

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**HOMESITE INSURANCE COMPANY OF
PENNSYLVANIA**

Philadelphia, Pennsylvania

**AS OF
November 9, 2009**

COMMONWEALTH OF PENNSYLVANIA

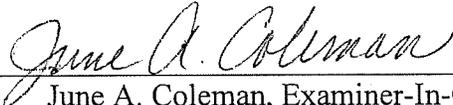


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: January 5, 2010

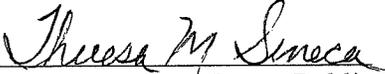
VERIFICATION

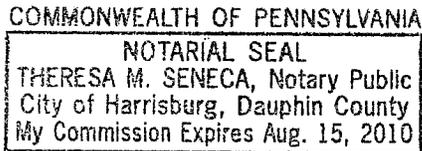
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


June A. Coleman, Examiner-In-Charge

Sworn to and Subscribed Before me

This 21 Day of September, 2009


Notary Public



HOMESITE INSURANCE COMPANY OF PENNSYLVANIA

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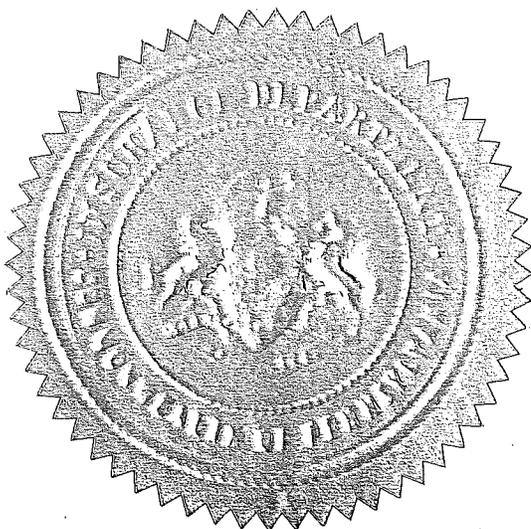
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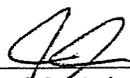
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND 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.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
HOMESITE INSURANCE : Section 671-A of Act 147 of 2002
COMPANY OF PENNSYLVANIA : (40 P.S. § 310.71)
99 Bedford Street :
Boston, MA 02111 : Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
: 5(a)(9)(ii), 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)
: :
: Title 31, Pennsylvania Code, Sections
: 146.6 and 146.7(a)(1)
: :
Respondent. : Docket No. MC09-12-001

CONSENT ORDER

AND NOW, this 5th day of January, 2010, this Order is hereby issued by the Insurance Department 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 Insurance Department finds true and correct each of the following

Findings of Fact:

- (a) Respondent is Homesite Insurance Company of Pennsylvania, and maintains its address at 99 Bedford Street, Boston, Massachusetts 02111.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2008 through December 31, 2008.
- (c) On November 9, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on December 9, 2009.
- (e) The Examination Report notes violations of the following:

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

- (ii) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(4)), which prohibits unfair methods of competition and unfair or deceptive acts or practices;

- (iii) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;

- (iv) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which prohibits cancellation of 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 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;

- (v) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (vi) Section 5(a)(9)(iii) of Act 205 (40 P.S. § 1171.5) requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation;
- (vii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (viii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires 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. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must

be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9), 5(a)(9)(ii) 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 Title 31, Pennsylvania Code, Sections 146.6 and 146.7(a)(1) are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department 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 Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Manager, Bureau of Market Conduct, 1227 Strawberry Square, Harrisburg,

Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Insurance Department 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 Insurance Department 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 Department 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 Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department 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.

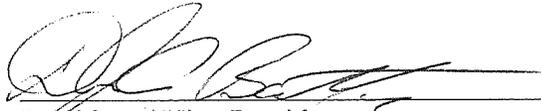
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

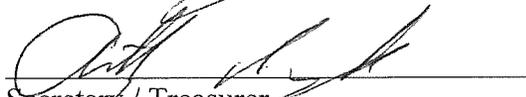
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee 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 delegee.

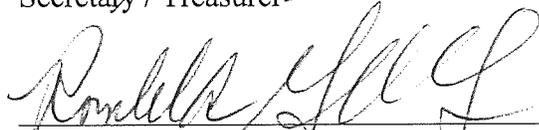
BY: HOMESITE INSURANCE COMPANY OF
PENNSYLVANIA, Respondent



President / Vice President



Secretary / Treasurer



RONALD A. GALLAGHER, JR.
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Homesite Insurance Company of Pennsylvania's office located in Boston, Massachusetts, from June 8, 2009, through June 19, 2009. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

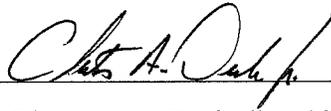
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

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

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

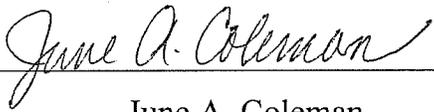
The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

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



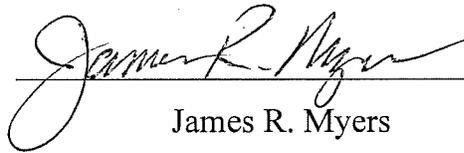
Chester A. Derk, Jr., AIE, HIA

Market Conduct Division Chief



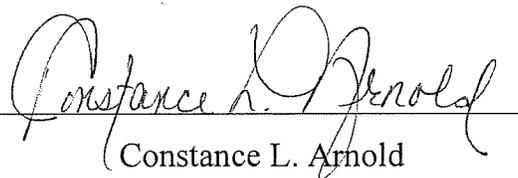
June A. Coleman

Market Conduct Examiner



James R. Myers

Market Conduct Examiner



Constance L. Arnold

Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Homesite Insurance Company, hereinafter referred to as “Company,” at their office located in Boston, Massachusetts. 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, 2008, through December 31, 2008, 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. Claims
3. Forms
4. Advertising
5. Complaints
6. Licensing

III. COMPANY HISTORY AND LICENSING

Homesite Insurance Company of Pennsylvania was incorporated in Pennsylvania, on November 1, 1998 and commenced business on June 16, 1999. The Company is wholly-owned by Homesite Securities Company, LLC, which is in turn a wholly-owned subsidiary of Homesite Group Incorporated.

LICENSING

Homesite Insurance Company of Pennsylvania's Certificate of Authority to write business in the Commonwealth was issued on June 16, 1999. The Company is licensed in Pennsylvania. The Company's 2008 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$4,173,086. Premium volume related to the area of this review was: Homeowners Multiple Peril \$4,173,086.

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. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's homeowner eligibility guidelines for Editions 1.3 and 2.0, require supporting business of the primary dwelling to insure seasonal or secondary residences.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. "Unfair Methods of Competition" and "Unfair or Deceptive Practices" in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or

marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company’s homeowner eligibility guidelines for Editions 1.3 and 2.0, state the following: “All residents of the insured dwelling (unit) must be related and only resident spouses may be named insured in addition to the primary named insured.”

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’s homeowner eligibility guidelines for Editions 1.3 and 2.0 stated the following: “Renewal risk claim history will be reviewed with underwriting discretion regarding the number, type and severity of claims allowed during the tenure of the policy in the Homesite homeowners program.” Cancellation or nonrenewal based on claim activity is not a permitted reason.

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 665 property policies which were cancelled midterm during the experience period, 120 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 120 files were received and reviewed. The 19 violations noted were based on 13 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. The Company failed to provide evidence that there was a substantial change in the risk for the 2 files noted.

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company failed to provide 30 days notice of cancellation for the 6 files noted.

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

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for cancellation on the cancellation notice for the 11 files noted.

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 3 homeowner policies which were nonrenewed during the experience period was selected for review. All 3 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 100%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 2 files noted were nonrenewed for improper reasons.

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.

AND

Adjudication: Fitch/Boyertown, PH97-06-006 (1998)

Mere notice to the insured that a homeowners policy is being cancelled due to a failure to comply with company recommendations does not specify the change or increased hazard relied upon by the insurer for its termination of the policy, and does not comply with the requirements of Act 205. The Company failed to provide the insured with a fix-it letter.

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 5,964 homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowner policies originally written prior to 9/15/2004, in the “old rate plan” were subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company’s rate filing.

Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Homeowner Rating – Renewals With Surcharges

From the universe of 598 homeowner policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowner policies originally written prior to 9/15/2004, in the “old rate plan” were subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company’s rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 512 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowner policies originally written prior to 9/15/2004, in the “old rate plan” were subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company’s rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Tenant Homeowner Rating – Renewals With Surcharges

From the universe of 31 tenant homeowner policies renewed with surcharges during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowner policies originally written prior to 9/15/2004, in the “old rate plan” were subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company’s rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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. Tenant Homeowner Claims

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

A. Homeowner Claims

From the universe of 398 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 6 violations noted were based on 5 files, resulting in an error ratio of 10%.

The following findings were made:

3 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 a timely status letter for the 3 claims noted.

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. Of the 3 violations noted, the Company failed to accept or deny coverage within 15 working days of receipt of loss for one claim. The Company failed to deny the remaining 2 claims in writing.

B. Tenant Homeowner Claims

The universe of 4 tenant homeowner claims reported during the experience period was selected for review. All 4 files 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)] , 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) and Section 51.61.

The Company provided 6 pieces of advertising in use during the experience period. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 19 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 19 complaint files reported 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:

1 Violation Title 31, Pa. Code, Section 146.6

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

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 provide a written denial to the claimant within 15 days after receipt of the proof of loss.

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. Of the 3 violations noted, one file was cancelled for an improper reason. For the remaining 2 files, the Company failed to provide evidence that there was a substantial change in the risk.

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company failed to provide 30 days notice of cancellation for the 2 files noted.

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

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for cancellation for the 3 files noted.

The following synopsis reflects the nature of the 19 complaints that were reviewed.

•	9	Cancellation/Nonrenewal	47%
•	7	Claims Handling	37%
•	1	Premium Related	5%
•	2	Miscellaneous	11%
	<hr/>		<hr/>
	19		100%

XI. LICENSING

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

The following findings were made:

*5 Violations Insurance Department Act, No. 147, Section 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.

Julie Ellis
Jennifer Epstein
Carolyn Houston
Debra Thissen
Kristen Traina

XII. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
2. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.
3. The Company must ensure all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
4. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not reference marital status as criteria to refuse to write which is prohibited by Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that guidelines do not require supporting business of the primary dwelling to write a seasonal or secondary residence.

6. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines are in compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)].

XIII. COMPANY RESPONSE



December 8, 2009

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

Re: Examination Warrant Number: 09-M29-010

Dear Mr. Derk:

Homesite Insurance Company of Pennsylvania (the "Company") is in receipt of the Examination Warrant Number: 09-M29-010. We have reviewed the report and provide the following comments to the recommendations contained therein.

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation and nonrenewal notices, as noted in the Report, does not occur in the future.

Comment: In the Underwriting area, the Company has reviewed its procedures and has already implemented workflow adjustments to address areas where violations occurred. We are confident these adjustments will prevent future occurrences.

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

Comment: During 2009, the Company launched a claims system with enhanced features that include diary capabilities and automated status letters. Additionally, management controls have been reviewed and where necessary adjusted to ensure compliance with the Unfair Claims Settlement Practices. We are confident the improved claims system and control adjustments will prevent future occurrences.

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

Comment: The producers found not to be appointed by the Company were employees servicing renewal policies. After a discussion with the Department regarding the requirements set forth in Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company



understands when an employee must be appointed and will comply with such requirements. As you are aware, the withdrawal of the Company from the Pennsylvania market is well under way. Please be advised that by the end of January 2010, the Company will have zero policies in force.

4. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not reference marital status as criteria to refuse to write which is prohibited by Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].
5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that guidelines do not require supporting business of the primary dwelling to write a seasonal or secondary residence.

Comment: The Company has not written any "new business" policies since early 2005. The underwriting guidelines referenced in these two recommendations were not maintained and were outdated. As stated above, the withdrawal of the Company from the Pennsylvania market is well under way. Please be advised that by the end of January 2010, the Company will have zero policies in force.

6. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines are in compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)].

Comment: The "Claim History" guideline is used for Pennsylvania renewals as a review mechanism solely to narrow our focus to those policies approaching renewal which are in need of a more detailed review. Those policies with an adverse exposure in need of mitigation are identified and sent recommendation letters to address adverse exposures. In instances where we have not received confirmation of mitigation by a subsequent renewal, we will take action for failure to comply with recommendations. As stated above, the withdrawal of the Company from the Pennsylvania market is well under way. Please be advised that by the end of January 2010, the Company will have zero policies in force.

Please accept the above comments as the Company's response to the recommendations set forth in the examination report. Should you have any questions please feel free to contact me.

Respectfully,

A handwritten signature in black ink, appearing to read "Matreen Fidler", written over the word "Respectfully,".

Matreen Fidler
Corporate Responsibility Associate
617-832-1383
mfidler@homesite.com