

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**NATIONAL UNION FIRE INSURANCE
COMPANY OF PITTSBURGH, PA**
Harrisburg, Pennsylvania

**AS OF
January 27, 2006**

COMMONWEALTH OF PENNSYLVANIA

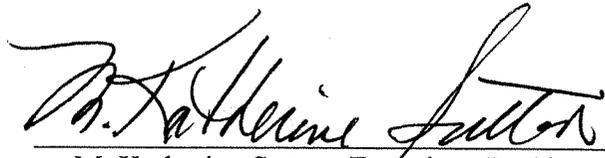


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: March 16, 2006

VERIFICATION

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



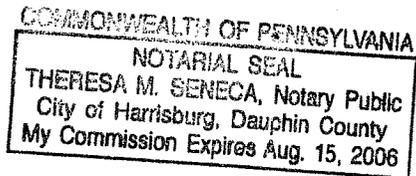
M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 9 Day of January, 2006



Notary Public



NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA

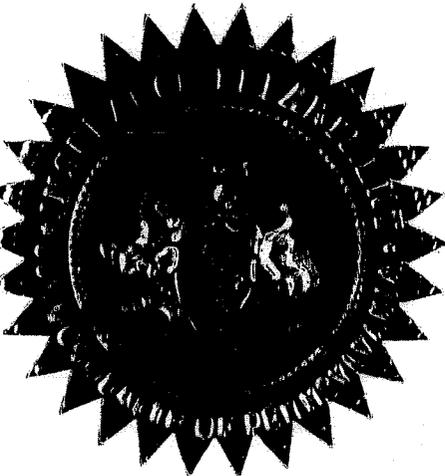
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
NATIONAL UNION FIRE	:	Section 671-A of Act 147 of 2002
INSURANCE COMPANY OF	:	(40 P.S. § 310.71)
PITTSBURGH, PENNSYLVANIA	:	
175 Water Street	:	Section 903(a) of the Insurance
New York, NY 10038	:	Department Act, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 323.3)
	:	
	:	Act 1990-6, Sections 1705(a)(1)(D),
	:	1705(a)(4), 1716, 1731(b)(c), 1734,
	:	1738(d)(1)(2), 1791, 1791.1(a) and (b),
	:	1793(b) and 1799.3(d) (Title 75,
	:	Pa.C.S. §§ 1705, 1716, 1731, 1734,
	:	1738, 1791, 1793 and 1799)
	:	
	:	Sections 1, 3(a)(1), 3(a)(3)(ii), 3(a)(5),
	:	3(a)(6) and 4(b) of the Act of July 3,
	:	1986, P.L. 396, No. 86 (40 P.S. §§
	:	3401, 3403 and 3404)
	:	
	:	Sections 2003(a)(1), 2006 and 2008(b)
	:	of Act 68 of 1998 (40 P.S.
	:	§§991.2003, 991.2006 and 991.2008)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	69.22(c), 69.52(b), 113.88, 146.3,
	:	146.5(d), 146.6 and 146.7(a)(1)
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Section 1822
	:	
	:	
Respondent.	:	Docket No. MC06-02-017

CONSENT ORDER

AND NOW, this 16th day of March, 2006, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is National Union Fire Insurance Company of Pittsburgh, Pennsylvania, and maintains its address at 175 Water Street, New York, New York 10038.

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

- (c) On January 27, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on February 27, 2006.

- (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 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iii) Section 1705(a)(1)(D), Title 75, Pa.C.S. § 1705(a)(1)(D), which requires every insurer, not less than 45 days prior to the first renewal of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort insurance and limited tort insurance described in subsections (c) and (d). The notice shall be a standard form adopted by the commissioner and shall include the following language: If you wish to choose the “limited tort” option described in paragraph A, you must sign this notice where indicated below and return it. If you do not sign and return this notice, you will be considered to have chosen the “full tort” coverage as described in paragraph B and you will be charged the “full tort” premium;
- (iv) Section 1705(a)(4) of Act 1990-6, Title 75, Pa.C.S. § 1705(a)(4), which states if a named insured who receives a notice under paragraph (1) does not indicate a choice within 20 days, the insurer shall send a second notice. The second notice shall be in a form identical to the first notice, except that it shall be identified as a second and final notice. If a named insured has not responded to either notice ten days prior to the renewal date, the named insured and those he is empowered by this section to bind by his choice are conclusively presumed to have chosen the full tort alternative. All notices required by this section shall advise that if no tort election is made, the named insured and those he is empowered to bind by his choice are

conclusively presumed to have chosen the full tort alternative. Any person subject to the limited tort option by virtue of this section shall be precluded from claiming liability of any person based upon being inadequately informed;

(v) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

(vi) Section 1731(b)(c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for uninsured and underinsured motorist coverage by signing written rejection forms;

(vii) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under

Section 1731 in amount equal to or less than the limits of liability for
bodily injury;

- (viii) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which
requires the insurer to advise that named insured shall be informed that he
may exercise the waiver for stacked uninsured and underinsured motorist
coverage by signing written rejection forms;
- (ix) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall
be presumed that the insured has been advised of the benefits available
under this chapter provided the notice is given to the insured at the time of
application;
- (x) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires
that at the time of application for original coverage and every renewal
thereafter, an insurer must provide to an insured an itemized invoice listing
the minimum motor vehicle insurance coverage levels mandated by the
commonwealth and the premium charge for the insured to purchase the
minimum mandated coverages. The invoice must contain the following
notice in print of no less than ten-point type: “The laws of the
Commonwealth of Pennsylvania, as enacted by the General Assembly, only
require you to purchase liability and first-party medical benefit coverages.
Any additional coverage or coverages in excess of the limits required by law

Are provided only at your request as enhancements to basic coverages.”

The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages;

(xi) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

(xii) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

(xiii) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount

of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

- (xiv) 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;
- (xv) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds;
- (xvi) Section 3(a)(3)(ii) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination;

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

- (xviii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

- (xix) 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;

- (xx) Section 2003(a)(1) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Age;

- (xxi) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2006), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be

effective unless the insurer delivers or mails to the insured a written notice of the nonrenewal;

(xxii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of the refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;

(xxiii) Title 31, Pennsylvania Code, Section 69.22(c), which states if an insured's first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first-party limits have been exhausted;

(xxiv) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;

(xxv) Title 31, Pennsylvania Code, Section 113.88, which states 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;

(xxvi) Title 31, Pennsylvania Code, Section 146.3, requires the claim files of the insurer be subject to examination by the Commissioner or by appointed designees. The 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;

(xxvii) Title 31, Pennsylvania Code, Section 146.5(d), requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer;

(xxviii) 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;

(xxix) 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; and

(xxx) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of 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 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 2003, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of

this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

(e) 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):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(f) 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).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Seventy-Five Thousand Dollars (\$75,000.00) 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. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

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

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

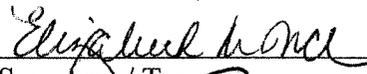
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

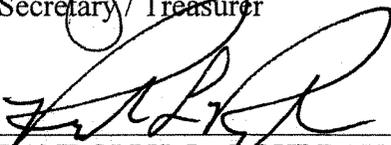
BY: NATIONAL UNION FIRE INSURANCE
COMPANY OF PITTSBURGH,
PENNSYLVANIA, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at National Union Fire Insurance Company of Pittsburgh, Pennsylvania's offices located in Wilmington, Delaware, and Berkeley Heights, New Jersey, from October 4, 2005, through November 3, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

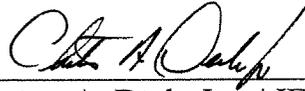
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

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

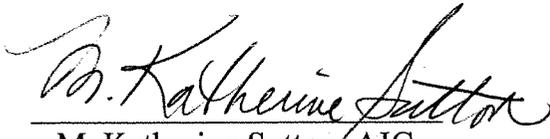
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

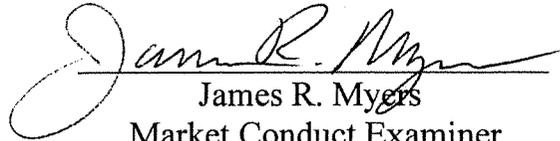
The undersigned participated in this examination and in preparation of this Report.



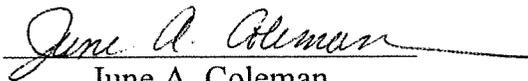
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



M. Katherine Sutton, AIC
Market Conduct Examiner



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on National Union Fire Insurance Company of Pittsburgh, Pennsylvania, hereinafter referred to as “Company,” at their offices located in Wilmington, Delaware, and Berkeley Heights, New Jersey. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2004, through December 31, 2004, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

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

5. Medical Malpractice

- Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations and renewals.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

National Union Fire Insurance Company of Pittsburgh, Pennsylvania was incorporated on February 14, 1901, under the laws of Pennsylvania and began business on March 1, 1901. Financial control of the Company was acquired early in 1968 by American International Group, Inc.

The Company acts as a direct writer of personal lines insurance in the Commonwealth of Pennsylvania. The Company writes preferred and standard personal automobile. The business is produced through sponsored automobile programs with employer groups, major corporations and associations using membership/customers/employee lists and other advertising media such as mailing kits, inserts and space ads with the goal of producing individually underwritten personal lines policies and through broad-market programs using direct mail.

All new business policies, renewals and policy changes are processed in Wilmington, Delaware and its satellite offices.

LICENSING

National Union Fire Insurance Company of Pittsburgh, Pennsylvania's Certificate of Authority to write business in the Commonwealth was issued on March 1, 1901. The Company is licensed in all states, District of Columbia, Guam and Puerto Rico. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$312,819,787. Premium volume related to the areas of this review were: Inland Marine \$20,018,293; Medical Malpractice \$5,744,307; Workers' Compensation \$6,774,102; Private Passenger Automobile Direct Written Premium was reported

as Private Passenger Automobile No-Fault (personal injury protection) \$317,456; Other Private Passenger Automobile Liability \$1,540,119 and Private Passenger Automobile Physical Damage \$1,210,139; Commercial Automobile Direct Written Premium was reported as Commercial Automobile No-Fault (personal injury protection) \$108,129; Other Commercial Automobile Liability \$9,404,684 and Commercial Automobile Physical Damage \$13,739.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

The universe of 30 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 30 files selected were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 500 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

3. Nonrenewals

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

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

The universe of 28 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 28 files selected were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

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

Requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the nonrenewal. The file noted did not contain any evidence that a nonrenewal notice was sent to the insured.

4. Declinations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under which action by the insurer is prohibited.

From the universe of 657 private passenger automobile files identified as being declined by the Company during the experience period, 100 files were selected for review. The Company produced a list of “Did Not Quote” applicants and three samples of the refusal letters sent to these applicants. The 667 violations were based on 657 files, resulting in an error ratio of 100%.

The following findings were made:

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

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The sample letters that were provided by the Company did not state a specific reason for the declination and represent the other letters would be deficient in the same manner.

10 Violations Act 68, Section 2003(a)(1) [40 P.S. §991.2003(a)(1)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Age. The 10 files noted were not quoted because the applicant had less than 3 years driving experience.

B. Commercial Automobile

1. Nonrenewals

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

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

The universe of 6 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 6 files selected were received and reviewed. The 8 violations noted were based on 4 files, resulting in an error ratio of 67%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any documentation to indicate a notice was

mailed, the reason for nonrenewal or if the notice met format requirements.

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

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

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 2 files noted contained a nonrenewal notice which did not provide the required information.

2 Violations 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 2 files noted were nonrenewed due to "underwriting reasons".

2. Renewals

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

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

From the universe of 404 commercial automobile policies which were renewed during the experience period, 50 files were selected for review. The 50 files consisted of 47 umbrella policies and 3 monoline commercial automobile policies. The exam coordinator indicated that it was possible that the policies were miscoded. The umbrella policies were not examined for Act 86 requirements, but were reviewed for producer licensing. Of the 50 files requested, 49 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:

3 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 any documentation to indicate a notice of increase in renewal premium was sent to the named insured for the 3 files noted.

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The file noted was not produced by the Company.

C. Commercial Property

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.

The universe of 16 commercial inland marine policies which were renewed during the experience period was selected for review. All 16 files selected were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 50%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall

provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide any documentation to indicate a notice of increase in renewal premium was sent to the named insured for the 8 files noted.

D. Workers Compensation

1. Midterm Cancellations

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

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

The universe of 11 workers' compensation policies cancelled during the experience period was selected for review. All 11 files selected were received and reviewed. No violations were 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

The universe of 140 workers' compensation policies nonrenewed during the experience period was selected for review. A review of the universe reflected that only 7 files were National Union Fire Insurance Company of Pittsburgh, Pennsylvania and the remaining 133 were files written by other companies that were not part of the review. The 3 violations noted were based on 3 files, resulting in an error ratio of 43%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any documentation to indicate a notice was mailed or that it met format requirements.

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

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

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 file noted.

Concern: The Company did not appear to be able to produce only the policies of National Union Fire Insurance Company of Pittsburgh. In a brief review of all the 140 files produced, many were in violation due to failure to provide a specific reason for nonrenewal and not containing evidence of the nonrenewal being sent. Because these files were not the Company being reviewed, no violations were cited.

3. Renewals

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

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

From the universe of 385 workers' compensation policies identified as renewals, 50 files were selected for review. All 50 files were identified by the exam coordinator as umbrella policies. The exam coordinator indicated that it was possible that the policies were miscoded. These 50 files were not examined for Act 86 requirements; however they were examined for producer licensing. All 50 files were received and reviewed. No violations were noted.

E. Medical Malpractice

1. Midterm Cancellations

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

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

The universe of 12 medical malpractice policies identified as cancelled during the experience period was selected for review. All 12 files requested were received and reviewed. The 9 violations were based on 8 files, resulting in an error ratio of 67%.

The following findings were made:

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

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The Company

did not provide the required 15 days notice for nonpayment of premium.

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.

2. Nonrenewals

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

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

The universe of 22 medical malpractice policies identified as nonrenewals by the Company was selected for review. All 22 files selected were received and reviewed. The violation noted resulted in an error ratio of 5%.

The following finding was made:

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did

not provide any documentation to indicate a notice was mailed, the reason for nonrenewal or if the notice met format requirements.

3. Renewals

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

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

From the universe of 338 medical malpractice policies which were renewed during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – New Business Without Surcharges

From the universe of 1,680 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The 6,732 violations were based on the universe of 1,680 files, resulting in an error ratio of 100%.

The following findings were made:

6 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 6 violations noted were the result of policies issued with limited tort and no evidence of a signed limited tort selection form.

2 Violations Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The 2 violations noted were the result of the policies being issued without uninsured and underinsured motorist coverage and no evidence of a signed written rejection form in the file.

2 Violations Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope

and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The 2 files noted did not contain a written request for lower limits of liability.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 2 files noted.

1,680 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required notice at the time of application.

1,680 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only

require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The 1,680 violations noted were the result of the Company not providing the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

1,680 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of application.

1,680 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company did not provide the insured with a copy of a surcharge disclosure plan at the time of application.

Private Passenger Automobile – New Business With Surcharges

The universe of 93 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 93 files requested were received and reviewed. The 477 violations noted were based on the universe of 93 files, resulting in an error ratio of 100%.

The following findings were made:

93 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required notice at the time of application.

93 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer

shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The 93 violations noted were the result of the Company not providing the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

93 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of application.

93 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company did not provide the insured with a copy of a surcharge disclosure plan at the time of application.

93 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to

inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the surcharge disclosure statement on the premium notice.

6 Violations Title 75, Pa. C.S. 1705(a)(1)(D)

Each insurer, not less than 45 days prior to the first renewal of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort insurance and limited tort insurance described in subsections (c) and (d). The notice shall be a standard form adopted by the commissioner and shall include the following language: If you wish to choose the "limited tort" option described in paragraph A, you must sign this notice where indicated below and return it. If you do not sign and return this notice, you will be considered to have chosen the "full tort" coverage as described in paragraph B and you will be charged the "full tort" premium.

AND

Title 75, Pa. C.S. 1705(a)(4)

If a named insured who receives a notice under paragraph (1) does not indicate a choice within 20 days, the insurer shall send a second notice. The second notice shall be in a form identical to the first notice, except that it shall be identified as

a second and final notice. If a named insured has not responded to either notice ten days prior to the renewal date, the named insured and those he is empowered by this section to bind by his choice are conclusively presumed to have chosen the full tort alternative. All notices required by this section shall advise that if no tort election is made, the named insured and those he is empowered to bind by his choice are conclusively presumed to have chosen the full tort alternative. Any person subject to the limited tort option by virtue of this section shall be precluded from claiming liability of any person based upon being inadequately informed. The Company did not provide the signed limited tort selection form for the 6 files noted.

2 Violations Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The 2 violations noted were the result of policies being issued without uninsured and underinsured motorist coverage and no evidence of a signed written rejection form in the file.

2 Violations Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The 2 files noted did not contain a written request for lower limits of liability.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 2 files noted.

2. Renewals

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed

correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 1,262 private passenger automobile policies renewed without surcharges during the experience period, 150 files were selected for review. All 150 files selected were received and reviewed. The 1,262 violations noted were based on the universe of 1,262 files, resulting in an error ratio of 100%.

The following findings were made:

1,262 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the required notice of tort options to the insured at the time of renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 190 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 380 violations noted were based on the universe of 190 files, resulting in an error ratio of 100%.

The following findings were made:

190 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the surcharge disclosure statement on the premium notice.

190 Violations Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the required notice of tort options to the insured at the time of renewal.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO

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

A. Automobile Property Damage Claims

From the universe of 210 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files selected 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:

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.

B. Automobile Comprehensive Claims

From the universe of 148 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 6%.

The following findings were made:

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 timely status letters for the 3 claims noted.

C. Automobile Collision Claims

From the universe of 248 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The violation resulted in an error ratio of 2%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

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

D. Automobile Total Loss Claims

The universe of 17 private passenger automobile total loss claims reported during the experience period was selected for review. All 17 files selected were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 6%.

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 timely status letters for the claim noted.

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

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The claim file did not reflect the total loss actual cash value was offered to the insured within 15 days of receipt as required.

E. Automobile First Party Medical Claims

From the universe of 97 private passenger automobile first party medical claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. The 5 violations noted were based on 4 files, resulting in an error ratio of 8%.

The following findings were made:

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

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The violation noted resulted because the bill was not paid within 30 days.

1 Violation Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on a claim that was not paid within 30 days.

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

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The violation noted was the result of not providing the claimant with the application for benefits form within 10 working days of notification of the claim.

1 Violation Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill.

The Company did not notify the insured that the first-party limits had been exhausted.

1 Violation 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 first party benefits portion of the claim file was missing and incomplete. Medical bills and the application for benefits was not provided.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 2 automobile first party medical claims that were referred to a peer review organization by the Company was selected for review. The 2 files selected were received and reviewed. The Company was also asked to provide a copy of the all peer review contracts in place during the experience period. A contract was received and reviewed. No violations were noted.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822 which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following findings were made:

3 Violations

Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Affidavit of Vehicle Theft form, Motor

Vehicle Power of Attorney form and the Application for PA
First Party Benefits form did not contain the correct fraud
notice.

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 61 pieces of advertising which included direct mailers and brochures. 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 21 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 21 complaints reported were selected, 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 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 complaint file did not indicate that the notice of increase in renewal premium was sent to the insured.

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

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or

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

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.

The following synopsis reflects the nature of the 21 complaints that were reviewed.

• 11	Cancellation/Nonrenewal	52%
• 5	Claims Related	24%
• 5	Premium Related	24%
<hr/>		<hr/>
21		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 violations were noted.

10 Violations Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)

- (a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department for casualty insurance while writing automobile insurance.

Willis of Illinois, Inc.
Clair Odell Ins. Agency, Inc.
S. H. Smith and Company
Swett and Crawford
Meyer Eckenrode Ins. Group, Inc.
Conway E. & S., Inc.
AON Services, Inc. of NY
Marsh Global Brokering, Inc.
The Stoll Agency
Priscilla Lindell

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2003, 2006 and 2008 [40 P.S. §§991.2003, 2006 and 2008], so that the violations 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 Title 75, Pa. C.S. §1791.1(a) to ensure that violations of providing an itemized invoice listing minimum coverages at the time of application, as noted in the Report, do not occur in the future.
5. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that violations of providing tort options at the time of application and every renewal thereafter, as noted in the Report, do not occur in the future.

6. The Company must review Title 75, Pa. C.S. §1791 to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
7. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
8. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
9. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
10. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.

11. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. These forms should be obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(c)(d)(1) and (2) do not occur in the future.
12. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.
13. 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, as noted in the Report, do not occur in the future.
14. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
15. The Company must review the first party medical claims referred to a peer review organization where the peer review organization determined that treatment was necessary. The Company must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the Company pending the PRO review as required by Title 75, Pa. C.S. §1797(b)(5). Proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

16. The Company must ensure all producers are properly licensed and 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.

XIII. COMPANY RESPONSE



American International Companies®
DBG Legal Services
175 Water Street, 18th Floor
New York, NY 10038

EXPRESS MAIL

(212) 458-7026

February 24, 2006

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

Re: **NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**
Market Conduct Examination - January 1, 2004 to December 31, 2004
Report on Examination - Commercial and personal lines

Dear Mr. Derk:

This will acknowledge receipt of the captioned Report received in our office on January 27, 2006. We are responding to both the commercial lines (Exhibit A) and personal lines (Exhibit B) sections of the Report with the attachments to this correspondence.

Thank you in advance for your cooperation and resolution of this matter.

Sincerely,

Allan L. Wadsworth
Manager
Regulatory Affairs
American International Companies

ALW/aw
Enclosures
CC: R. Dunlevy, AIG, NYC
M. Popp, AIG, Wilmington
M. Blake, AIG, NYC
CderkreportresponseNUFIC022406

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.
COMMERCIAL LINES RESPONSE
EXHIBIT A

PENNSYLVANIA MARKET CONDUCT EXAMINATION
Exam period: January 1, 2004 to December 31, 2004

We have taken general corrective measures for the following:

Commercial Automobile, Workers' Compensation and Medical Malpractice Lines

Renewal Notices

As we have stated during the examination, the Insureds often do not forward the requested and essential information on renewal so that the Company can provide the Insured with the notice of increase in premium within 30 days of the renewal date. However, we have advised the underwriting units of the importance of the Pennsylvania requirement. In addition, we have counseled the units that have supplied the policies for the examination as to the specific requirement. Further, Bulletin ML 2005 02 was published to all underwriting units to addresses this requirement, within the past 12 months. (*See Underwriting Bulletin ML 2005 02 attached*)

Licensing

We have advised the underwriting units of the importance of the licensing requirement and have addressed this in the same underwriting bulletin (see above). The Company does not believe that appointments were required for the producers listed the the Exit Summary, pursuant to 40 P.S. Section 310.71(a). These producers were not acting as representatives of the Company. However, the Company is reviewing its' procedures in this area and will make changes as necessary to ensure that all producers are properly licensed and appointed as required by Section 671-A (40 P.S. Section 310.71).

Policy Non-renewals

The above mentioned Bulletin ML 2005 02 addresses the requirement for non-renewals for notice to the insured and a specific reason of non-renewal.

Return of Unearned Premium

We have reminded the units of the requirement to produce the unearned premium with in 30 days of the effective date of termination.

Regulatory Compliance

DATE: March 17, 2005

CIRCULATE TO: DBG Profit Centers

STATE: Pennsylvania

SUMMARY: Market Conduct Issues

This bulletin is to remind all underwriters of certain Pennsylvania regulations that must be adhered to. These items were raised in the most recent Pennsylvania Market Conduct Examination.

1. **NOTICE OF INCREASED PREMIUM** (Commercial Auto & Workers' Compensation)

Act 86, Section 1 (40 P.S. Section 3401), effective 8-12-95:

*Company must provide not less than 30 days advance notice to the Named Insured of an increase in premium. File must document that this was properly completed.

2. **NOTICE OF NON-RENEWAL** (Commercial Auto)

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

*Company must give specific reason for non-renewal.

Title 31, Section 113.88

*Reason for non-renewal must be clear and complete.

3. **PRODUCER LICENSING** - Pennsylvania Producer Modernization Act, effective 6/4/03

Pa. Statute, Act 147, Section 641.1-A - [40 P.S. Section 310.41a]

*Insurance Agency must be licensed in Pennsylvania.

Pa. Statute, Act 147, Section 671-A [40 P.S. Section 310.71]

*Insurance Agencies must be appointed.

Bulletin Number: REG ML 2005 02

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**NATIONAL UNION FIRE INSURANCE COMPANY OF
PITTSBURGH, PA
PERSONAL LINES RESPONSE**

EXHIBIT B

PENNSYLVANIA MARKET CONDUCT EXAMINATION
January 1, 2004 to December 31, 2004

V. UNDERWRITING:

A. Private Passenger Auto

1. Non-renewals

Page 9: Section 2006 [40 P.S. 991.2006] The failure to maintain evidence that the nonrenewal notice was sent was due to human error as it is the Company's procedure to maintain this document in the policy file.

2. Declinations

Page 10: Section 2008(b) [40 P.S. 991.2008(b)] – Company believed that the reasons listed on the notices were specific enough to comply with the above noted section. However, Company has reviewed the notices and requested the system changes to specify drivers, dates and descriptions.

Page 11: Section 2003(a) (1) [40 P.S. 991.2003 (a) (1)] – Company continues to assert that it is in compliance with this provision as the criteria used is “years licensed” rather than age. However, going forward, changes have been made.

VI. RATING:

A. Private Passenger Automobile

1. New Business without Surcharges

Page 22: Title 75, Pa. C.S. 1705 (a) (4) – It is Company's procedure to secure and maintain limited tort selection forms on all policies that carry the limited tort option. The failure to do so on the 6 policies noted was due to human error and procedures have been reinforced.

Page 22: Title 75, Pa. C.S. 1731 (b) & (c) – It is the Company's procedure to secure and maintain rejection on uninsured and underinsured motorist coverage forms on all policies that do not carry these coverages. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

Page 22: Title 75, Pa. C.S. 1734 – It is Company's procedure to secure and maintain selection forms on all policies that carry lower liability limits. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

Page 23: Title 75, Pa. C.S. 1738 (c) (d) (1) & (2) – It is Company's procedure to secure and maintain rejection of stacked uninsured and underinsured motorist coverage forms. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

Page 23: Title 75, Pa. C.S. 1791 - The Company continues to disagree with the Department's findings that Company failed to provide the Act-6 §1791 notices and the §1793 (1) (b) notice at the time of the application. For the reasons set forth below, Company requests that these allegations be removed from the examination report as violations, and requests, instead, that the Department note these as concerns only and, further, that the Company be afforded the opportunity to revise its practices consistent with the Department's recent interpretation of Act-6.

As previously noted, Company is a direct writer of personal lines automobile policies and produces 85% of its business through inbound calls from consumers.

Pursuant to Company procedures, the licensed call center agents discuss the coverages at issue while on the call with the prospective insured. The agents review and discuss tort options, surcharge disclosures, discounts, minimum limits and coverage selections with the prospective insured, along with other underwriting factors such as vehicle usage and number of operators.

The rating system used during the incoming call process is capable of generating a quote for both full and limited tort options and the premium for each option is available to the prospective insured. The sales agent is also able to obtain MVR and CLUE information during the course of the call. This enables the agent to render an accurate quote based on the nature of the risk being underwritten and to bind the coverage should the caller be interested in buying with an effective date of the next day at the earliest.

As a result of having access to the necessary underwriting information, the Company is able to bind coverage, effective 12:01 am the day after the call, subject to the payment of the premium or a premium deposit. If the prospective insured wants to purchase the coverage, payment is tendered during the call. The Act-6 disclosures, which the Act, by its language, contemplates be in writing, are then mailed to the insured within 24 hours. The forms which are mailed contain the verbatim language of Act-6 and are in the form as prescribed by that statute. The Department does not contest the validity of the forms.

The Department takes the position that the Company's practice of complying with Act 6 by submitting the required forms within 24 hours is too late to provide full and fair disclosure. The Department asserts that, because the buying decision has been made and the coverage has already been selected and bound, that a subsequent mailing is not sufficiently timely to permit an informed buying decision and thus, circumvents the intent of Act-6.

The Company, through discussion with the Department, now understands the Department's interpretation that "at the time of application" means "at the time coverage is selected and bound", although the Department is not able to cite to a statutory definition.

Thus, the only issue raised is one of the timeliness of the disclosure to the policyholder and a means of acknowledging receipt. Please note that Company does not concede that the described practices herein violate any provision of the statutes cited.

2. New Business with Surcharges

Page 25: Title 75, Pa. C.S. 1791 - Please see number 1. above.

Page 27: Title 75, Pa. C.S. 1705 (a) (1) (D) and (a) (4) – It is Company's procedure to secure and maintain limited tort selection forms on all policies that carry the limited tort option. The failure to do so on the 6 policies noted was due to human error and procedures have been reinforced.

Page 27: Title 75, Pa. C.S. 1731 (b) & (c) – It is the Company's procedure to secure and maintain rejection on uninsured and underinsured motorist coverage forms on all policies that do not carry these coverages. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

Page 27: Title 75, Pa. C.S. 1734 – It is Company's procedure to secure and maintain selection forms on all policies that carry lower liability limits. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

Page 28: Title 75, Pa. C.S. 1738 (c) (d) (1) & (2) – It is Company's procedure to secure and maintain rejection of stacked uninsured and underinsured motorist coverage forms. The failure to do so on the 2 policies noted was due to human error and procedures have been reinforced.

3. Renewals without Surcharges

Page 30: Title 75, Pa. C.S. 1791.1 (b) - Company believed that it was in compliance with the above referenced provision but based on the Department's explanation, it is understood that this form must be presented at renewal. Based on this, Company is in the process of making the system changes to send this form at renewal.

4. Renewals with Surcharges

Page 31: Title 75, Pa. C.S. 1799.3 (d) – Company will revise its declarations pages to include the required information.

Page 28: Title 75, PA.C.S. §1791.1 (b) - Company believed that it was in compliance with the above referenced provision but based on the Department's explanation, it is understood that this form must be presented at renewal. Based on this, Company is in the process of making the system changes to send this form at renewal.

VII. CLAIMS:

A. Automobile Property Damage Claims

1. Page 33: Title 31, PA. C.S. 146.6 – It is Company's procedure to send status letters in a timely fashion. The failure to do so on the 4 claims noted was due to human error and procedures have been reinforced.

B. Automobile Comprehensive Claims

2. Page 33: Title 31, Pa. C.S. 146.6 - It is Company's procedure to send status letters in a timely fashion. The failure to do so on the 3 claims noted was due to human error and procedures have been reinforced.

C. Automobile Collision Claims

3. Page 34: Title 31, Pa. C.S. 146.6 - It is Company's procedure to send status letters in a timely fashion. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.

D. Automobile Total Loss Claims

1. Page 34: Title 31, Pa. C.S. 146.6 - It is Company's procedure to send status letters in a timely fashion. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.
2. Page 35: Title 31, Pa. C.S. 146.7 – It is Company's procedure to offer the total loss actual cash value to the insured in a timely manner. The Failure to do so on the 1 file noted was due to human error and procedures have been reinforced.

E. Automobile First Party Medical Claims

1. Page 35: Title 31, Pa. C.S. 69.52 (b) – It is Company's procedure to pay bills for care that are not referred to a Peer Review Organization within 30 days. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.
2. Page 36: Title 75, Pa. C.S. 1716 – It is Company's procedure to interest on a claim that was not paid within 30 days. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.
3. Page 36: Title 31, Pa. C.S. 146.5 (d) – It is Company's procedure to provide a claimant with the application for benefits form within 10 working days of notification of the claim. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.
4. Page 36: Title 31, Pa. C.S. 69.22 (c) – It is Company's procedure to provide an exhaustion of benefits letter to the insured. The failure to do this on the 1 claim noted was due to human error and procedures have been reinforced.

5. Page 37: Title 31, Pa. C.S. 146.3 – It is the Company’s procedure to maintain complete claims files. The failure to do so on the 1 claim noted was due to human error and procedures have been reinforced.

VIII. FORMS:

Page 38: Title 75, Pa. C.S. 1822 – Company used the fraud warning that is required by Title 18, 4177 in the belief that it was the correct warning to use on claims forms. However, going forward, Company will use the warning required by Title 75, 1822.

XI. LICENSING:

Page 43: Insurance Department Act, No. 147, Section 671-A [40 P.S. 310.71] – It is Company’s procedure to appoint all producers before they write any policies for Company. The failure to do so for the 1 personal lines producer noted was due to human error and procedures have been reinforced.

XIII. RECOMMENDATIONS:

Page 45 – Company respectfully requests that its responses to the Recommendations noted below become a part of the examination report.

1. Company has reviewed and reinforced its procedures to ensure compliance with the requirements relating to nonrenewal notices.
2. Not applicable to personal lines.
3. Not applicable to personal lines.
4. Company agrees to begin a process to revise its telephone binding process to develop procedures to ensure that the mandatory Act-6 disclosures are provided during the telephone sale when the coverage is bound. This may involve one or more combinations of the following options:
 - the use of e-mail to transmit the forms;
 - fax transmissions to submit the forms;
 - use of the internet for real-time disclosure and form acceptance;
 - activation of an IVR recorded message to provide the mandatory disclosures
 - e-delivery of forms and e-signatures as acknowledgement of receipt;
 - other procedures as determined by the Company to be in compliance

Company revised process will seek to include an appropriate mechanism to capture and document the dissemination of disclosures and acknowledgement of receipt by the insured.

Company trusts and expects that the Department will apply timely and consistent standards in the review and enforcement of Act 6 requirements to all

companies in the Commonwealth in the interest of maintaining a level playing field and so as not to create any competitive disadvantage.

5. Please see response to number 4. above.
6. Please see response to number 4. above.
7. Please see response to number 4. above.
8. Company is in the process of revising its procedures to comply with the requirement to include specific information on declarations pages and will complete the implementation within 30 days of the Final Report issue date or will advise the Department if additional time is required.
9. Company procedure is to allow each applicant an opportunity to select a tort option and to secure and maintain tort selection forms. Company has reinforced to employees the importance of maintaining these documents in the policy file.
10. Company procedure is to secure and maintain uninsured and underinsured motorist coverage forms and is currently reviewing all Pennsylvania files to ensure forms are available where needed. Company has reinforced to employees the importance of maintaining these documents in the policy file.
11. Company procedure is to secure and maintain stacked uninsured and underinsured motorist coverage forms and is currently reviewing all Pennsylvania files to ensure forms are available where needed.
12. Company procedure is to secure and maintain selection of lower limits forms. Company has reinforced to employees the importance of maintaining these documents in the policy file.
13. Company has reviewed and reinforced its procedures to ensure compliance with the requirements relating to status letters.
14. Company has reinforced its procedures with regard to paying first party medical bills within 30 days.
15. Company has reviewed the 1 file in question and has paid the interest due. Please see attached documentation.
16. Company procedure is to appoint all producers in question. This procedure has been reinforced with the applicable department.