

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**NEW JERSEY MANUFACTURERS
INSURANCE COMPANY**
West Trenton, New Jersey

**AS OF
September 5, 2006**

COMMONWEALTH OF PENNSYLVANIA

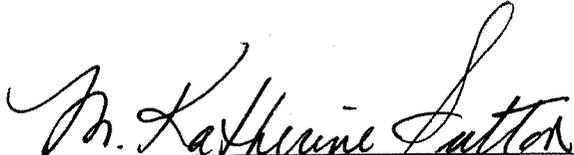


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 13, 2006

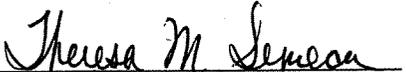
VERIFICATION

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 31 Day of July, 2006


Notary Public
COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2006

NEW JERSEY MANUFACTURERS INSURANCE COMPANY

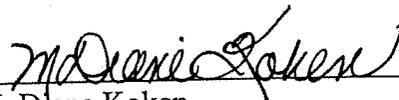
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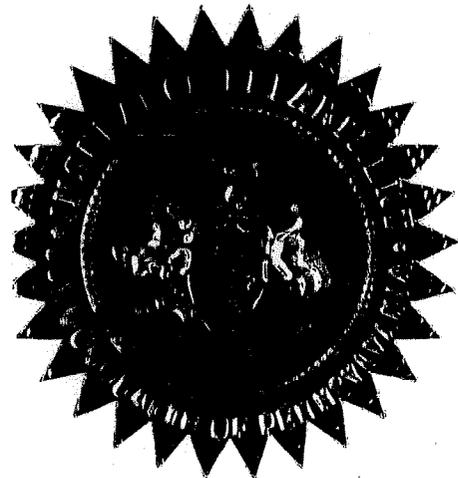
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
NEW JERSEY MANUFACTURERS	:	Section 641-A of Act 147 of 2002
INSURANCE COMPANY	:	(40 P.S. § 310.41)
301 Sullivan Way	:	
West Trenton, NJ 08628	:	Section 903(a) of the Insurance
	:	Department Act, Act of May
	:	17, 1921, P.L. 682, No. 284 (40 P.S.
	:	§ 323.3)
	:	
	:	Act 1990-6, Sections 1705(a)(1) and
	:	(4), 1716, 1791, and 1791.1(a) and (b)
	:	(Title 75, Pa.C.S. §§ 1705, 1716 and
	:	1791)
	:	
	:	Section 1 of the Act of July 3, 1986,
	:	P.L. 396, No. 86 (40 P.S. § 3401)
	:	
	:	Sections 2003(a)(13) and (14),
	:	2003(e) and 2008(b) of Act 68 of
	:	1998 (40 P.S. §§991.2003 and
	:	991.2006)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Sections 5(a)(4), 5(a)(9) and
	:	5(a)(9)(i) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	69.52(a), (b) and (e), 146.5(b) and
	:	146.6

Respondent. : Title 75, Pennsylvania Consolidated
: Statutes, Sections 1161(a) and (b),
: 1711(b) and 1822
:
:
: Docket No. MC06-09-022

CONSENT ORDER

AND NOW, this 13th day of October, 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 New Jersey Manufacturers Insurance Company, and maintains its address at 301 Sullivan Way, West Trenton, New Jersey 08628.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2004 through June 30, 2005.
- (c) On September 5, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on September 26, 2006.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);

- (ii) Section 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) and (4) of Act 1990-6, Title 75, Pa.C.S. § 1705(a)(1) and (4), which 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;
- (iv) 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;

(v) 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;

(vi) 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;

- (vii) 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;
- (viii) 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;
- (ix) Section 2003(a)(13) 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: Not at fault accidents;
- (x) Section 2003(a)(14) 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: Any claim under the comprehensive portion of the policy unless intentionally caused by the insured;
- (xi) Section 2003(e) of Act 68 of 1998 (40 P.S. § 991.2003), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or

jurisdictions during a 24 month period when the operator's record indicates that the named insured bears five points or fewer;

(xii) 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;

(xiii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

(xiv) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;

(xv) Section 5(a)(9) of Act 205 (40 P.S. §1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

(xvi) Section 5(a)(9)(i) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use;

(xvii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

(xviii) Title 31, Pennsylvania Code, Section 69.52(a), which requires an insurer to refer a provider’s bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral;

(xix) 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;

- (xx) Title 31, Pennsylvania Code, Section 69.52(e), which requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within five days of receipt;
- (xxi) Title 31, Pennsylvania Code, Section 146.5(b), which requires every insurer, upon receipt of an inquiry from the Department respecting a claim shall, within 15 working days of receipt of the inquiry, furnish the Department with an adequate response to the inquiry;
- (xxii) 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;
- (xxiii) Sections 1161(a) and (b) of Title 75, Pa.C.S. § 1161, which requires (a) people or insurers who own, possess or transfer vehicles located or registered in the Commonwealth which qualifies as a salvage vehicle, to make application to the Department for a certificate of salvage for that vehicle; and (b) an owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is

transferred. The transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection;

(xxiv) Title 75, Pennsylvania Consolidated Statutes, Section 1711(b), which requires all insurers subject to this Chapter to make available for purchase a motor vehicle insurance policy which contains only the minimum requirements of financial responsibility and medical benefits; and

(xxv) 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 641-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 Section 1 of Act 86 (40 P.S. § 3401), 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 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 Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;

- (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(f) Respondent's violations of Sections 5(a)(4), 5(a)(9) and 5(a)(9)(i) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by

the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (g) 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).
- (h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act, as stated above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Forty-Five Thousand Dollars (\$45,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser,

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 an intentional 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 an intentional 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.

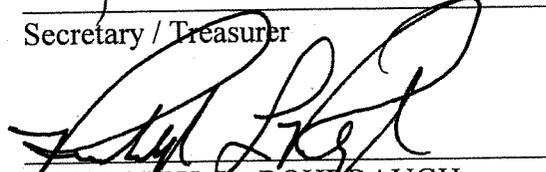
BY: NEW JERSEY MANUFACTURERS
INSURANCE COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH

Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at New Jersey Manufacturers Insurance Company's office located in West Trenton, New Jersey, from March 27, 2006, through April 20, 2006. 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.

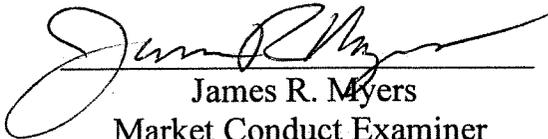
The undersigned participated in this examination and in preparation of this Report.



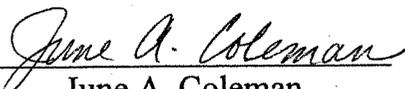
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



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 New Jersey Manufacturers Insurance Company, hereinafter referred to as "Company," at their office located in West Trenton, 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 July 1, 2004, through June 30, 2005, 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. Property
 - 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.
3. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and renewals.
3. Workers' Compensation
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

4. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

New Jersey Manufacturers Insurance Company was incorporated on June 7, 1913, as the New Jersey Manufacturers Casualty Insurance Company under the laws of New Jersey. It commenced business on July 3, 1913. Sponsors were a number of substantial manufacturing concerns in New Jersey which sought to provide an efficient and economical means of fulfilling their obligations as employers under the then recently enacted workers' compensation law.

LICENSING

New Jersey Manufacturers Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in Connecticut, Delaware, Maine, New Jersey, New York, Pennsylvania and Rhode Island. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$19,563,267. Premium volume related to the areas of this review were: Fire \$124,611; Homeowners multiple peril \$2,492,679; Workers' Compensation \$3,992,126; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,335,939; Other Private Passenger Auto Liability \$6,478,509 and Private Passenger Auto Physical Damage \$5,104,387.

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

The following findings were made:

1 Violation Title 75, Pa. C.S. §1711(b)

All insurers subject to this Chapter shall make available for purchase a motor vehicle insurance policy which contains only the minimum requirements of financial responsibility and medical benefits as provided for in this Chapter. The Company's automobile underwriting guidelines stated the following: "New Business: To be accepted, an applicant must apply for liability limits of at least \$100,000, the minimum offered by the Company."

2 Violations Act 68, Section 2003(a)(13) [40 P.S. §991.2003(a)(13)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13). The Company's automobile guidelines stated the following for new business and renewal: "The claim record during the 36 month period immediately preceding the date of application may not include claim activity as specified below: Single vehicle-two or more claims and multi-vehicle – (a)

three or more claims or; (b) two or more total losses from any cause.”

2 Violations Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The Company’s automobile underwriting guidelines stated the following for new business and renewal: “The claim record during the 36 month period immediately preceding the date of application may not include claim activity as specified below: Single vehicle-two or more claims and multi-vehicle – (a) three or more claims or; (b) two or more total losses from any cause.”

1 Violation Act 68, Section 2003(e) [40 P.S. §991.2003(e)]

An insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a 24 month period when the operator’s record indicates that the named insured presently bears five points or fewer. The Company’s automobile underwriting guidelines indicate the following: “Renewal: Driving Record – any of the following criteria during the 36 months ending 3 months preceding the expiration date will make a policy subject to nonrenewal. Motor vehicle violations – any driver with (1) more than 5 violation points, (2) more than 2 motor vehicle violations, (3) any single motor vehicle violation resulting in assignment of more than 4 violation points.”

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's homeowner underwriting guidelines state the following: "A residence may be ineligible for coverage, when an additional residence is owned by the same applicant and located in New Jersey or Pennsylvania, but is not offered to the Company to insure".

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 19 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 19 files 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 346 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files 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 27 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 27 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Act 68, Section 2003(e) [40 P.S. §991.2003(e)]

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four (24) month period when the operator's record indicates that the named insured presently bears five points or fewer. The Company nonrenewed the policy based on one violation that occurred within the 24 month period.

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 183 private passenger automobile files identified as declinations by the Company, 75 files were selected for review. Of the 75 files requested, 74 files were received and reviewed. The 19 violations noted were based on 19 files, resulting in an error ratio of 25%.

The following findings were made:

17 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. Of the 17 violations noted, the Company did not provide written notice of refusal to write for 13 files. The remaining 4 violations were due to the Company not providing a specific reason for refusing to write.

1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The Company refused to write based on comprehensive claims.

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.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

C. Property

1. 60-Day Cancellations

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

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

The universe of 11 property policies, which were cancelled within the first 60 days of new business was selected for review. The files consisted of homeowner, tenant homeowner and owner occupied dwelling fire policies. All 11 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 345 property policies which were cancelled midterm during the experience period, 154 files were selected for review. The

property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 154 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of two homeowner policies nonrenewed during the experience period was selected for review. Both files were received and reviewed.

The violation noted resulted in an error ratio of 50%.

The following finding was made:

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

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

in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company did not provide any evidence that a nonrenewal notice was sent to the insured.

4. Declinations

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

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

The universe of 34 property declinations was selected for review. The property files consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 34 files were received and reviewed. No violations were noted.

D. Commercial Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a

policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

The universe of 2 tenant occupied dwelling fire policies, which were cancelled within the first 60 days, was selected for review. The 2 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

The universe of 22 tenant occupied dwelling fire policies which were cancelled during the experience period was selected for review. All 22 files 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 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 one tenant occupied dwelling fire policy identified as a nonrenewal by the Company was selected for review. The file was received and reviewed. No violations were noted.

4. Declinations

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

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

The universe of two tenant occupied dwelling fire files identified as declinations by the Company was selected for review. The two files were received and reviewed. No violations were noted.

5. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date. The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 87 tenant occupied dwelling fire policies which were renewed during the experience period, 40 files were selected for review. All 40 files were received and reviewed. No violations were noted.

E. Workers' Compensation

1. 60-Day Cancellations

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

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

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

2. Midterm Cancellations

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

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

The universe of 7 workers' compensation policies cancelled during the experience period was selected for review. All 7 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 6 workers' compensation policies nonrenewed during the experience period was selected for review. The 6 files were received and reviewed. No violations were noted.

4. Renewals

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

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

From the universe of 85 workers' compensation policies which were renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial

property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 4 files 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 1,216 private passenger automobile policies identified as new business without surcharges by the Company, 75 files were selected for review. All 75 files were received and reviewed. The 4,556 violations noted were based on the universe of 1,216, resulting in an error ratio of 100%.

The following violations were noted:

1,216 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.

908 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 Company supplied the required notice to 308 policies that received a written quotation, but did not provide the notice for the remaining 908 applicants.

1,216 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.

1,216 Violations Title 75, Pa. C.S. §1705(a)(1)&(4)

Requires every insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy to provide each applicant with the notice required by paragraph (1). A policy may not be issued until the applicant has been provided an opportunity to elect a tort option. The notice shall be standardized form as adopted by the Commissioner. The notice provided by the Company was not the standardized form as adopted by the Commissioner.

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 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 6,455 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 6,456 violations noted were based on the universe of 6,455, resulting in an error ratio of 100%.

The following violations were noted:

*1 Violation Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The violation was the result of improper rating which resulted in an overcharge of \$1.

6,455 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 renewal.

The following concern was noted:

The Company is currently not itemizing the premium amounts by coverage for the invoice required by Title 75, Pa. C.S. §1791.1(a). The Company must implement this procedure going forward.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a

Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement, the Company wrote no assigned risk business during the experience period.

C. Homeowners

1. New Business

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

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

Homeowner Rating – New Business Without Surcharges

From the universe of 942 homeowner policies written as new business without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 3,683 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

D. Dwelling Fire

1. New Business

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

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

From the universe of 82 dwelling fire policies written as new business during the experience period, 40 files were selected for review. All 40 files were received and reviewed. No violations were noted.

2. Renewals

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

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

From the universe of 189 dwelling fire policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

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
- G. Homeowner Claims
- H. Dwelling Fire Claims

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

A. Automobile Property Damage Claims

From the universe of 1,243 private passenger automobile property damage claims reported during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The violation noted resulted in an error ratio of 1%.

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.

B. Automobile Comprehensive Claims

From the universe of 547 private passenger automobile comprehensive claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 949 private passenger automobile collision claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 2 claims noted.

D. Automobile Total Loss Claims

From the universe of 203 private passenger automobile total loss claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The 206 violations noted were based on the universe of 203 files, resulting in an error ratio of 100%.

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.

203 Violations Title 75, Pa. C.S. §1161(a)&(b) – Certificate of Salvage Required.

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined

in Section 1702 (relating to definitions), who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The 203 files noted did not reflect a Pennsylvania salvage title was obtained.

E. Automobile First Party Medical Claims

From the universe of 236 private passenger automobile first party medical claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The 4 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

2 Violations 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 Company did not pay the 2 claims noted within 30 days.

2 Violations 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 2 claims that were not paid within 30 days.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 6 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 6 claim files requested were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has

contracted. The contract was received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 17%.

The following findings were made:

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

Requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral. There was no evidence in the file that the insured was notified in writing when the claim was referred to a peer review organization.

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

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The violation noted was absent any evidence this requirement was complied with.

G. Homeowner Claims

From the universe of 411 homeowner claims reported during the experience period, 75 files were selected for review. All 75 files were received and

reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 5%.

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.

H. Dwelling Fire Claims

The universe of 1 dwelling fire claim reported during the experience period was selected for review. The file selected 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 Company failed to provide the proper fraud statement on 3 automobile claim forms. The claim forms were: PPA Comprehensive Claim Acknowledgement (AC3896 (9/99));

PPA Comprehensive Policyholder's Incident Report (AC-199 (1/04)) and PPA Collision Driver's Report of Automobile Accident (AC-55 (9/02)).

8 Violations Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide a fraud statement or the proper fraud statement on the following forms: Dwelling Fire Renewal Notice; Dwelling Fire Renewal Scheduled Personal Property Coverage Application (F-1 (11/00) E0048D (Ed.04/03)); Dwelling Fire Renewal Application for Burglar Alarm Credit and/or Fire Protection Credit (F-87 (9/00) E0080 (Ed. 04/03)); Homeowner Claims Loss Inventory and Settlement Summary AC-35 (12/00); Homeowner Claims Proof of Loss AC11 (01/01); Homeowner Claims Policyholder's Incident Report AC-96 (10/99); Homeowner Renewal Notice F-7 (9/97) and Commercial Property Tenant Dwelling Fire Renewal Notice.

Homeowner Rating – New Business Without Surcharges

942 Violations Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any

fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The fraud statement on the homeowner's insurance application (A-PL10 PA) is not the correct fraud warning that should be used on property applications.

Dwelling Fire Rating – New Business

82 Violations Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The fraud statement on the dwelling fire insurance application (A-PL10 PA) is not the correct fraud warning that should be used on property applications.

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 advised that there is no print advertising for Pennsylvania. Internet advertising was 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 10 consumer complaints received during the experience period and provided all consumer complaint logs requested. The 10 complaint files were requested, received and reviewed.

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

The following findings were made:

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

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

premium when due or for any other reasons approved by the Commissioner. The Company cancelled the policy for an improper reason. An increase in hazard did not exist.

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

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The cancellation notice sent was not approved by the Commissioner.

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

Every insurer, upon receipt of an inquiry from the Department respecting a claim shall, within 15 working days of receipt of such inquiry, furnish the Department with an adequate response to the inquiry. The Company failed to respond to a Department inquiry in a timely manner.

The following synopsis reflects the nature of the 10 complaints that were reviewed.

• 2	Cancellation/Nonrenewal	20%
• 5	Claims Related	50%
• 2	Premium Related	20%
• 1	Service Related	10%
<hr/>		<hr/>
10		100%

XI. LICENSING

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

The following findings were made:

118 Violations Act 147 of 2002, Section 641.1A [40 P.S. §310.41a]

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

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

Producer Name

Adams, Bonnie

Ali, Betty Hewitt

Bean, Kimberly
Beckert, Kathy
Bercy, Donna Marie
Bernhardt, Patricia
Biskup, Jessica
Boldizar, Jeffrey
Boub, Carey
Brett, Nicholas
Brown, Kenneth
Bruno, Karen
Burgess, Sharon
Burns, Thomas
Burroughs, Lisa
Cannon, Sebastian
Capers, Carla
Carder, Lauren
Carter, Eboni
Champion, Sandra
Clark, Aiesha
Cohen, Jesse
Colon, Virginia
Cook, Charlene
Coyle, Carolyn
Critti, Sandy
Davis, Jaclyn
De Virgiliis, Dianna
Dileo, Jessica
Dondero, Louise
Dyett, Barbara
Elko, Karen
Elliott, Krista
Emery, Peggy
Epperson, Brandon
Ewing, Leslie
Fiocchi, Gina
Fort, Tara
Gaskill, Kelly

Gates, Ann Marie
Ginyard, Louretha
Giroux, Debra
Gosciniak, Matthew
Graziani, Jeannine
Grimes, Michelle
Hamilton, Jeanette
Harbison, Elizabeth
Harris, Donald
Hartmann, James
Hastie, Christopher
Hayes, Jennifer
Hensler, Susan
Hensley, Kelly Ann
Heyesey, Kelly
Horlacher, Frances
Immordino, Vince
Jackman, Jennifer
Jaremback, John
Johnson, Debra
Keenan, Kristin
Kelly, Lucy
Kemble, Barbara
Kemler, Joseph
King, Lei
Kitashima, Jennifer
Klotz, Lory
Koch, David
Kornstedt, Michele
Koslowsky, Jr., Thomas
Lange-Boerger, Kyndi
Large, John
Leiggi, Jennifer
Lenz, Marisa
Leonardo, Lynn
Long, George
Maiorino, Diane

McConnell, Monica
McDonald, Valerie
McKinney, Tennille
McLean, Danielle
McLoughlin, Rosalie
McRae, Linda
Meisner, Hayley
Millward, Wilma
Mitchell, Kingenia
Moskal, Kathleen
Nagy, Amanda
Okun, Faye
Pelehaty, Dennis
Piekieniak, Carol
Pierce, Barbara
Pokorny, Jean
Procaccino, Erica
Roman, Christopher
Rondinelli, Jerry
Rossi, James
Russomanno, Katherine
Sallemi, Mary
Sedor, Dennis
Sharp, Patricia
Silvestro, Debra
Smith, Jared
Snyder, Brooke
Steele, Tiffany
Steiner, Garren
Sulikowski, Juana
Sullivan, Ilene
Sutherland, Paulette
Turner, Tina
Valentino, Jacqueline
Vance, Barbara
Waring, Melissa
Weber, Brian

Weiberth, Patricia
Weisbrot, Sandra
Williams, Jacqueline
Williams, Michelle
Williamson, Luke

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 notice requirements of Act 68, Sections 2003 and 2008 [40 P.S. §§991.2003 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with nonrenewal notice requirements 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 Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the rating violation noted in the Report does not occur in the future.
5. The premium overcharge noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the Report issue date.

6. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and responding to Department inquiries, as noted in the Report, do not occur in the future.
7. 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. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
8. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained with the claim file.
9. The Company must ensure that all applications and claim forms contain the required fraud warning notice.
10. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
11. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] and revise and reissue their homeowner underwriting

guidelines for use in Pennsylvania to ensure that the guidelines do not require supporting coverage, as noted in the Report.

12. The Company must revise and reissue their automobile underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 of Act 68 [40 P.S. §991.2003].
13. The Company must revise and reissue their automobile underwriting guidelines for use in Pennsylvania to ensure that minimum requirements of financial responsibility and medical benefits limits are available for purchase as required in Title 75, Pa. C.S. §1711(b).
14. 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.
15. The Company must review Title 75, Pa. C.S. §1791.1(a) to ensure that an itemized invoice listing minimum coverages is provided at the time of application as noted in the Report and does not occur in the future.
16. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options is provided at the time of application and every renewal thereafter as noted in the Report and does not occur in the future.
17. The Company must review Title 75, Pa. C.S. §1705(a)(1)&(4) to ensure that the election of tort options is a standardized form adopted by the Commissioner and includes all required language.

XIII. COMPANY RESPONSE

ROBERT H. ZETTERSTROM, ESQ., CPCU
Vice President & Corporate Counsel

September 22, 2006

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

Re: Examination Warrant Number: 05-M17-065
New Jersey Manufacturers Insurance Company

Dear Mr. Derk:

This letter is filed as New Jersey Manufacturers Insurance Company's ("NJM") response to the Pennsylvania Insurance Department's ("Department") Report of Examination issued on September 5, 2006.

Prior to setting forth the formal response NJM would like to compliment the efforts of the Department Examiners who worked on NJM's Exam. The Examiners were courteous and conducted themselves in a very professional manner throughout the process.

NJM takes its responsibility to operate in compliance with all regulatory provisions very seriously. This commitment is reflected in the fact that the vast majority of areas examined by the Department produced findings of no violations. Moreover, the majority of cited violations raised in this examination are the result of differences between NJM and the Department over interpretation of regulatory law. Other violations occurred because NJM did not use the exact form of notice prescribed by statute although the substance of the required information was conveyed to the policyholder. In some instances violations were caused by NJM's unique method of operation that may have made utilization of the verbatim regulatory language confusing to our customers. Despite these differences, NJM has already made or is in the process of implementing the Department's recommendations. With the exception of recommendations one and twelve, NJM will provide responses to each recommendation and the underlying findings in the order they appear in the report.

The following public response is submitted without prejudice to any of NJM's legal rights.

Recommendation #1

The Department seeks corrective measures for NJM to review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003 and 2008.

Recommendation #12

The Department requires revisions to filed automobile underwriting guidelines that comply with Section 2003 of Act 68.

NJM's Response

NJM's response addresses both of the above recommendations since they involve similar findings in the report.

NJM's underwriting rules do not provide for the cancellation, refusal to write, or the nonrenewal of a policy of automobile insurance based on any single not at-fault accident in the past three years. The underwriting rules do exclude certain applicants who have multiple not at-fault accidents in the past three years which under our reading of the Act is not prohibited by 40 P.S. §991.2003(a) (13). NJM was unaware that the Department interpreted this provision to require the elimination of any and all not at-fault accidents in the underwriting process. In fact, at the request of the Department, NJM filed its automobile underwriting guidelines, and the Department did not communicate any concern with respect to NJM's interpretation of the statute. The Department's interpretation of this provision has a greater effect on NJM than on other automobile insurers because NJM does not surcharge for accidents.

Nevertheless, NJM will revise its underwriting guidelines to comply with the Department's interpretation of the Statute.

NJM's underwriting rules do not provide for the cancellation, refusal to write, or the nonrenewal of a policy of automobile insurance based on the filing of a comprehensive claim. NJM interprets 40 P.S. §991.2003(a) (14) to preclude a declination, cancellation or nonrenewal based on any single comprehensive claim unless intentionally caused by the insured. The NJM underwriting rules cited in the initial findings address multiple occurrences of claims which may be suggestive of a pattern of repetitive loss and/or maintenance issues. NJM interpreted the Act as referring to the singular "claim" in the prohibition. Again this underwriting rule was previously filed with the Department without any issues being raised.

Nevertheless, NJM will revise its underwriting guidelines to comply with the Department's interpretation of the Statute.

NJM's underwriting rules do not provide for the cancellation or refusal to renew a policy of automobile insurance based on the accumulation of two or fewer moving violations during a 24-month period, when the operator's record indicates that the named insured has five or fewer points. NJM uses a thirty six-month experience period consistent with the period used for Pennsylvania motor vehicle records. NJM's underwriting rule does not violate 40 P.S. §991.2003(e) because that provision prevents underwriting decisions made solely on the basis of five or fewer violation points except that an underwriting decision may be made on a single violation that causes five or more violation points. Part (1) of our rule requires more than five violation points; Part (2) requires more than two (2) violations, which translates to three (3) or more motor vehicle violations. Part (3) relates to one violation that exceeds four points which

is consistent with 40 P.S. §991.2003(e). This underwriting guideline was previously filed with the Department without any issues being raised.

Nevertheless, NJM will revise its underwriting rule to conform to the Department's interpretation of the Statute

The report cites NJM with violations of Act 68, Section 2008 based on an asserted lack of specificity in written notices of declination. Looking at the circumstances of each declination, it is clear that the applicant was aware of the exact reason they were declined. Other violations cited were phone applications in which the applicant was given specific reasons for each declination during the phone conversation and the Pennsylvania "Right to Refuse Statement" was read to each applicant.

NJM is revising its phone application procedure to provide written notice on all declinations including phone applications. Additionally, Staff has been advised to provide more specific reasons for refusing coverages in declination notices.

Recommendation # 2

The Department requires review and compliance with Act 205 Section 5(a) (9) to ensure compliance with nonrenewal notice requirements.

NJM's Response

One violation noted was acknowledged and NJM has rescinded the non-renewal in question. Another violation cited in the report referred to an estate situation in which telephone conversations were in progress that mitigated the need for a notice although the technical violation is acknowledged. The last violation cited in this area was caused by inadvertent error in that the wrong form of nonrenewal notice was sent by an underwriter. NJM personnel have been reminded to comply with this regulation.

Recommendation #3

The Department requests review of Act 86, Section 1 to prevent further violations concerning notification of Workers' Compensation premium increases.

NJM's Response

A complete and thorough review has been done regarding the four renewal policies listed for failure to notify the named insured thirty days in advance of an increase in renewal premium. NJM has implemented greater procedural safeguards to prevent future occurrences to these isolated instances.

Recommendation #4

Recommendation #5

NJM is required to prevent further rating violations and refund the overcharge.

NJM's Response

NJM has taken corrective action to prevent further rounding issues that caused a \$1.00 overcharge. The overcharge has been refunded.

Recommendation #6

NJM is required to review Title 31, Pa. Code, and Chapter 146 to ensure compliance in providing status letters.

NJM's Response

NJM acknowledges the limited errors in failing to provide status letters in a timely manner. The adjusters involved have been counseled and the entire PD Department has been advised to be more attentive to the 30 day status requirement.

Recommendation #7

NJM must review Title 31, Pa. Code, Section 69.52(b) with its claims staff to ensure that first party medical bills are paid within 30 days.

NJM's Response

NJM acknowledges that two bills were not paid within the thirty days periods. One violation cited was based on an accident that occurred in New Jersey where medical treatment was rendered in New Jersey. Under these circumstances NJM believes that New Jersey payment rules should apply. Nevertheless, the adjuster who handled these claims has been counseled to comply with the thirty day requirement. Payments paid after 30 days have received the appropriate interest as required in Title 75, Pa. C.S. section 1716.

Recommendation #8

NJM must comply with Title 75, Pa. C.S. section 1161(a) & (b) by ensuring Pennsylvania salvage certificates are obtained and retained in the file.

NJM's Response

NJM acknowledges this finding however NJM did get a salvage title when required. Our practice to get salvage title has been to file title from Pennsylvania with the New Jersey Motor Vehicles Commission (NJ MVC). It was our assumption that NJ MVC would inform the Pennsylvania Motor Vehicle Department (PADMV) that salvage title had been issued in New Jersey. Title 75 Pa.C.S. §1161(d) provides that the presentation of an out-of-state salvage title is sufficient.

NJM's salvage Department has changed procedures to ensure all Pennsylvania total loss claims get a Pennsylvania Certificate of Salvage.

Recommendation #9

NJM is required to ensure that all applications and claim forms contain the appropriate fraud warning notice.

NJM Response

NJM acknowledges that the wrong form of fraud warning was contained in the cited forms. All forms are being revised so that the fraud warnings comply with the required language.

Recommendation # 10

The Company must ensure all producers are properly licensed, prior to accepting any business from any producer.

NJM Response's

40 P.S. section 310.41(a) prohibits an insurance entity from accepting applications that were sold, solicited or negotiated by any person acting without an insurance producer license, but expressly excludes from the prohibition insurers that accept applications directly from consumers.

NJM is a direct writer and therefore does not employ licensed producers to act as agents in order to produce business in the Commonwealth of Pennsylvania. NJM does business directly with consumers, and respectfully submits that the statute on its face does not require licensure of Company employees.

Moreover, NJM is a group writer which means only New Jersey State employees and employees of a company that is a member of the New Jersey Business and Industry Association are eligible to apply. NJM does not advertise or market in the State of Pennsylvania. Most of the business that the Company writes in the Commonwealth is done as an accommodation to the NJM's New Jersey policyholders. Insureds that move to Pennsylvania from New Jersey ask to have their policies continue with NJM. No person issues or binds coverage on behalf of NJM. NJM, as a licensed entity, accepts applications directly from consumers. No commissions or production bonuses of any kind are paid to NJM employees that process policies.

The violations cited in the report list NJM salaried employees who were found to be "writing policies" without a license. NJM submits that even if the statute does require employee licensure under certain circumstances, it does not require licensure for all the activity cited. Most of the activity cited by examiners is administrative activity that is completed by data processing functions and is not the type of activity that requires an insurance producer's license. NJM will nevertheless implement a new procedure so that only Pennsylvania licensed producers will process new Pennsylvania business applications when coverage questions could arise.

Recommendation 11

NJM is required to revise its homeowner underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not require supporting coverage, as noted in the Report.

NJM's Response

The underwriting rule cited as a violation has as its primary purpose to protect consumers from paying more for homeowner's coverage than they should when insuring a secondary home and for seamless loss settlement integration. Insuring a primary and secondary home with different carriers may result in a consumer paying twice for liability coverage. Personal liability coverage emanates from the primary residence and is extended to any secondary location. Insuring the primary residence without the secondary means the Company's total liability exposure would be unknown and/or outside its control. Insuring the secondary without insuring the primary would allow the Company to charge the consumer additional premium for the secondary liability

coverage that is normally extended from the primary and, therefore, less expensive. This underwriting rule should not be cited as a violation of 40P.S. §1171.5(a) (4) because its design is to protect consumers and, therefore, does not result in an "unreasonable restraint"...in the business of insurance. Moreover, the underwriting rule states "may" which means we use it selectively for the benefit of consumers. The Homeowner underwriting guidelines were previously filed with the Market Conduct Division without any comment.

NJM is revising its underwriting rule to eliminate the reference to other dwelling coverages.

Recommendation #12- See Recommendation #1

Recommendation #13

NJM must revise its automobile underwriting guidelines to ensure that minimum requirements of financial responsibility and medical benefits are available for purchase

NJM's Response

NJM does provide minimum benefits as required by law and provided the examiners with examples of printed consumer communications and in-force policies demonstrating compliance. The company will, however, amend its underwriting rule language to conform to actual practice.

Recommendation # 14

NJM must provide notice of available benefits is given to insured at the time of application.

NJM's Response

This Pennsylvania Selection Form (or CSF) was designed to be in compliance with Title 75, Pa. C.S. section 1791. This form is filed with the Pennsylvania Department. The Company is aware of the requirement to provide a notice of available benefits and limits to a new applicant. However, the Company respectfully submits that it fulfills this requirement by providing all new applicants with a Pennsylvania (Coverage) Selection Form.

A side-by-side comparison of the required language for the Important Notice and the Company's CSF will show, excluding extraneous language related to agency and/or company operations, the Company's form replicates 95% of the required language. Arguably, all that is missing is the heading "Important Notice" and the preamble. To use both the Important Notice and the CSF seems redundant. Thus NJM opted to use the more utilitarian Coverage Selection Form which provides not only a listing of the available coverages as required by the Important Notice, but also a convenient place for the consumer to make the appropriate coverage choices all on the same form where not otherwise required by a specific colored form.

In evaluating the foregoing, the Department should take into consideration that NJM is a direct writer whose Pennsylvania writings essentially represent an accommodation for existing NJM New Jersey policyholders who relocate in Pennsylvania, and desire to continue coverage with NJM. As a result better than half of the Pennsylvania new business transactions take place over the phone. These policyholders are familiar with a CSF. In such cases, our CSF serves the multiple purposes of providing a written notice of the availability of coverages, an application for insurance and a coverage selection form, where permitted.

NJM has amended its notice so that it is consistent with the exact statutory language. Procedures are in place to ensure that the notice is provided at the time of the application.

Recommendation # 15

NJM is required to ensure that an itemized invoice listing minimum coverages is provided at the time of application.

NJM's Response

Minimum motor vehicle insurance coverage levels are offered on the mail application/Coverage Selection Form. From a practical standpoint, providing an itemized invoice listing minimum motor vehicle coverage levels (and attendant minimum premiums) with a new business application sent through the mail does not make sense since the application has yet to be completed by the applicant and returned to the Company for rating. In essence no premiums minimum or otherwise have been developed at this stage.

Perhaps overlooked in the examination, of the 1,216 new business policies written during the experience review period, 308 policies received a written quotation from the Company prior to binding. A minimum motor vehicle insurance coverage levels invoice *is* part of the Company's new business quote package. A sample of the quote mailing forms was provided to the examiners along with the new business listing used by the examiners during the review.

The remaining 908 new business policies represent telephone transactions (orders) where an internal application was used. Thus, unlike an agency operation, no logical opportunity at either the application or quote stage presented itself for a "printed invoice".

NJM is implementing new procedures to deliver a written invoice prior to issuance of the policy.

Recommendation 16

NJM is required to ensure that a notice of tort options is provided at the time of application submission and renewals.

NJM Response

NJM as a direct writer utilizes customer service representatives in call centers. Policy applications may be taken over the phone or sent through the mail with a returned application. A modified Tort Option Notice adapted for our direct writing business model was sent with all mail applications and with required forms when an application was taken over the phone. A second notice of Tort option form containing the developed premiums for two choices was sent with all mail quotes and policies.

NJM has revised its procedures to so that the Tort Option Notice complies with the standards and use required by the Pennsylvania Insurance Department.

Recommendation 17

NJM is required to ensure that an election of tort options conforms to the standardized form adopted by the Commissioner.

NJM Response

While the Company Notice of Tort Option election form may not track the statutory language verbatim, we believe that the notice meets both the spirit and intent of the law. Consider that to simplify the consumer's reading of the tort choices the NJM Tort Notice merely re-locates the statutory language related paragraphs by tort option together (A. & D. for limited tort; B. & E. for full tort). Also, extraneous wording such as... "you may contact your insurance agent, broker or company to discuss the cost of these coverages" is un-necessary and so was removed.

NJM has revised the Notice to Named Insureds tort election form in order to comply with the "one and done" nature of form and the exact language from the statute.

NJM appreciates the opportunity to respond to the Market Conduct report. Please contact the undersigned if you have any questions about these responses.

Very truly yours,

A handwritten signature in cursive script that reads "Robert H. Zetlstrom". The signature is written in dark ink and is centered on the page.

RHZ/ama