to form by the Insurance Commissioner prior to use. The violations noted were due to unapproved nonrenewal notices.

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 22 homeowner files identified as declinations by the Company was selected for review. All 22 files selected were received and reviewed. The violation resulted in an error ratio of 5%.

The following finding was made:

1 Violation Act 205, Section 4 [40 P.S. §1171.4]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Prohibited. No person shall engage in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act.

AND

Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company declined to write the policy due to the applicant’s “profile” and “new wealth”.

D. Commercial Automobile

1. Nonrenewals

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

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

The universe of 12 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 12 files selected were received and reviewed. No violations were noted.

2. Declinations

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

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

From the universe of 1,310 commercial automobile files identified as declinations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

3. Renewals

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

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

From the universe of 60 commercial automobile policies which were renewed during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 32%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 8 files noted.

E. Commercial Property

1. Midterm Cancellations

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

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

The universe of 9 commercial package policies which were cancelled during the experience period was selected for review. All 9 files selected were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 78%.

The following findings were made:

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

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

2. Nonrenewals

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

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

The universe of 25 commercial package policies identified as nonrenewals by the Company was selected for review. All 25 files selected were received and reviewed. No violations were noted.

3. Declinations

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

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

From the universe of 2,530 commercial property files identified as declinations by the Company, 77 files were selected for review. The commercial files consisted of commercial fire, commercial package and commercial inland marine. All 77 files selected were received and reviewed. No violations were noted.

4. Renewals

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

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

From the universe of 198 commercial package policies which were renewed during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 11 violations noted were based on 11 files, resulting in an error ratio of 44%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan.

The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 11 files noted.

F. Workers Compensation

1. Nonrenewals

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

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

The universe of 2 workers' compensation policies nonrenewed during the experience period was selected for review. The 2 files selected were received and reviewed. The violation resulted in an error ratio of 50%.

The following finding was made:

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

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency. The Company did not provide a specific reason for nonrenewal.

VI. RATING

A. Private Passenger 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.

Private Passenger Automobile – New Business Without Surcharges

From the universe of 168 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 6%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1738(c)(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

1 Violation Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

1 Violation Title 75, Pa. C.S. §1705(a)(1)&(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The violation noted was the

result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

Private Passenger Automobile – New Business With Surcharges

The universe of 5 private passenger automobile policies identified as new business with surcharges by the Company was were selected for review. All 5 files requested were received and reviewed. No violations were noted.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

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.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 2,373 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 492 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

Concern: The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

Private Passenger Automobile – Renewals In a Higher Plan

From the universe of 98 private passenger automobile policies identified as renewals in a higher plan by the Company, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement, the Company wrote no assigned risk business during the experience period.

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.

Homeowners – New Business Without Surcharges

From the universe of 1,524 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 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.

Homeowner – Renewals Without Surcharges

From the universe of 16,012 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected 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 Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO
- G. Homeowner Claims

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

A. Automobile Property Damage Claims

From the universe of 169 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 2%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

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 timely status letters for the claim noted.

B. Automobile Comprehensive Claims

From the universe of 211 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 424 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

The universe of 40 private passenger automobile total loss claims reported during the experience period was selected for review. All 40 files selected were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

The universe of 4 private passenger automobile first party medical claims reported during the experience period was selected for review. All 4 files requested were received and reviewed. The violation noted resulted in an error ratio of 25%.

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.

Concern: This review of only 4 reported claims indicated the Company paid a significant amount of the medical expenses under the medical payments coverage rather than the first party benefits coverage. Other segments of the examination indicated injuries resulting in treatment, with no first party benefit claims created. It appeared to be due to the usage of medical payments coverage or submission of billings to some other program or group insurance. The Company must take steps to pay any medical treatment related to the accidental injury first under first party benefits and notify providers when this coverage has been exhausted.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 7 automobile first party medical claims that were referred to a peer review organization by the Company was selected for review. All 7 files selected were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the experience period. A contract was received and reviewed. The violation noted resulted in an error ratio of 14%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 69.52(a)

Requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when

referring bills for PRO review at the time of referral. The violation noted was the result of the Company not notifying the provider, in writing, upon referring bills to a PRO.

G. Homeowner Claims

From the universe of 3,013 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 4%.

The following findings were made:

4 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 4 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.

No violations were noted.

IX. ADVERTISING

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

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

The Company provided 23 pieces of advertising which included brochures, print ads and pamphlets. 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 52 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 52 complaints reported, 25 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:

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

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

premium when due or for any other reasons approved by the Commissioner. The 2 violations noted were due to an improper reason for nonrenewal.

1 Violation Insurance Company Law, Section 506.1 [40 P.S. §636.1]

Basic property insurance shall be continued one hundred and eighty days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid. The Company did not provide coverage up to 180 days after the death of the named insured as required.

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The violation noted was the result of a cancellation notice being issued without the required information.

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

• 10	Cancellation/Nonrenewal	40%
• 10	Renewal	40%
• 4	Premium Related	16%
• 1	Inquiry	4%
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25		100%

XI. LICENSING

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

The following findings were made:

*5 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 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 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.

Anderson Insurance Services, Inc.
Latiff & Associates, LLC

Peachtree Special Risk Brokers
The Chandler Group, Inc.
New Jersey Agency Network, d/b/a J. A. Reaney Agency

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 for casualty insurance while writing automobile insurance.

Ifft & Palmer Associates
William H. Connolly/TAD
Liberty Insurance Agency
The Heffner Agency, Inc.
Haas & Haas, Inc.
NAPCO, LLC
Lamere Associates, Inc.
Coburn Insurance Agency, Inc.
Grinspec Insurance Agency, Inc.
Mintz, Girgan & Brightly, Inc.
CRC Insurance Services, Inc.
D&G Sayles Corp. T/A David G. Sayles Ins.
Associated Insurance Partners, LLC
Roger Bouchard Insurance, Inc.
Campania Insurance Agency, Inc.
Haylor, Freyer & Coon, Inc.
The James B. Oswald Company
Lane McVicker, LLC
Cantrill Clark, Inc.

E.R. Munro and Company
Chas E. Rue & Son, 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 and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2006 and 2008 [40 P.S. §§991.2006 and 2008], so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage, as noted in the Report, do not occur in the future.
4. The Company must review Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)] to ensure that the violations relative to canceling or refusing to write a policy due to occupation or age, as noted in the Report, do not occur in the future.
5. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 1, 3 and 4 [40 P.S. §§3401, 3403 and

3404], so that the violations noted in the Report do not occur in the future.

6. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to claim acknowledgement and status letters, as noted in the Report, do not occur in the future.
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
8. The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

XIII. COMPANY RESPONSE



CHUBB GROUP OF INSURANCE COMPANIES

15 Mountain View Road, P.O. Box 1615, Warren, NJ 07061-1615

November 4, 2005
VIA DHL

Mr. Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief
Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement / Market Conduct Division
1321 Strawberry Square
Harrisburg, PA 17120

RECEIVED

NOV 07 2005

Insurance Consumer Services

**Re: Examination Warrant Number: 05-M17-002
Great Northern Insurance Company**

Dear Mr. Derk:

We have received and reviewed the Report of Examination dated October 7, 2005. This response will address the 8 recommendations found on pages 43- 44 of the Report.

RECOMMENDATION #1

The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2006 and 2008 [40 P.S. §§991.2006 and 2008] so that the violations noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company did not provide the required information on the cancellation notice for the 5 files noted.

COMPANY RESPONSE:

The Company agrees with the criticism that our notices of cancellation for non-payment of premium to these 5 insureds failed to provide the required wording. However, in our letter of October 27, 2003, we advised Constance Arnold that, subject to her review, we intended to implement the use of our revised notice of cancellation for non-pay early in 2004. The Pennsylvania Insurance Department approved our filing of the revised wording to our form on January 5, 2004 and we implemented the change effective with notices issued on or after April 23, 2004. The non-pay notices for the 5 policies that were criticized were all issued prior to that date. We believe we are now in full compliance with the regulations and the Insurance Department's examiners acknowledged that this was so. Therefore, we believe no further action is required to prevent these violations from occurring in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for 1 violation for not providing 15 days notice of nonrenewal.

COMPANY RESPONSE:

The Company agrees with this criticism. We were unaware that when calculating the number of days mailed, the Department excludes the first and last days of mailing. We will amend our electronic reference library of cancellation and nonrenewal guidelines (GCCANCL) to reflect this requirement and notify all members of our Pennsylvania underwriting and processing staff about the change.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for 1 violation for failing to provide any documentation to indicate written notice of the refusal to write was mailed to the insured.

COMPANY RESPONSE:

The Company acknowledges this criticism and we will amend our electronic reference library of declination, cancellation and renewal guidelines (GCCANCL) to reflect this requirement. We will also notify all members of our Pennsylvania underwriting and processing staff about the change.

RECOMMENDATION #2

The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for failing to provide the required wording on 3 Personal Lines Property 60-Day Cancellations and 34 Personal Lines Property Midterm Cancellations.

COMPANY RESPONSE:

The Company agrees with these criticisms that our notices of cancellation for non-payment of premium failed to provide the required wording. However, in our letter of October 27, 2003, we advised Constance Arnold that, subject to her review, we intended to implement the use of our revised notice of cancellation for non-pay early in 2004. The Pennsylvania Insurance Department approved our filing of the revised wording to our form on January 5, 2004 and we implemented the change effective with notices issued on or after April 23, 2004. The non-pay notices for the policies that were criticized were all issued prior to that date. We believe we are now in full compliance with the regulations and the Insurance Department's examiners acknowledged that this was so. Therefore, we believe no further action is required to prevent these violations from occurring in the future.

INSURANCE DEPARTMENT CRITICISM:

Four violations were noted due to use of unapproved nonrenewal notices (2 Florida forms, 1 Georgia Form, and 1 New Jersey Form were used to non-renew Pennsylvania risks.)

COMPANY RESPONSE:

The Company agrees with these criticisms and will instruct the staff that handles the preparation of the nonrenewal notices to make sure they are using the correct, approved forms for all cancellations and non-renewals. Furthermore, we will implement a semi-annual self-audit process in our Personal Lines Service Branch to verify that the correct notices are being used for all states.

INSURANCE DEPARTMENT CRITICISM:

During its review of personal property non-renewals and consumer complaints, the Insurance Department identified a total of 13 violations where the Company non-renewed the policies for an improper reason which was based on losses.

COMPANY RESPONSE:

The Company agrees that 9 of these policies were improperly non-renewed for losses; however, we non-renewed the other 4 because, in our view, the pattern of losses demonstrated negligence on the insured's part. The definition of "negligent" in the dictionary includes "lacking in due care." When a pattern of losses clearly indicates that an insured has been careless with their jewelry, has failed to maintain their dwelling, or has neglected to take reasonable care to safeguard their personal property, we believe these actions or lack thereof, constitute a negligent act. While we respectfully disagree with the Insurance Department's position on this issue, we acknowledge and respect your authority to criticize these non-renewals.

The Insurance Department also cited us for 16 violations where the Company non-renewed policies because the insured failed to comply with critical recommendations. We were unaware of the adjudication involving Mohnal/Lebanon Mutual which stipulates that when the insurer notifies its agent of an allegedly hazardous condition on the insured's property together with recommendations to correct the condition but does not notify the insureds, a cancellation based upon a failure to comply with the recommendations violates Act 205. In order to prevent these errors in the future, we will advise our underwriting staff of this requirement to notify insureds directly and include it in our electronic reference library of cancellation and nonrenewal guidelines (GCCANCL).

RECOMMENDATION #3

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

INSURANCE DEPARTMENT CRITICISM:

The Insurance Department noted the violation "for the requirement of supporting business as noted in the underwriting guide" which reads as follows:

A.2 Homes and Contents

Seasonal, secondary, or tenant-occupied residences, unless we insure the owner's primary residence.

COMPANY RESPONSE:

We disagreed with this criticism because this guideline is only in reference to the Agents' Binding Authority and not to whether or not we will write the account. As we previously explained, Agents' Binding Guidelines are different than our underwriting guidelines. The purpose of the Binding Guidelines is to let the producer know when they can and cannot obtain a policy without providing additional information. We do not require the owner's primary residence when we are asked to write seasonal, secondary, or tenant-occupied residences. Our intent was simply for the agent to call the underwriter to thoroughly review the underwriting information before agreeing to bind coverage. Without the primary home, the underwriter would need to obtain more information from the agent since they do not know the insured and their loss history. A

seasonal or secondary home is a greater risk for Chubb than a primary home since it is vacant more frequently than a primary home. A tenant-occupied residence is also a greater risk for Chubb since we do not know who is occupying the home. These are the reasons we have asked the agent to contact underwriting prior to binding coverage for these risks when we do not write the primary home.

As an insurance company, we delegate binding authority to our own underwriters based upon their experience and level of expertise. For example, a junior underwriter cannot bind us on a \$5,000,000 dwelling but a senior underwriter can. Likewise, we believe it is our prerogative to determine how much binding authority to delegate to our agents.

To resolve this issue and clarify that we are not looking to reject this business, we will amend our instructions to agents regarding the binding of coverage on seasonal, secondary, or tenant occupied residences to read as follows:

Homes and Contents

Please discuss risks with any of the following underwriting characteristics with your underwriter prior to binding coverage:

- Seasonal, secondary, or tenant-occupied residences, unless we insure the owner's primary residence.

RECOMMENDATION #4

The Company must review Act 205, Section 5(a)(7)(iii) [P.S. §1171.5(a)(7)(iii)] to ensure that the violations relative to canceling or refusing to write a policy due to occupation or age, as noted in the Report, do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Insurance Department's criticisms are that the following 2 Agents' Binding Guidelines within our Pennsylvania Masterpiece Rate & Rule Manual are discriminatory in respect to age and lifestyle.

Page A.1 All Coverages

An individual who receives considerable publicity.

Liability: Personal, Vehicle and Excess

An operator over 68 years or licensed less than 3 years.

COMPANY RESPONSE:

Regarding the Agents' Binding Guideline for individuals who receive considerable publicity, the Insurance Department's specific criticism is that the Company declined to write a professional football player because of the applicant's "profile" and "new wealth." Our underwriters have been instructed not to discriminate against any insured based on their race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status and should never do so. We are not concerned about what insureds do for a living that could result in considerable publicity (E.g. an entertainer, professional athlete, politician, or someone else in the public eye) but rather, how they conduct themselves, their public profile, their maturity, their stability, and their ability to manage their lives and their assets in a prudent manner. The result is that we will write some entertainers, professional athletes, politicians and people in the public

eye, but not others. For these reasons, we routinely ask for additional information and order Lexis/Nexis reports for individuals who receive considerable publicity. In our opinion, this does not qualify as unfair discrimination as defined under Act 205, Section 5, Paragraph (a).

This notwithstanding, we will remind our underwriters again that they are not to discriminate against any insured based on their race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status.

Regarding the Agent's Binding Guideline for operators over 68 years or licensed less than 3 years, we do not underwrite based on an insured's age. In fact, because of the nature of our clientele, we insure a substantially larger percentage of mature drivers than exists in the population at large. Regarding operators licensed less than 3 years, we are underwriting based on the number of years' driving experience, not age. At Chubb, there are different writing companies that have different rates to fit a variety of risks based on their characteristics. For example, we will write a principal operator licensed less than 2 years in Pacific Indemnity, Vigilant, or Federal. However, in Great Northern, a writing company with preferred rates, we require that the principal operators and only the principal operators have 2 or more years' driving experience. A family is eligible for preferred rates in Great Northern with an inexperienced driver in their household as long as the principal drivers have been driving for at least 2 years. Our different writing companies help us accurately price our exposures.

As noted previously, we delegate binding authority to our own underwriters based upon their experience and level of expertise. Likewise, we believe it is our prerogative to determine how much binding authority to delegate to our agents.

To resolve this issue and clarify that we are not looking to reject operators over the age of 68 or licensed less than 3 years, we will amend our instructions to agents regarding the binding of coverage to read as follows:

Liability: Personal, Vehicle and Excess

Please discuss risks with any of the following underwriting characteristics with your underwriter prior to binding coverage:

- An operator over 68 years or licensed less than 3 years.

RECOMMENDATION #5

The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and non-renewal requirements of Act 86, Sections 1, 3 and 4 [40 P.S. §§3401, 3403 and 3404] so that the violations noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for 8 commercial automobile files and 11 commercial property files noted.

COMPANY RESPONSE:

To ensure compliance with Act 86, Section 1 [40 P.S. §3401], we will re-emphasize and clarify for field staff the requirements for 30 days advance notice to the named insured in Pennsylvania of an increase in renewal premium. Also, Chubb Commercial Insurance home office staff is in the process of modifying workflow procedures for the processing of renewals of Pennsylvania policies which should assist in our compliance efforts.

INSURANCE DEPARTMENT CRITICISM:

The Company did not provide a specific reason for non-renewal on one policy.

COMPANY RESPONSE:

Chubb Commercial Insurance will issue a reminder to field underwriting staff of the acceptable reasons for cancellation and non-renewal. This will also include a review of the company intranet sites that contain cancellation and non-renewal notification requirements by state, and the proper completion of the cancellation / non-renewal notification form.

INSURANCE DEPARTMENT CRITICISM:

The Company did not refund the insured within 30 days after the effective date of termination for the 7 commercial property files noted.

COMPANY RESPONSE:

The Company agrees with this criticism, and in order to comply with the requirements noted, has undertaken or will undertake the following:

- *Because it is imperative that the branch responsible for processing the cancellation understand the time constraints outlined within Act 86, Section 1 [40 P.S. §3401], additional communication and clarification of the requirements has been provided to field staff. Please see EXHIBIT A attached.*
- *Clarification of the requirements of Act 86, Section 1 [40 P.S. §3401] has been provided to the Company's Premium Accounting Service Center which is responsible for processing agency bill and direct bill return premiums..*
- *Workflows between the branches and the Premium Accounting Service Center will be modified in order to expedite the processing of return premiums.*

RECOMMENDATION #6

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

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 1 violation because it did not acknowledge the claim within 10 working days
- 6 violations because it did not provide a timely status letter for the claims noted.
- 1 violation for not notifying the provider in writing upon referring bills to a PRO.

COMPANY RESPONSE:

A directive will be sent to all staff handling PA losses regarding the specific requirements of the PA Unfair Claims Settlement Practices. These requirements will also be reiterated to staff during annual mandatory Unfair Claims Settlement Practices training for all claim

staff. Compliance will be monitored through random audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #7

The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 5 violations because the producers were found to be writing and / or soliciting policies but were not found in the Insurance Departments records as holding a Pennsylvania producer license
- 23 violations because the producers were found to be writing policies but were not found in the Insurance Department records as having an appointment.

COMPANY RESPONSE:

We have taken the following actions to ensure all producers are properly licensed and appointed:

- *For the 5 violations noted where producers were not properly licensed in Pennsylvania, our Agency Services Department has contacted each of these producers and required them to obtain a Pennsylvania license immediately.*

Procedures are currently in place that requires the producer to provide a copy of its Pennsylvania insurance license prior to booking any business with Chubb. Most Chubb rating systems contain system edits that remind the customer service representative that is processing the policy to verify the license and appointment of the producer.

- *For the 23 violations where properly licensed producers did not hold the correct appointments for the Great Northern Insurance Company, appointments have been filed with the state for 21 of them. The exception is two producers listed in the report for which we have no record, as follows:*
 - *The examiner provided us with policy number 1272534501 for Triester, Rossman & Associates, Inc. Our records indicate that the producer on this policy during the exam period is H.G.I.D. Inc. DBA Producers Insurance Network (EXHIBIT B), which is licensed in PA and appointed in Great Northern. This producer was included on the list of licensed and appointed producers provide to the PID on April 5, 2005.*
 - *The examiner provided us with policy number 1280017801 for Sanders Insurance Agency, Inc. Our records indicate that the producer on this policy during the exam period is Chubb Insurance Solutions Agency Inc. (EXHIBIT C), which is licensed in PA and appointed in Great Northern. This producer was included on the list of licensed and appointed producers provide to the PID on April 5, 2005.*

Procedures are in place to ensure that every producer writing business in Great Northern Insurance Company is properly appointed. Monthly reports are run to ensure that all producers writing business in Great Northern are properly appointed.

RECOMMENDATION #8

The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

INSURANCE DEPARTMENT CRITICISM:

The Insurance Department's criticism is that the Company did not provide coverage up to 180 days after the death of the named insured as required.

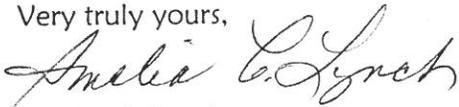
COMPANY RESPONSE:

The Company agrees with this criticism. The requirement to continue coverage for at least 180 days is already included in our electronic reference library of cancellation and nonrenewal guidelines (GCCANCL). In order to prevent a similar error from occurring in the future, we will remind our underwriting staff of this regulation.

We appreciate the professionalism and efficiency of your staff during the examination.

Thank you for your continued cooperation and assistance. Should you require additional information or have any questions, please let me know.

Very truly yours,



Amelia C. Lynch
Senior Vice President and Insurance Compliance Officer

Doc#125394