

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**HARFORD MUTUAL INSURANCE  
COMPANY**

Bel Air, Maryland

**AS OF  
September 29, 2008**

**COMMONWEALTH OF PENNSYLVANIA**

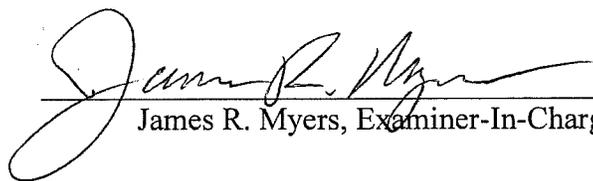


**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: November 4, 2008**

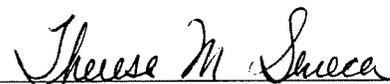
VERIFICATION

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

  
James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 3 Day of *September*, 2008

  
Notary Public

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

# THE HARFORD MUTUAL INSURANCE COMPANY

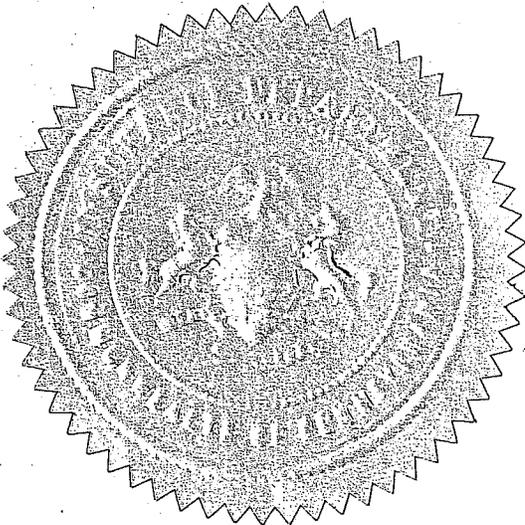
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22<sup>ND</sup> day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



  
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Joel S. Ario  
Insurance Commissioner

The Harford Mutual Insurance Company

Docket No.  
MC08-10-007

Market Conduct Examination as of the  
close of business on September 29, 2008

**ORDER**

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

It is hereby ordered as follows:

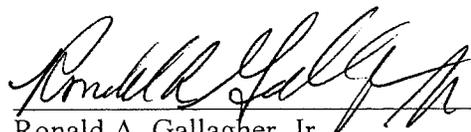
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania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

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

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

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

BY: Insurance Department of the Commonwealth  
of Pennsylvania

 (November 4, 2008)  
Ronald A. Gallagher, Jr.  
Deputy Insurance Commissioner

## I. INTRODUCTION

The market conduct examination was conducted at The Harford Mutual Insurance Company's office located in Bel Air, Maryland, from June 16, 2008, through June 27, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

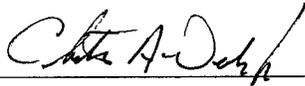
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

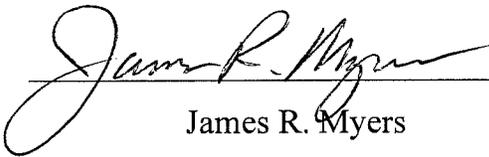
The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

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



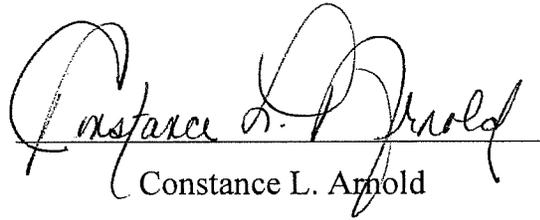
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Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief



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James R. Myers  
Market Conduct Examiner



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Constance L. Arnold  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on The Harford 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, 2007, through December 31, 2007, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

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

5. Claims

6. Forms

7. Advertising

8. Complaints

9. Licensing

### III. COMPANY HISTORY AND LICENSING

The Harford Mutual Insurance Company was incorporated in 1842, under the laws of Maryland and began business the following year as the Mutual Fire Insurance Company in Harford County. The present title was adopted on April 15, 1947.

The Company absorbed by merger Planters' Mutual Insurance Company of Washington County on September 30, 1966; Mutual Fire Insurance Company of Kent County on July 1, 1971; and Mutual Insurance Company of Berks County on July 1, 1973.

In 1988, the Company organized a downstream holding company, Harford Group, Inc., 100% owned by Harford Mutual, and a subsidiary property and casualty carrier, Firstline National Insurance company, 100% owned by Harford Group, Inc.

#### LICENSING

The Harford Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2008. The Company is licensed in Delaware, Maryland, New Jersey, North Carolina, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$6,377,998. Premium volume related to the areas of this review were: Fire \$276,933; Homeowners Multiple Peril \$805,996; Commercial Multiple Peril (Non-liability portion) \$563,928; Commercial Multiple Peril (Liability portion) \$488,468; Inland Marine \$56,065; Workers' Compensation \$1,547,293; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$29,009; Other Commercial Auto Liability \$1,260,576 and Commercial Auto Physical Damage \$421,530.

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

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and underwriting guides were furnished for homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

## V. UNDERWRITING

### A. 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 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 88 property policies which were cancelled midterm during the experience period, 27 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 27 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 11%.

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.

*AND*

*Mohnal/Lebanon Mutual Adjudication, P95-08-048 (1998).*

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.

The Company failed to notify the insured of an alleged hazardous condition in the 2 files noted.

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

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for cancellation.

## 2. 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 14 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowner and tenant homeowner. All 14 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 21%.

The following findings were made:

*3 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 3 files noted for an improper reason. The reasons for nonrenewal were: "loss history" and "exceeds reinsurance capacity".

## **B. Commercial Property**

### **1. 60-Day Cancellations**

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

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

The universe of 1 commercial package policy cancelled within the first 60 days of new business was selected, received and reviewed. No violations were noted.

### **2. Midterm Cancellations**

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

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

From the universe of 63 commercial property policies cancelled midterm during the experience period, 6 files were selected for review. The commercial property files consisted of commercial inland marine, commercial fire and tenant occupied dwelling fire policies. All 6

files were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 33%.

The following findings were made:

*2 Violations Act 86, Section 2 [40 P.S. §3402]*

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The 2 files noted were cancelled for other than permitted reasons. The reason for cancellation was failure to submit updated/signed application as requested.

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

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not return the unearned premium to the insured within 10 business days after the effective date of termination.

3. Nonrenewals

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

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

The universe of 26 commercial property policies nonrenewed during the experience period was selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial inland marine and commercial package. All 26 files were received and reviewed. No violations were noted.

#### 4. Declinations

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

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

From the universe of 173 commercial property declinations reported by the Company during the experience period, 29 files were selected for review. The commercial property files consisted of commercial fire and commercial package. All 29 files were received and reviewed. No violations were noted.

#### 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 965 commercial property policies renewed during the experience period, 70 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and commercial package. All 70 files were received and reviewed. No violations were noted.

### **C. Commercial 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 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 1 commercial automobile policy cancelled within the first 60 days of new business was selected, received and reviewed. No violations were noted.

#### **2. Midterm Cancellations**

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

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

notice.

From the universe of 42 commercial automobile policies cancelled midterm during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 20%.

The following findings were made:

*2 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 return the unearned premium to the insured within 30 days after the effective date of termination for the 2 files 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 88 commercial automobile declinations reported by the Company during the experience period, 20 files were selected for review. All 20 files were received and reviewed. No violations were noted.

#### 4. Renewals

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

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

From the universe of 325 commercial automobile policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

### **D. 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.

The universe of 1 workers' compensation policy cancelled within the first 60 days of new business was selected for review. The file was received and reviewed. No violations were noted.

## 2. Midterm Cancellations

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

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

The universe of 11 workers' compensation policies identified as midterm cancellations was selected for review. All 11 files were received and reviewed. No violations were noted.

## 3. Nonrenewals

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

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

The universe of 3 workers' compensation policies nonrenewed during the experience period was selected for review. All 3 files were received and reviewed. No violations were noted.

## 4. Renewals

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

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

From the universe of 96 workers' compensation policies which were renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

## VI. RATING

### **A. Homeowners**

#### 1. Renewals

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

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

#### Homeowner Rating – Renewals Without Surcharges

From the universe of 1,263 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

### **B. Tenant Homeowners**

#### 1. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it

proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

#### Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 53 tenant homeowner policies renewed without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

### **C. Dwelling Fire**

#### 1. Renewals

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

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

#### Dwelling Fire Rating – Renewals Without Surcharges

The universe of 26 dwelling fire policies renewed without surcharges was selected for review. All 26 files were received and reviewed. No violations were noted.

## VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. 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 87 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

*2 Violations 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 2 claims noted.

## **B. Dwelling Fire Claims**

The universe of 27 tenant homeowner claims reported during the experience period was selected for review. All 27 files were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 7%.

The following findings were made:

### *2 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 2 claims noted.

### *1 Violation Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the

insurer. The Company failed to deny a portion of the claim in writing.

### VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] , which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

No violations were noted.

## *IX. ADVERTISING*

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

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

The Company provided 20 pieces of advertising in use during the experience period, which included brochures, agent's kits and newsletters. The Company's internet web site was also reviewed. No violations were noted.

## X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 6 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 6 complaints were requested, received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

The following findings were made:

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

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

premium when due or for any other reasons approved by the Commissioner. The Company nonrenewed the 2 files noted due to losses and exceeding the Company's reinsurance capacity.

The following synopsis reflects the nature of the 6 complaints that were reviewed.

6	Cancellation/Nonrenewal	100%
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## XI. LICENSING

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

The following findings were made:

*1 Violation Insurance Department Act, No. 147, Section 641.1A  
[40 P.S. §310.41a]*

(a) Any insurance entity or licensee accepting applications or orders for insurance from any person or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

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

Wilson-Oliver Agency, Inc.

*2 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.

Mark Bleier  
Fairway Insurance, Inc.

## *XII. RECOMMENDATIONS*

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2 and 4 [40 P.S. §3402 and 3404], so that the violations noted in the Report do not occur in the future.
3. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and claim denials as noted in the Report do not occur in the future.
4. 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.

**IX. COMPANY RESPONSE**

Property and Casualty Insurance  
Since 1842



The Harford Mutual Insurance Company  
Firstline National Insurance Company

THE  
HARFORD MUTUAL  
INSURANCE COMPANIES

October 21, 2008

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

RE: Examination Warrant Number: 08-M22-001

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 September 29, 2008. 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 staff.

Sincerely,

Robert F. Ohler, CPCU  
Senior Vice President

The Harford Mutual Insurance Company  
Examination 08-M22-001

1. The company has reviewed Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance in its handling of cancellation and nonrenewal notices. Corrective action has been taken to ensure the policyholders are notified directly of alleged hazardous conditions. Further, the company has taken necessary corrective action to ensure that reasons for a nonrenewal are specific and conform to the Act.
2. The company has taken action to correct a violation of Act 86, Section 2 [40P.S. §3402], involving one employee, to ensure that cancellations do not occur for improper reasons. Further, with respect to compliance with Act 86, Section 4(a) [40 P.S. §3404], Harford Mutual's direct bill system handles the return of unearned premium, thus ensuring compliance. With regard to agency billed policies, Harford Mutual maintains a procedure by which agencies are routinely audited to ensure compliance. Should an audit reveal noncompliance the agency bill option is no longer available to that agency.
3. To ensure compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices related to status letters and claim denials the company will take all necessary steps to reinforce awareness, through training of the requirements of Pennsylvania claim practices laws. The company will further heighten supervisory oversight in this area, and ensure that compliance measurements are included in its self-audit program.
4. With respect to Insurance Department Act, No. 147, Section 641.1(a) [40 P.S. §310.41(a)], and Insurance Department Act, No. 147, Section 671-A [40 P.S. §310.71] pertaining to producer licensing, the company has the following procedures in place. Our internal automated Underwriting systems will not permit a policy to be quoted or issued to an unlicensed agency. As a check, a weekly report identifies any transaction involving an unlicensed agency. A database of all licensed producers and their annual license renewal dates is maintained. The Pennsylvania Insurance Department's website is checked monthly to ensure producers' licenses have been renewed. Follow-up is conducted with any producer who has not updated his/her license. The producer is prohibited from soliciting business until a current license is confirmed. In addition, a complete listing of agents licensed with Harford Mutual is sent to every agent twice a year.