

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

NATIONAL CASUALTY COMPANY
Madison, Wisconsin

**AS OF
April 26, 2010**

COMMONWEALTH OF PENNSYLVANIA

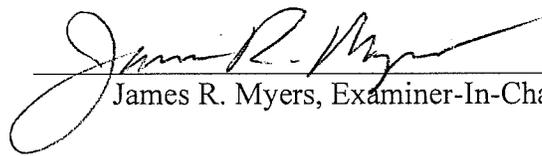


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 22, 2010

VERIFICATION

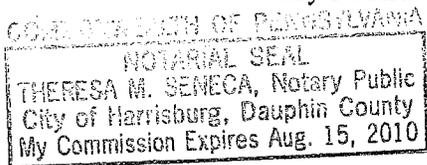
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This *20* Day of *January*, 2010


Notary Public



NATIONAL CASUALTY COMPANY

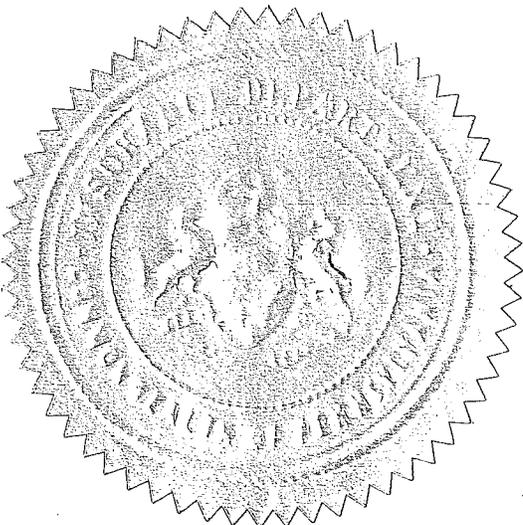
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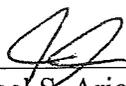
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
NATIONAL CASUALTY COMPANY :	:	Sections 641.1-A and 671-A of Act 147
8877 N. Gainey Center Drive :	:	of 2002 (40 P.S. §§ 310.41 and 310.71)
Scottsdale, AZ 85258 :	:	
	:	Sections 1, 3(a)(3), 3(a)(5), 4(a) and
	:	4(b) of the Act of July 3, 1986, P.L. 396,
	:	No. 86 (40 P.S. §§ 3401, 3403 and 3404)
	:	
	:	Sections 5(a)(7)(iii), 5(a)(9)(iv) and
	:	5(a)(9)(v) 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
	:	113.88, 146.3, 146.5(a), 146.5(c), 146.6
	:	and 146.7(a)(1)
	:	
	:	
Respondent.	:	Docket No. MC10-05-002

CONSENT ORDER

AND NOW, this 22nd day of June, 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 National Casualty Company, and maintains its address at 8877 N. Gainey Center Drive, Scottsdale, AZ 85258.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2007 through June 30, 2008.
- (c) On April 26, 2010, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on May 26, 2010.
- (e) The Examination Report notes violations of the following:

- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
- (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
- (iii) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;
- (iv) Section 3(a)(3) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination;
- (v) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice state the specific reasons for the nonrenewal, identifying the condition, factor or loss experience which caused the nonrenewal;
- (vi) 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;

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

(viii) 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;

(ix) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer;

- (x) Section 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(9)(v)) requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under The PA Fair Plan Act;
- (xi) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;
- (xii) Title 31, Pennsylvania Code, Section 146.3, which requires the claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed;
- (xiii) Title 31, Pennsylvania Code, Section 146.5(a), which states every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice, unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated;

- (xiv) Title 31, Pennsylvania Code, Section 146.5(c), which states an appropriate reply shall be made within ten working days on all other pertinent communications from a claimant which reasonably suggest that a response is expected;
- (xv) 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; and
- (xvi) 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.

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 Sections 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. §310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

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

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

(d) Respondent's violations of Sections 5(a)(7)(iii), 5(a)(9)(iv) and 5(a)(9)(v) 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.

- (e) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 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 described 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 Fifteen Thousand Dollars (\$15,000.00) 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.

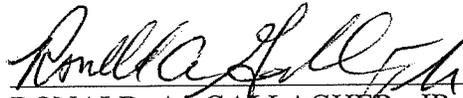
BY: NATIONAL CASUALTY COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



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

I. INTRODUCTION

The market conduct examination was conducted at National Casualty Company's office located in Scottsdale, Arizona, from May 18, 2009, through June 4, 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%.

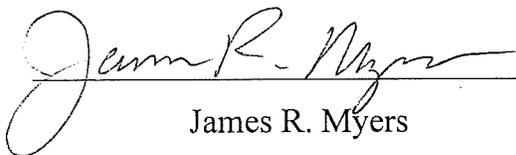
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

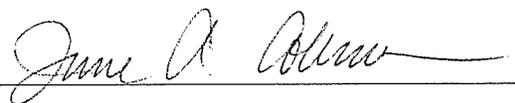
The undersigned participated in this examination and in preparation of this Report.



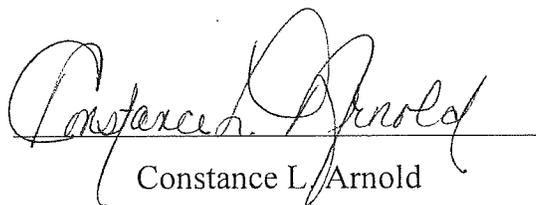
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on National Casualty Company hereinafter referred to as "Company," at their office located in Scottsdale, Arizona. 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 July 1, 2007, through June 30, 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, midterm cancellations, 60-day cancellations and declinations.

2. Commercial Property

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

3. Commercial Automobile

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

4. Medical Malpractice

- Underwriting – Appropriate and timely notices of nonrenewal.

5. Dental Professional Liability

- Underwriting – Appropriate and timely notices of renewal.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

National Casualty Company was incorporated December 19, 1904, under the laws of Michigan, and began business on December 31, 1904. It succeeded the National Protective Society, a co-operative company, which began business in 1894. Administrative offices were moved in mid-1974, from Detroit to Southfield, Michigan, and from Southfield, Michigan, to St. Louis, Missouri on April 1, 1985, and from St. Louis, Missouri to Scottsdale, Arizona, in August 1994. The state of domicile was changed from Michigan to Wisconsin, effective November 13, 1997.

LICENSING

National Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2010. The Company is licensed in all states and the District of Columbia. The Company's 2008 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$36,474,937. Premium volume related to the areas of this review were: Commercial Multiple Peril (Non-liability portion) \$455,946; Commercial Multiple Peril (Liability portion) \$312,059; Inland Marine \$143,089; Medical Malpractice \$59,440; Other Liability \$17,430,627; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$340,881; Other Commercial Auto Liability \$10,716,644 and Commercial Auto Physical Damage \$3,578,444.

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 property 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.

The following finding was made:

1 Violation 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 transportation underwriting guidelines stated any risk with a driver under 21 years of age or with less than 2 years of commercial driving experience must be submitted for review.

V. UNDERWRITING

A. Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 120 property policies which were cancelled within the first 60 days of new business, 15 files were selected for review. The policies consisted of pet health insurance. All 15 files were 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 primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 2,946 property policies which were cancelled midterm during the experience period, 50 files were selected for review. The property policies consisted of pet health insurance. All 50 files were received and reviewed. The 26 violations noted were based on 13 files, resulting in an error ratio of 26%.

The following findings were made:

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

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

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The Company did not advise the insured of their possible eligibility under the Fair Plan for the 13 files noted.

3. Nonrenewals

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

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

From the universe of 1,404 property policies which were nonrenewed during the experience period, 25 files were selected for review. The property policies consisted of pet health insurance. All 25 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, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

From the universe of 77 personal property files which were identified as declinations by the Company during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

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 60th day unless the policy provides for a longer period of notification.

The universe of 7 commercial package policies cancelled within the first 60 days was selected for review. All 7 files were 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.

The universe of 38 commercial package policies cancelled midterm during the experience period was selected for review. All 38 files were received and reviewed. The 10 violations noted were based on 9 files, resulting in an error ratio of 24%.

The following findings were made:

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

Requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination. The Company did not provide at least 60 days notice of cancellation.

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.

8 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 8 files noted.

3. Nonrenewals

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

The 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.

From the universe of 55 commercial package policies nonrenewed during the experience period, 20 files were selected for review. All 20 files were received and reviewed. Of the 20 files reviewed, 1 file was identified as a midterm cancellation. The violation resulted in an error ratio of 5%.

The following finding was made:

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

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

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 135 commercial package policies renewed 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 Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 2 files 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 60th day unless the policy provides for a longer period of notification.

The universe of 5 commercial automobile policies cancelled within the first 60 days of new business was selected for review. All 5 files were 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 105 commercial automobile policies cancelled midterm during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 8%.

The following findings were made:

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 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 3 files noted.

3. Nonrenewals

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

The 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 42 commercial automobile policies nonrenewed during the experience period was selected for review. All 42 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 7%.

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal 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. The Company did not provide a specific reason for nonrenewal for the 3 files noted.

The following concern was noted:

Concern: The cancellation/nonrenewal notice has several blocks to activate certain conditions. One of those blocks is for the offer of loss information for three years. This block is not often check marked. The Company should make certain that when sending out the cancellation/nonrenewal notice that this block is check marked.

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

The universe of 14 commercial automobile files identified as declinations by the Company during the experience period was selected for review. Of the 14 files requested, 11 files were received and reviewed. The violation resulted in an error ratio of 7%.

The following finding was made:

1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]
Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of

the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company declined the risk due to a new venture, no experience and less than 21 years of age.

The following concern was made:

Concern: The Company failed to provide 3 files. The Company should maintain files of declinations.

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 350 commercial automobile policies renewed 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 Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 2 files noted.

D. Medical Malpractice

1. Nonrenewals

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

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

The universe of 1 medical malpractice policy nonrenewed during the experience period was selected for review. The file was received and reviewed. No violations were noted.

E. Dental Professional Liability

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 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 30 dental professional liability policies renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

VI. 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 area of review:

A. Pet 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. Pet Claims

From the universe of 44,803 pet health claims reported during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 48 violations noted were based on 39 files, resulting in an error ratio of 39%.

The following findings were made:

3 Violations Title 31, Pa. Code, Section 146.3

The claim files of an insurer shall be subject to examination by the Commissioner or by duly appointed designees. Such

files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. The Company did not provide a date stamp or a correct fax received date on documents for the 3 files noted.

37 Violations Title 31, Pa. Code, Section 146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days for the 37 files noted.

4 Violations Title 31, Pa. Code, Section 146.6

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

4 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 4 violations noted, the Company failed to provide a denial to the claimant within 15 working days for 3 claims and failed to provide specific policy provisions, conditions or exclusions in the denial to the claimant for the remaining claim.

VII. 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.

VIII. 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 259 pieces of advertising in use during the experience period. The advertising materials provided included: brochures and mail solicitation. Internet advertising was also reviewed. No violations were noted.

IX. 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 32 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 32 files reported, 22 files 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 finding was made:

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

An appropriate reply shall be made within ten working days on all other pertinent communications from a claimant which reasonably suggest that a response is expected. The Company did not respond to the claimant's complaint within ten working days in the file noted.

The following synopsis reflects the nature of the 22 complaints that were reviewed.

• 14	Claims Related	64%
• 5	Cancellation	22%
• 3	Premium Related	14%
<hr/>		<hr/>
22		100%

X. 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:

3 Violations Insurance Department Act, No. 147, Section 641.1A

[40 P.S. §310.41a]

(a) Any insurance entity or licensee accepting applications or orders for insurance 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 producers were found to be writing and /or soliciting policies but were not found in Insurance Department records as holding a Pennsylvania producer license.

Beacon Insurance Agency
GMG Insurance Agency
Vlahos Dunn Insurance

*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.

Burns & Wilcox, Ltd.
S H Smith & Company, Inc.

XI. 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 requirements for cancellation 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 3 and 4 [40 P.S. §§3403 and 3404], so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance relative to commercial nonrenewal requirements of Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)] and Title 31, Section 113.88, so that the violations noted in the Report do not occur in the future.
5. 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 maintaining claim files, claim acknowledgement, status letters and denials, as noted in the Report, do not occur in the future.

6. The Company must review Title 31, Pa. Code, Section 146.5(c) with its claim staff to ensure that an appropriate reply is made within ten working days on pertinent communications from a claimant which reasonable suggest a response is expected.
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. 310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
8. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. 1171.5(a)(7)(iii)].

XII. COMPANY RESPONSE

NATIONAL CASUALTY COMPANY

8877 North Gainey Center Drive
Scottsdale, Arizona 85258



A Nationwide[®] Company

Reply to:

Post Office Box 4110
Scottsdale, AZ 85261-4110

Telephone

480-365-4000

FAX 480-483-6752

May 26, 2010

Commonwealth of Pennsylvania
Insurance Department
Attn: Chester Derk
Market Conduct Division Chief
Office of Market Regulation
Bureau of Market Conduct
Property and Casualty Division
1227 Strawberry Square
Harrisburg, Pennsylvania 17120

Re: National Casualty Company ("NCC")
Market Conduct Examination
Examination Warrant Number: 08-M22-028

Dear Mr. Derk:

Please accept this as NCC's response to the Market Conduct Report of Examination dated April 26, 2010.

Underwriting Practices and Procedures

1 Violation: The Company's transportation underwriting guidelines stated any risk with a driver under 21 years of age or less than 2 years of commercial driving experience must be submitted for review.

The Company respectfully disagrees with the examiners findings that the underwriting guidelines that require a risk with a driver under the age of 21 years of age or with less than 2 years commercial driving experience must be submitted for review is an unfair or deceptive act based on age discrimination.

The underwriting guidelines do not prohibit drivers under the age of 21 from obtaining coverage, it merely requires that they be submitted for review and the reason for this is because some state and federal laws place limitations on commercial drivers under the age of 21. Federal and Pennsylvania law (refer to NCC's response - Initial Summary of Findings - Underwriting Guidelines) restrict commercial drivers under the age of 21 to operating only in the state issuing their Commercial Driver's License ("CDL").

By way of example, if a proposed insured has commercial drivers under the age of 21 licensed in Pennsylvania, but requires insurance coverage for operations in Pennsylvania and New Jersey, it would be inconsistent with the law of Pennsylvania and, therefore, inappropriate for an insurer to provide coverage when a driver of the risk is not legally able to drive a commercial vehicle in all areas of risk operations (New Jersey and Pennsylvania).

Underwriting

A. Property

1. 60-Day Cancellations

No violations were noted.

2. Midterm Cancellations

13 Violations: Failure to advise right of review by Insurance Commissioner.

The Company agrees with the finding regarding Act 205, Section 5(a) (9) (iv) [40 P.S. § 1171.5(a) (9) (iv)]. The Company will promptly amend its Direct Notice of Cancellation ("DNOC") to advise the insured of his right to request in writing, within ten days of the receipt of the notice of cancellation or intention not to renew, that the Insurance Commissioner review the action of the insurer.

13 Violations: Failure to advise of eligibility under the Pennsylvania Fair Plan.

The Company disagrees that its DNOC is in violation of Act 205, Section 5(a)(9)(v) [40 P.S. § 1171.5(a)(9)(v)] for failing to advise the insured of possible eligibility under the Pennsylvania Fair Plan.

The Pennsylvania Fair Plan does not offer Pet Health Coverage. Pet Health Coverage was not in existence in 1968 when the Pennsylvania Fair Plan Act Legislation was enacted. If the intent of the Act is to provide a risk pool mechanism for Pet Health Coverage, then subsequent Legislation would have been enacted to expand the scope.

A DNOC containing language known to be false, misleading and inaccurate is not in the best interest of the Commonwealth's insurance consumers. In fact, placing this disclosure on the DNOC would be detrimental to policyholders. It creates false hope and confusion by misleading the policyholder into thinking there is other pet insurance coverage available for high risk pets when there is not.

Advising the insured of possible eligibility for Pet Health Coverage when no such coverage exists under the Pennsylvania Fair Plan defeats the intent behind the statutory requirement that an insured be advised at the time coverage is being canceled that there is possible replacement coverage under the Pennsylvania Fair Plan. Instead of directing the insured to a source for replacement coverage, the Department is knowingly misleading the consumer into believing alternative coverage actually exists within the Plan. Not only does it make the Company

and the Department look foolish, it encourages the insured to expend time and energy seeking something that the Department knows does not exist.

3. Nonrenewals

No violations were noted.

4. Declinations

No violations were noted.

B. Commercial Property

1. 60-Day Cancellations

No violations were noted.

2. Midterm Cancellations

1 Violation: Failure to provide 60 days notice of cancellation.

The Company agrees with this violation.

1 Violation: Failure to return unearned premium to the insured within 10 business days.

The Company agrees with this violation.

8 Violations: Failure to return unearned premium within 30 days.

The Company agrees with these violations.

3. Nonrenewals

1 Violations: Reason for cancellation is not specific.

The Company agrees with this violation.

4. Renewals

3 Violations: Failure to provide 30 days notice of increase in premium.

The Company disagrees with 1 of these violations and provided documentation showing a rate comparison between the 2006-07 policy and 2007-08 policy. The rate decreased, therefore, no notice of intent to increase need be sent.

The Company agrees with the 2 remaining violations.

C. Commercial Automobile

1. 60-Day Cancellations

No violations were noted.

2. Midterm Cancellations

1 Violation: Failure to return unearned premium to the insured within 10 business days.

The Company agrees with this violation.

3 Violations: Failure to return unearned premium within 30 days.

The Company agrees with the first 2 of the violations and disagrees with the 3rd violation. The Company provided documentation for the 3rd violation of a credit back to the retail agent that was accessible within 4 days after cancellation.

3. Nonrenewals

3 Violations: Reason for nonrenewal is not specific.

The Company respectfully disagrees that the reasons given for the 3 nonrenewals at issue do not comply with the statute. The statute requires the nonrenewal notice to state one of three reasons for the nonrenewal - "condition, factor or loss experience". The 3 notices at issue used "loss experience" as the reason for nonrenewal. The specific language used was "due to losses (100% loss ratio)", "loss history/adverse loss ratio" and "adverse loss history". The notices were provided to our large commercial insureds who are well versed in insurance terminology and often have risk managers on staff. They have a clear understanding of the impact adverse loss history has on insurability.

4. Declinations

1 Violation: Declined risk due to a new venture, no experience and less than 21 years of age.

The Company respectfully disagrees with the examiners findings that the declination of the risk is an unfair or deceptive act based on age discrimination.

Coverage for the risk was declined by NCC not because a driver was under the age of 21, but because the driver was not able to legally drive across state lines within the scope of employment. The application sought coverage for a multi-state area of operation (Pennsylvania & New Jersey) for a new venture with a driver under the age of 21 having a previous at fault accident. This driver had a Commercial Drivers License ("CDL") which restricted driving to Pennsylvania only.

Under federal and Commonwealth Law, (refer to NCC's response - Initial Summary of Findings - Underwriting Guidelines), commercial drivers under the age 21 are restricted to operating only in the state issuing the CDL. The driver of

the risk in question here is not licensed to drive a commercial vehicle in all areas of risk operations (New Jersey), and therefore, is ineligible for coverage.

5. Renewals

2 Violations: Failure to provide 30 days advance notice to the named insured.

The Company agrees with these violations.

E. Dental Professional Liability

1. Nonrenewals

No violations were noted.

Claims

A. Pet Claims

3 Violations: Failure to provide a date stamp or a correct fax received date on the claim.

The Company agrees with the exam findings noted under Section 146.3, for failing to provide a date stamp or a correct fax received date on three claims. The Company's standard operating procedure is to date stamp all claim documents. Although the findings are clerical in nature, the Company has reviewed its processes and issued communication to staff reiterating the requirement to date stamp all claim documentation.

37 Violations: Failure to acknowledge the claim within 10 working days.

The Company disagrees it is in violation of Title 31, Pa. Code, Section 146.5(a), for failure to acknowledge receipt of a pet claim within 10 working days. Within two working days of receipt of a pet claim, the Company generates either an automated phone acknowledgement to the policyholder phone number on file or sends an email message of acknowledgement to the policyholder at the email address on record if the policyholder has made a specific request to receive correspondence via email. The Company also provides notification to all policyholders that claims status can be viewed on line.

Section 146.5(a) requires claims to be acknowledged within 10 days of receipt. It does not, however, mandate a specific method for acknowledgement. The violations listed in the exam report are simply based on the examiner's opinion that an automated telephone system is not an acceptable means of acknowledging a claim, which conflicts with the law. Section 146.5(a) expressly recognizes that an acknowledgment can be made by a means other than in writing. State and federal courts have recognized and approved the use of electronic communication as a legitimate, reliable, and auditable method when maintained properly. The Company's automated phone system provides confirmation of both transmittal and receipt of the acknowledgement. Experience tells us that letters sometimes get lost in the mail (e.g., placed in the wrong person's mailbox). There is no paper or

electronic audit trail to prove that the letter ever arrived at the addressee's home.

The Pennsylvania statute does not specify the manner in which the acknowledgment should be given. There is no statutory authority to require acknowledgment of a claim by mail. Our current procedures comply with Section 146.5(a).

4 Violations: Failure to provide 30-day status letter to claimant.

The Company agrees with the violations cited under Section 146.6, for failure to complete investigation of a claim within 30 days. Corrective action has been taken to complete claim investigations within the required timeframe.

4 Violations: Failure to provide a denial to the claimant within 15 working days and failure to provide the specific policy provision, condition or exclusion in the denial to the claimant.

The Company agrees with the four violations cited under Section 146.7 (a) (1) for failure to accept or deny a claim within 15 days of proof of loss receipt. The Company's standard operating procedure is settle claims within 15 days of receiving proof of loss. Although the findings are clerical in nature, the Company has reviewed its processes and issued communication to staff reiterating claim settlement timeframe requirements.

Forms

No violations were noted.

Advertising

No violations were noted.

Consumer Complaints

1 Violation: Failure to respond to written complaint within 10 working days.

The Company agrees with this violation.

Licensing

3 violations: Three producers were found to be writing and/or soliciting policies but were not found in Insurance Department records as holding a Pennsylvania insurance license and appointment.

The Company respectfully disagrees with the 3 violations as follows:

Beacon Insurance Agency: Beacon is the retail agent and the All Risks, LTD, Hunt Valley, MD is the general agent for the transaction. All Risks is a licensed and appointed agent in Pennsylvania.

GMG Insurance Agency: GMG is the retail agent for a declined risk. The

general agent for the transaction was Burns & Wilcox, Farmington Hills, MI, which has a nonresident producer license and Company appointment in Pennsylvania.

Vlahos Dunn Insurance is the retail agent for the transaction and W.N. Tuscano in Greensburg, PA is the general agent. W.N. Tuscano holds a resident Producer license and a Company appointment in Pennsylvania.

2 Violations: The Company failed to file a notice of appointment and submit appointment fees to the Department.

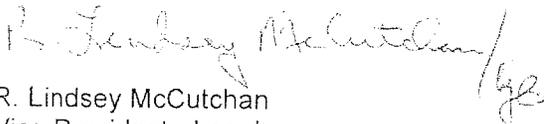
The Company responds to these violations as follows:

Burns & Wilcox, Ltd.: The Company respectfully disagrees with this violation. Burns & Wilcox, Ltd. of Farmington Hills, MI is appointed to represent the company with regard to the transaction.

S H Smith & Company, Inc.: The Company agrees with this violation. The Company has subsequently appointed SH Smith & Company to represent the Company in Pennsylvania.

Please feel free to contact me if you have any questions or need anything further.

Thank you.


R. Lindsey McCutchan
Vice President - Legal