

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**THE HARFORD MUTUAL INSURANCE  
COMPANY**

Bel Air, Maryland

**AS OF  
October 20, 2003**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: December 10, 2003**

# THE HARFORD MUTUAL INSURANCE COMPANY

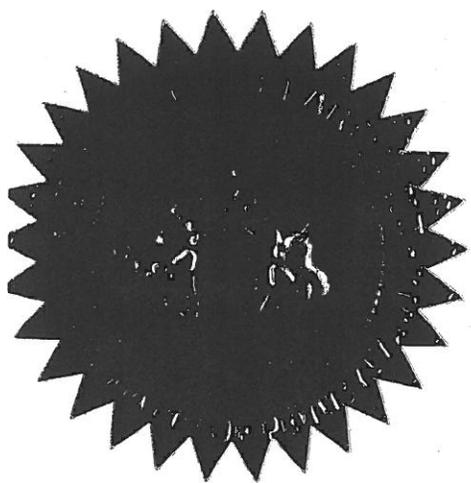
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

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  
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:  
: :  
HARFORD MUTUAL INSURANCE : Sections 605, 623 and 903(a) of the  
COMPANY : Insurance Department Act, Act of  
200 North Main Street : May 17, 1921, P.L. 789, No. 285  
Bel Air, MD 21014 : (40 P.S. §§ 235, 253 and 323.3)  
: :  
: Sections 5(a)(4), 5(a)(9) and 5(a)(9)(iii)  
: of the Unfair Insurance Practices Act,  
: Act of July 22, 1974, P.L. 589, No.  
: 205 (40 P.S. §§ 1171.5)  
: :  
: Sections 2, 3(a)(2), 3(a)(5), 3(a)(6),  
: 4(a) and 4(b) of the Act of July 3,  
: 1986, P.L. 396, No. 86 (40 P.S. §§  
: 3402, 3403 and 3404)  
: :  
: Section 653 of the Insurance Company  
: Law, Act of May 17, 1921, P.L. 682,  
: No. 284 (40 P.S. § 813)  
: :  
: Section 4 of the Casualty and Surety  
: Rate Regulatory Act, Act of June 11,  
: 1947, P.L. 538, No. 246 (40 P.S.  
: § 1184)  
: :  
: Title 31, Pennsylvania Code, Sections  
: 59.6, 113.88 and 146.6  
: :  
Respondent. : Docket No. MC03-11-019

CONSENT ORDER

AND NOW, this 10<sup>th</sup> day of December, 2003, 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 Harford Mutual Insurance Company, and maintains its office at 200 North Main Street, Bel Air, Maryland 21014.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2002 through December 31, 2002.

- (c) On October 20, 2003, the Insurance Department issued a Market Conduct Examination Report to Respondent.
  
- (d) A response to the Examination Report was provided by Respondent on November 18, 2003.
  
- (e) The Examination Report notes violations of the following:
  - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;
  
  - (ii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;
  
  - (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iv) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by 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;
- (v) Section 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazard insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. No cancellation or refusal to renew shall be effective unless a written notice of cancellation or refusal to renew is received by the insured;
- (vi) Section 5(a)(9)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancellation or refusal to renew by any person to

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

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

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

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

(x) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires the mid-term cancellation notice state that, at the insured's request, the insurer shall

provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

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

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

(xiii) Section 653 of the Insurance Company Law, No. 284 (40 P.S. § 813), which requires that no policy of insurance issued or renewed against liability under the Workmens Compensation Act may be cancelled or terminated during the term of the policy, except for nonpayment of premium or request of the insured;

(xiv) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates,

every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

(xv) Title 31, Pennsylvania Code, Section 59.6(5)(6), which requires that notices of cancellation or refusal to renew shall be clear and complete and include specifying language;

(xvi) Title 31, Pennsylvania Code, Section 113.88, which requires that the reason given for nonrenewal or cancellation be clear and complete, stated so that a person of average intelligence and education can understand it. “Losses” and “underwriting reasons” are not sufficiently specific reasons for cancellation or nonrenewal; and

(xvii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected.

#### CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
  
- (b) Respondent's violations of Sections 605 and 623 of the Insurance Department Act (40 P.S. §§ 235 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
  - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
  
  - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
  
- (c) Respondent's violations of Section 5(a)(4), 5(a)(9) and 5(a)(9)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
  - (i) cease and desist from engaging in the prohibited activity;
  
  - (ii) suspension or revocation of the license(s) of Respondent.

- (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
  - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Sections 2, 3(a)(2), 3(a)(5), 3(a)(6), 4(a) and 4(b) of Act 86 (40 P.S. §§ 3403), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:
- (i) Order that the insurer cease and desist from the violation.
  - (ii) Impose a fine or not more than \$5,000 for each violation.

- (f) Respondent's violations of Section 653 of the Insurance Company Law, No. 284 (40 P.S. § 813) are punishable by the following, under Section 655 of the Insurance Company Law (40 P.S. § 815), which provides that the Insurance Commissioner shall have the power to suspend or revoke the license of any insurance company which violations any provisions of this article.
  
- (g) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:
  - (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
  
  - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.
  
- (h) Respondent's violations of Title 31, Pennsylvania Code, Section 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 cited above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Seventeen Thousand, Five Hundred Dollars (\$17,500.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert,

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

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

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

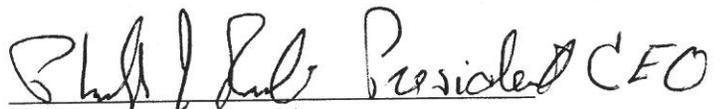
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

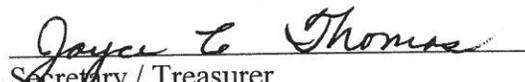
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

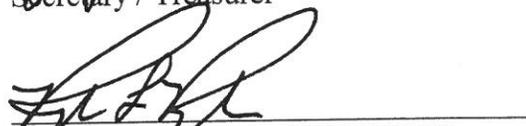
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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

BY: HARFORD MUTUAL 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 The Harford Mutual Insurance Company's offices located in Bel Air, Maryland, from May 6, 2003, through May 12, 2003. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

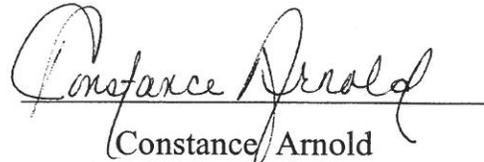
The undersigned participated in this examination and in preparation of this Report.



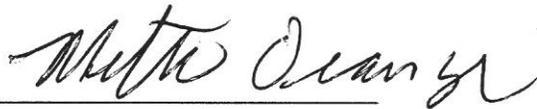
Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief



James R Myers  
Market Conduct Examiner



Constance Arnold  
Market Conduct Examiner



Metro Orange  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on The Harford Mutual Insurance Company, hereinafter referred to as "Company," at their office located in Bel Air, Maryland. 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, 2002, through December 31, 2002, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property

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

2. Dwelling Fire

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

3. Commercial Automobile and Commercial Property

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

4. Workers' Compensation

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

5. Claims

6. Forms

7. Advertising

8. Complaints

9. Licensing

### III. COMPANY HISTORY AND LICENSING

The Harford Mutual Insurance Company was formed under the laws of Maryland in 1842. Formerly known as the Mutual Fire Insurance Company in Harford County, the Company converted to its current name in 1947 by an Act of the Maryland Legislature. The Company absorbed three other mutual insurers; Planters Mutual Insurance Company of Washington County in 1966, Kent County Mutual Insurance Company in 1969, and the Mutual Insurance Company of Berks County in 1973.

#### LICENSING

The Harford Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2003. The Company is licensed in Delaware, District of Columbia, Maryland, North Carolina, New Jersey, Pennsylvania, Tennessee, and Virginia. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$13,130,953. Premium volume related to the areas of this review were: Fire \$448,707; Homeowners' Multiple Peril \$1,314,985; Commercial Multiple Peril \$979,141; Inland Marine \$106,013; Workers' Compensation \$2,513,028; Commercial Automobile Direct Written Premium was reported as Commercial Automobile No-fault \$128,535; Commercial Auto Liability \$44,173,162 and Commercial Auto Physical Damage \$1,183,880.

#### **IV. UNDERWRITING PRACTICES AND PROCEDURES**

As part of the examination, the Company was requested to provide underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for Personal Lines Property, Commercial Automobile, Commercial Property and Workers' Compensation. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

## **V. UNDERWRITING**

### **A. 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.

The universe of 12 property policies, which were cancelled within the first 60 days of new business, was selected for review. The property policies consisted of homeowners, tenant homeowners, and owner occupied dwelling fire. All 12 files requested were received and reviewed. No violations were noted.

#### **2. Mid-term Cancellations**

A mid-term 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 214 property policies, which were cancelled mid-term during the experience period, 97 files were selected for review. The property policies consisted of homeowners, tenant homeowners, and owner occupied dwelling fire. All 97 files requested were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

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

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

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 19 personal property policies, which were nonrenewed during the experience period, was selected for review. The personal property policies were homeowners. All 19 files requested were received and reviewed. The violation noted resulted in an error ratio of 5%.

The following finding was made:

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

Prohibits cancellation or refusal to renew by any person shall be effective unless a written notice of cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. The notice shall state the specific reason or reasons of the insurer for cancellation or refusal to renew.

AND

*Title 31, PA Code, §59.6(5)(6)*

Requires that notices of cancellation or refusal to renew shall meet the following requirements: The reason 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; and if the reason is a substantial change or increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. The violation noted was for failure to provide a specific reason for nonrenewal.

#### 4. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

The universe of 5 personal property policies, which were declined during the experience period, was selected for review. All 5 files requested were received and reviewed. No violations were noted.

### **B. Commercial Automobile**

#### 1. 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 defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 331 commercial automobile files identified as declinations during the experience period, 50 files were selected for review. Of the 50 files selected, 30 were received and reviewed. The 20 violations were based on 20 files, resulting in an error ratio of 40%.

The following findings were made:

*20 Violations Insured Department Act, Section 903(a) [40 P.S. §323.3]*

Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department in its discretion, may require in order that its authorized representatives may ascertain whether the company or person has complied with the laws of the Commonwealth. The violations noted were for failure to provide the requested files.

2. 60-Day Cancellations

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

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

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

### 3. Mid-term Cancellations

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

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

From the universe of 125 commercial automobile policies, which were cancelled mid-term during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 6 violations were based on 6 files, resulting in an error ratio of 24%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The file noted was absent any evidence that this requirement was complied with.

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

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

*CONCERN: The Department is concerned with the method being used to return premium on agency billed items. The return premium is to be applied to the particular contract that is being cancelled and not applied to an agency's running account for that particular insured.*

4. 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 57 commercial automobile policies identified as nonrenewals by the Company, was selected for review. All 57 files selected were received and reviewed. The 39 violations were based on 39 files, resulting in an error ratio of 68%.

The following findings were made:

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

Requires a written notice of nonrenewal must be forwarded to the named insured at least 60 days in advance of the effective date of termination. The file noted was absent any evidence that this requirement was complied with.

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

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

AND

*Title 31, PA Code, §113.88*

Requires that the reason given for nonrenewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal or cancellation. The 31 files noted were absent any evidence these requirements were complied with.

*7 Violations 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 7 files noted required supporting coverage to be renewed.

#### 5. Renewals

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

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

From the universe of 1,011 commercial automobile policies, which were renewed during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

### **D. Commercial Property**

#### 1. 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 defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 499 commercial property files identified as declinations during the experience period, 68 were selected for review. Of

the 68 files selected, 44 were received and reviewed. The 24 violations noted were based on 24 files, resulting in an error ratio of 35%.

The following violations were noted:

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

Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department in its discretion, may require in order that its authorized representatives may ascertain whether the company or person has complied with the laws of the Commonwealth. The 24 violations noted were for failure to provide the requested files.

2. 60-Day Cancellations

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

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

The universe of 8 commercial property policies, which were cancelled within the first 60 days of inception, was selected for review. All 8 files

selected were received and reviewed. The commercial property files consisted of commercial package policies. No violations were noted.

### 3. Mid-term Cancellations

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

The purpose of the review was to determine compliance with Act 86, Section 2 [40 P.S. §3402], which prohibits cancellation except for specified reasons, Section 3 [40 P.S. §3403], which establishes the requirements, which must be met regarding the form and condition of the cancellation notice and Section 4 [40 P.S. §3404], which establishes the requirements for the return of unearned premium to the named insured.

From the universe of 230 tenant occupied, dwelling fire property policies cancelled during the experience period, 105 files were selected for review. All 105 files were received and reviewed. The policies were commercial packages, commercial inland marine, commercial fire, and tenant occupied dwelling fire. The 48 violations noted were based on 44 files, resulting in an error ratio of 42%.

The following findings were made:

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

Requires that a mid-term cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the

insured, whichever is less. The 24 files noted were absent any evidence this requirement was complied with.

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

Requires that unearned premium must be returned to the insured not later than ten business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The violations noted were for failure to return the unearned premium within ten business days.

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

Requires that unearned premium must be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The 23 files noted were for failure to return the unearned premium within 30 days.

*CONCERN: The Department is concerned with the method being used to return premium on agency billed items. The return premium is to be applied to the particular contract that is being cancelled and not applied to an agency's running account for that particular insured.*

4. 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 36 commercial property policies nonrenewed during the experience period was selected for review. All 36 files selected were received and reviewed. The commercial property files were commercial inland marine, commercial fire, commercial packages, and tenant occupied dwelling fire policies. The 9 violations noted were based on 9 files, resulting in an error ratio of 25%.

The following findings were made:

*1 Violation Act 86, Section 2 [40 P.S. §3404]*

Requires that canceling in mid-term a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following:

- (1) A condition, factor or loss experience material to insurability has changed substantially or a substantial condition, factor or loss experience material to insurability has become known during the policy term.
- (2) Loss of reinsurance or a substantial decrease in reinsurance has occurred, which loss or decrease shall, at the time of cancellation, be certified to the Insurance Commissioner as directly affecting in-force policies.
- (3) The insured has made a material misrepresentation, which affects the insurability of the risk.
- (4) The policy was obtained through fraudulent statements, omissions or concealment of fact material to the

acceptance of the risk or to the hazard assumed by the company.

- (5) The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit.
- (6) The insured has requested cancellation.
- (7) Material failure to comply with policy terms, conditions or contractual duties.
- (8) Other reasons that the Insurance Commissioner may approve.

The file noted did not show any evidence these requirements were met.

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

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

AND

*Title 31, PA Code, §113.88*

Requires that the reason given for nonrenewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it.

Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal or cancellation.

The 8 files noted were absent any evidence these requirements were complied with.

#### 5. Renewals

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

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

From the universe of 1,574 commercial property policies, which were renewed during the experience period, 125 files were selected for review. All 125 files selected were received and reviewed. The commercial property files consisted of commercial fire, commercial inland marine, commercial package policies, and tenant occupied dwelling fire. No violations were noted.

### **E. Workers' Compensation**

#### 1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 86, Section 7 [40 P.S. §3407], which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of

termination no later than the 60<sup>th</sup> day unless the policy provides for a longer period of notification.

This Company did not report any workers' compensation policies cancelled in the first 60 days of new business during the experience period.

## 2. Mid-term Cancellations

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

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

The universe of 13 workers' compensation policies, which were cancelled during the experience period, was selected for review. All 13 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 15%.

The following findings were made:

### *2 Violations Insurance Company Law, Section 653 [40 P.S. §813]*

Provides that except for nonpayment of premium, no policy of insurance issued or renewed against under the Pennsylvania Workers' Compensation Act may be cancelled or terminated by the insurer during the policy term. The 2 files noted did not show any evidence that this requirement had been complied with.

### 3. Nonrenewals

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

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

The universe of 8 workers' compensation policies, which were nonrenewed during the experience period, was selected for review. All 8 files selected were received and reviewed. The 4 violations noted were based on 3 files, resulting in an error ratio of 38%.

The following findings were made:

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

Requires that a nonrenewal notice shall state the specific reasons for 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 3 files noted were absent any evidence this requirement was complied with.

#### *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 file noted required supporting coverage to be renewed.

## VI. RATING

### **A. Homeowners**

#### 1. New Business

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

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

#### Homeowners – New Business Without Surcharges

From the universe of 148 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

*1 Violation Act 246, The Casualty and Surety Rate Regulatory Act,  
Sections 4 [40 P.S. §1184]*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also,

no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The violation noted was the result of the company using the incorrect territory. This resulted in an undercharge of \$78.00.

## 2. Renewals

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

The 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.

### Homeowners – Renewals Without Surcharges

From the universe of 2,807 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

## **B. Dwelling Fire – Owner Occupied**

### **1. New Business**

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

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

The universe of 1 dwelling fire policy written as new business during the experience period, was selected for review. The file selected was received and reviewed. No violations were noted.

### **2. Renewals**

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

The purpose of the review was to determine 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.

From the universe of 55 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

*1 Violation Act 246, The Casualty and Surety Rate Regulatory Act,  
Sections 4 [40 P.S. §1184]*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The violation noted was the result of the company using the incorrect territory. This resulted in an undercharge of \$4.00.

## VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Dwelling Fire Claims

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

### **A. Homeowner Claims**

From the universe of 211 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

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 violation noted was the result of not providing the claimant with a reasonable written explanation for the delay within 30 days after notification of the claim and 45 days thereafter.

**B. Dwelling Fire Claims**

From the universe of 44 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

### VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 [40 P.S. §477b], Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §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 did not report any advertising materials during the experience period. 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 11 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 11 files selected were 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 synopsis reflects the nature of the 11 complaints that were reviewed.

• 8	Cancellation/Nonrenewal	73%
• 2	Claims Related	18%
• 1	Renewal	9%
<hr/>		<hr/>
11		100%

The following findings were 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 nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

*Title 31, PA Code, §113.88*

Requires that the reason given for nonrenewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal or cancellation. The file noted was absent any evidence these requirements were complied with.

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

Requires that unearned premium must be returned to the insured not later than ten business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The violation noted was for failure to return the unearned premium within ten business days.

## XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 [40 P.S. §235] and Section 623 [40 P.S. §253] of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following finding was made:

*1 Violation Insurance Department Act, Section 605 [40 P.S. §235]  
Appointment.*

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

*AND*

*The Insurance Department Act, Section 623 [40 P.S. §253]*

*Doing Business With Unlicensed Brokers*

Any entity or the appointed agent of an entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree. The following producer was found to be writing policies and was not found in the Insurance Department records as having a broker's license or a certificate of qualification and appointment by the Company.

Business Insurance Services, 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 ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 [40 P.S. §235] and Section 623 [40 P.S. §253] of the Insurance Department Act, prior to accepting any business from an agent or broker.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5] to ensure that violations regarding the proper and specific reasons for cancellation on personal property policies, as 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 violations regarding the requirement supporting coverage, as noted in the report, do not occur in the future.
4. The Company must review Insurance Department Act, Section 903(a) [40 P.S. § 323.3] to ensure that violations regarding the failure of the Company to present all requested files for review, as noted in the report, do not occur in the future.
5. The Company must review Act 86, Section 3 (a)(6) [40 P.S. §3403 (a)(6)] to ensure that violations regarding the failure to provide offer of

loss information on cancellation notices, as noted in the report, do not occur in the future.

6. The Company must review Act 86, Section 3 (a)(5) [40 P.S. §3403 (a)(5)] and Title 31, §113.88 to ensure that violations requiring the specific reason for termination on commercial policies, as noted in the report, do not occur in the future.
  
7. The Company must review Act 86, Section 4 [40 P.S. §3404] to ensure that violations regarding the return of unearned premiums to the insured, within their respective time limitations, as noted in the report, do not occur in the future.

**XIII. COMPANY RESPONSE**



# THE HARFORD MUTUAL INSURANCE COMPANIES

*Fire and Casualty Insurance*

The Harford Mutual Insurance Company  
Firstline National Insurance Company

November 17, 2003

Mr. Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief  
Insurance Department  
Market Conduct Division  
1321 Strawberry Square  
Harrisburg, PA 17120

RE: Examination Warrant No. : 03-M22-003

Dear Mr. Derk:

On behalf of The Harford Mutual Insurance Company I am pleased to enclose our response to the Pennsylvania Insurance Department's Examination Report dated October 20, 2003. We hope you find that our response addresses all concerns and recommendations offered by the Department.

Harford Mutual endeavors to conduct its business in full compliance with the laws and regulations of the State of Pennsylvania. As a result of the Examination, necessary corrective action has been undertaken to ensure compliance with all regulations.

We would like to take this opportunity to thank you for the courtesy demonstrated by your examiners.

Very truly yours,

Robert F. Ohler, CPCU  
Senior Vice President

RFO:eh

Enclosure

## **HARFORD MUTUAL INSURANCE COMPANY'S RESPONSE TO EXAMINATION 03-M-22-003**

1. With respect to compliance with Section 605 and Section 623 of the Insurance Department Act pertaining to the licensing of agents, agencies, and brokers, Harford Mutual has the following procedures in place. All licenses are verified, semi-annually, with the Department, to ensure their active status. We also require all agencies to submit a list of their active agents to Harford Mutual once every six months. Further, when a new agency is appointed Harford Mutual submits to that agency a list of active licensed agents for confirmation of our data. Harford Mutual also employs an on line licensing service to expedite licensing and reduce errors. Our automated systems verify that any commission checks can only be issued to a properly licensed agency.

Harford Mutual's policy issuance system is set-up so that no new business can be written for an agent not properly licensed and appointed. Further, underwriters are required to verify the agent's licensing status on each new business submission.

A search with our agency licensing system is conducted prior to all policy renewals. Harford Mutual's Agency Licensing Coordinator then verifies the agent's license and status to ensure proper licensing data, or if necessary, to alert underwriting to initiate appropriate action on that agent's business with Harford Mutual.

2. The Department has recommended that Harford Mutual Insurance Company review Act 205, Section 5(a)(9) to ensure compliance with respect to cancellation on personal property policies. Harford Mutual has taken action on this recommendation. All underwriters handling cancellation of personal property policies have been apprised of the Department's finding and have reviewed the statute. Further, compliance with the statute has been included with our routine file auditing process in order to provide management with a means to ensure adherence.
3. The Department has recommended that Harford Mutual Insurance Company review Act 205, Section 5(a)(4) to ensure that violations regarding the requirement of supporting coverage do not occur. Going forward, Harford Mutual will comply with the Department's position with respect to writing unsupported business. While we accept the Department's interpretation of the statute, we do note that the Department has been unable to forward any specific regulation or adjudicative rule-making that would specifically prohibit this conduct. In our review, Act 205, Section 5(a)(4) does not clearly prohibit this conduct in that there is no agreement or concerted action to commit any act of boycott, coercion, or intimidation.

4. The Company has taken affirmative steps to satisfy the Department's recommendation that Harford Mutual Insurance Company review Insurance Department Act, Section 903(a). The Company recognized, during the Examination, that it was not in full compliance with this statute. Our Pennsylvania underwriters, save one, were aware of this regulation. All Pennsylvania underwriters are now familiar with the regulation and are retaining declinations, including applications and supporting documentation, for the required five years.
5. The Department has recommended that Harford Mutual Insurance Company review Act 86, Section 3(a)(6) to ensure that violations regarding the failure to provide offer of loss information on cancellation notices do not occur in the future. Harford Mutual recognizes that it is currently not in compliance with this regulation. The language contained in the cancellation notice, generated by our automated systems, is not sufficiently broad to include the full language required in the regulation. Our current cancellation system is being redeveloped by our Information Technology department and is due to begin roll-out in early 2004. Necessary changes to our cancellation notice, to comply with the regulation, are contained within the specifications of this new system.
6. Harford Mutual Insurance Company is now complying with Act 86, Section 3(a)(5), and Title 31, §113.88. While the Company was of the belief, prior to the Examination, that it was in compliance, we have now modified our procedures pertaining to the reasons provided for terminating policies. Harford Mutual now provides specific loss data, including actual experience, and loss runs. We are also providing more specific information when termination is for something other than losses in order to meet the standard set out in Title 31, §113.88.
7. The Department has recommended that the Company review Act 86, Section 4 to ensure that violations regarding the return of unearned premiums to the insureds, within their respective time limitations, as noted in the report, do not occur in the future.

With respect to direct bill policies, Harford Mutual Insurance Company has implemented a new procedure, in conjunction with a computer generated report, to ensure compliance. A report is generated for Accounting, alerting them to the cancellation, the first business day following a cancellation processed by underwriting. The steps to then return any unearned premium on that policy become part of the work Accounting is responsible for that day.

For agency billed policies, Harford Mutual will be issuing a bulletin to all agencies advising them of their need to ensure compliance with the regulation as well as citing the regulation itself, including specifics regarding time limitations. Further, agents will be made aware of the requirement to return premium on the specific policy affected, and not the account. Harford Mutual is developing an audit procedure by which it will randomly verify that its agents are complying.

Agencies found in violation will be contacted and advised that further non-compliance, being in violation of their agency contract, would lead to suspension or termination of their contract with Harford Mutual.

This new procedure dealing with agency billed policies will be implemented within the next 90 days.

It is further stated that any violations found by the Department in this Examination, not specifically addressed by the Department's Recommendations, have been or are being corrected by Harford Mutual Insurance Company.

RFO:eh