

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

NGM INSURANCE COMPANY

Jacksonville, Florida

**AS OF
February 21, 2007**

COMMONWEALTH OF PENNSYLVANIA



*Dept.
Web Site*

**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 5, 2007

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

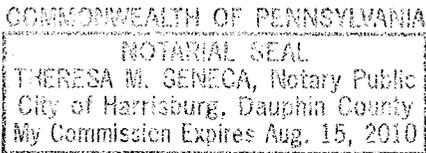
M. Katherine Sutton, AIC, Examiner-In-Charge

Sworn to and Subscribed Before me

This *30* Day of *January*, 2007

Theresa M. Seneca

Notary Public



NGM INSURANCE COMPANY

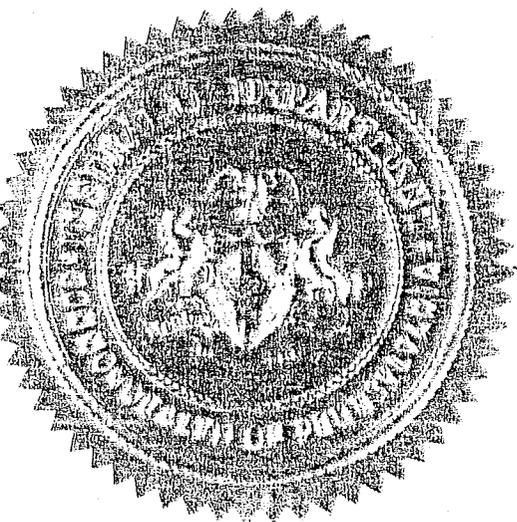
TABLE OF CONTENTS

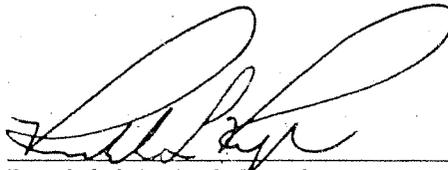
Order		
I.	Introduction.....	1
II.	Scope of Examination.....	3
III.	Company History/Licensing.....	5
IV.	Underwriting Practices and Procedures.....	6
V.	Underwriting	
	A. Private Passenger Automobile.....	8
	B. Assigned Risk.....	11
	C. Property.....	14
	D. Commercial Property.....	16
	E. Commercial Automobile.....	21
	F. Workers' Compensation.....	25
VI.	Rating	
	A. Private Passenger Automobile.....	30
	B. Assigned Risk.....	38
	C. Homeowners.....	41
	D. Tenant Homeowners.....	43
	E. Dwelling Fire.....	45
VII.	Claims.....	47
VIII.	Forms.....	55
IX.	Advertising.....	57
X.	Consumer Complaints.....	58
XI.	Licensing.....	60
XII.	Recommendations.....	63
XIII.	Company Response.....	67

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20th day of February, 2007, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, 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.





Randolph L. Rohrbaugh
Acting Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
NGM INSURANCE COMPANY : Sections 641-A and 671-A of Act 147
4601 Touchton Road East : of 2002 (40 P.S. §§ 310.41 and
Jacksonville, FL 32245 : 310.71)
: :
: Section 903(a) of the Insurance
: Department Act, Act of May 17,
: 1921, P.L. 789, No. 285 (40 P.S.
: § 323.3)
: :
: Act 1990-6, Sections 1705(a)(1) and
: (4), 1716, 1734, 1738(c)(d)(1)(2),
: 1791.1(a) and (b), 1792(b)(1), 1793(b),
: and 1799.3(d) (Title 75, Pa.C.S.
: §§ 1705, 1716, 1734, 1738, 1791,
: 1792, 1793 and 1799)
: :
: Sections 5(a)(4) and 5(a)(9) of the
: Unfair Insurance Practices Act, Act of
: July 22, 1974, P.L. 589, No. 205 (40
: P.S. §§ 1171.5)
: :
: Sections 2003(a)(12), 2004, 2006,
: 2006(2) and 2006(3) of Act 68 of
: 1998 (40 P.S. §§991.2003, 991.2004
: and 991.2006)
: :
: Sections 1, 2, 3(a)(1), 3(a)(2), 3(a)(5),
: 3(a)(6), 4(b) and 7(c) of the Act of
: July 3, 1986, P.L. 396, No. 86 (40
: P.S. §§ 3401, 3402, 3403, 3404 and
: 3407)
: :
: Pennsylvania Assigned Risk Plan,
: Sections 12A.3, 14 and 16A.4
: :
: Title 31, Pennsylvania Code, Sections
: 62.3(e)(4), 62.3(e)(7), 69.52(b),
: 113.88, 146.6 and 146.7(a)(1)

:
:
: Title 18, Pennsylvania Consolidated
: Statutes, Section 4117(k)(1)
:
:
: Title 75, Pennsylvania Consolidated
: Statutes, Section 1161(a) and (b)
:
:
:
Respondent. : Docket No. MC07-03-002

CONSENT ORDER

AND NOW, this 5th day of April, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is NGM Insurance Company, and maintains its address at 4601 Touchton Road East, Jacksonville, Florida 32245.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 through December 31, 2005.
- (c) On February 21, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on March 16, 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 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

- (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

- (iv) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, 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. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (v) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an

unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

- (vi) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (vii) Section 1738(c)(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;
- (viii) 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;

- (ix) 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;
- (x) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792(b)(1), which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;
- (xi) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each

prospective insured at the time application is made for motor vehicle insurance coverage;

- (xii) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;
- (xiii) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as 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;
- (xiv) 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;

- (xv) Section 2003(a)(12) 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 illness or permanent or temporary disability where the insured can medically document that such illness or disability will not impair his ability to operate a motor vehicle. Failure to provide such documentation shall be proper reason for the insurer to amend the policy of the named insured to exclude such disabled insured from coverage under the policy while operating a motor vehicle after the effective date of such policy amendment, but shall not be proper reason to cancel or refuse to write or renew the policy. Nothing in the provision shall be construed to effect such

excluded individual's eligibility for coverage under the named insured's policy for any injury sustained while not operating a motor vehicle. Illness or permanent or temporary disability on the part of any insured shall not be proper reason for canceling the policy of the named insured;

- (xvi) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which states that an insurer may not cancel a policy except for specified reasons;
- (xvii) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;
- (xviii) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires a cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (2) state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for the reasons set forth in Section 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;

- (xix) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;

- (xx) 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;

- (xxi) Section 2 of Act 86 (40 P.S. § 3402), which states canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section;

- (xxii) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds;

- (xxiii) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination;

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

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

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

(xxvii) Section 7(c) of Act 86 (40 P.S. § 3407), which states this act does not apply to commercial property and casualty policies in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

- (xxviii) Section 12A.3 of the Pennsylvania Assigned Risk Plan Rules, which require the assigned company to mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced;
- (xxix) Section 14 of the Pennsylvania Assigned Risk Plan Rules, which state a company which has issued a policy or binder under this Plan shall have the right to cancel the insurance by giving notice as required in the policy or binder if the insured fails to respond to at least two written requests for pertinent underwriting information which would have a direct bearing on the rating of the policy;
- (xxx) Section 16A.4 of the Pennsylvania Assigned Risk Plan Rules, which state at least 60 calendar days prior to the expiration date of the final renewal, the company shall notify the insured that the period of assignment under the plan will terminate on said expiration date. A copy of such notice shall be sent to the producer of record;
- (xxxi) Title 31, Pennsylvania Code, Section 62.3(e)(4), which requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value;

- (xxxii) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within five working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within five days after its completion;
- (xxxiii) 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;
- (xxxiv) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as "losses" or "underwriting reasons" are not sufficiently specific reasons for cancellation.
- (xxxv) 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;

(xxxvi) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;

(xxxvii) 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”; and

(xxxviii) Section 1161(a) and (b) of Title 75, Pa. C.S., which states an insurer 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.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 5(a)(4) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(d) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (e) Respondent's violations of Sections 2003, 2004 and 2006 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).
- (f) Respondent's violations of Sections 1, 2, 3, 4 and 7 of Act 86 (40 P.S. §§ 3401, 3401, 3402, 3403, 3404 and 3407), 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.
- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent must review its Assigned Risk book of business for 2005 and 2006 and provide take-out offers to every policyholder eligible for take-out. Copies of all take-out offers made as a result of this review must be provided to the Department within 60 days of this Order.
- (c) 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.
- (d) Respondent shall comply with all recommendations contained in the attached Report.
- (e) Respondent shall pay Thirty-Five Thousand Dollars (\$35,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (f) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, 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 Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or it 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 there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

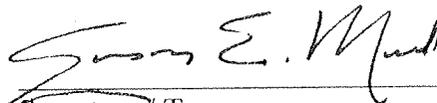
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

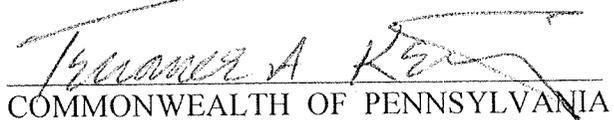
BY: NGM INSURANCE COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA

By: Terrance A. Keating
Deputy Chief Counsel

I. INTRODUCTION

The market conduct examination was conducted at NGM Insurance Company's offices located in Syracuse, New York and Auburn, Massachusetts, from August 28, 2006, through October 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%.

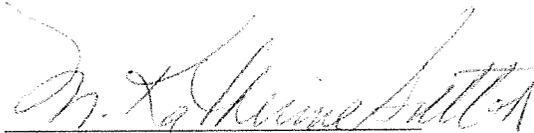
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

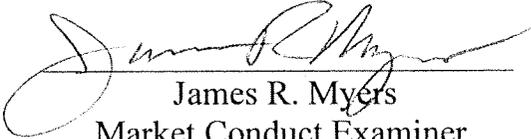
The undersigned participated in this examination and in preparation of this Report.



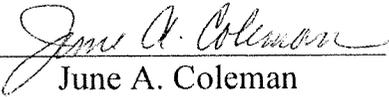
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



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 NGM Insurance Company, hereinafter referred to as “Company,” at their offices located in Syracuse, New York and Auburn, Massachusetts. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2005, through December 31, 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 and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. Assigned Risk Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellations
 - Rating – Proper use of all classification and rating plans and procedures.

3. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

4. Commercial Property

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

5. Commercial Automobile

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

6. Workers' Compensation

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

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

III. COMPANY HISTORY AND LICENSING

NGM Insurance Company was organized in March 1923, under the laws of New Hampshire as the National Grange Mutual Liability Company and began business in July 1923, sponsored by the executive officers of the National Grange of the Patrons of Husbandry. All outstanding policy liability of a former companion carrier, National Grange Fire Insurance Group (formed in 1935), was reinsured into the Company on December 31, 1958. The corporate title was revised to National Grange Mutual Insurance Company on January 1, 1959. The National Grange Mutual Insurance Company was renamed as NGM Insurance Company in August 2005.

LICENSING

NGM Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except Alaska, California, Hawaii, Louisiana, Minnesota and Mississippi. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$36,978,226. Premium volume related to the areas of this review were: Fire \$196,791; Homeowner's Multiple Peril \$5,328,580; Commercial Multiple Peril (non-liability portion) \$3,282,871; Commercial Multiple Peril (liability portion) \$5,519,607; Inland Marine \$98,077; Workers' Compensation \$7,052,489; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$615,434; Other Private Passenger Auto Liability \$3,062,371 and Private Passenger Auto Physical Damage \$2,908,928; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$245,539; Other Commercial Automobile Liability \$5,535,198 and Commercial Automobile Physical Damage \$1,760,155.

IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company required supporting business in 2 different instances in the following underwriting guidelines: Dwelling Fire and Landlords-New Business and Renewal and Homeowners-New Business and Renewal.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through

material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company may not nonrenew a policy based on losses. The Company's Homeowner and Coastal guidelines referenced losses in 2 separate instances.

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 9 private passenger automobile files cancelled within the first 60 days of new business was selected for review. All 9 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 431 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 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 67 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 67 files were received and reviewed. The 7 violations noted were based on 6 files, resulting in an error ratio of 9%.

The following findings were made:

2 Violations Act 68, Section 2003(a)(12) [40 P.S. §991.2003(a)(12)]

An insurer may not cancel or refuse to write or renew a policy of automobile insurance for illness or permanent or temporary disability where the insured can medically document that such illness or disability will not impair his ability to operate a motor vehicle. Failure to provide such documentation shall be proper reason for the insurer to amend the policy of the

named insured to exclude such disabled insured from coverage under the policy while operating a motor vehicle after the effective date of such policy amendment, but shall not be proper reason to cancel or refuse to write or renew the policy. Nothing in the provision shall be construed to effect such excluded individual's eligibility for coverage under the named insured's policy for any injury sustained while not operating a motor vehicle. Illness or permanent or temporary disability on the part of any insured shall not be proper reason for canceling the policy of the named insured. The Company nonrenewed the 2 files noted because the insured did not provide the Company with a physician's report.

1 Violation Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted was cancelled for other than permitted reasons.

1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which

cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company failed to provide 60 days notice of nonrenewal.

2 Violations Act 68, Section 2006(3) [40 P.S. §991.2006(3)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for nonrenewal for the 2 files noted.

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

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

B. Private Passenger Automobile – Assigned Risk

NGM Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

1. 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 Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 an 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

From the universe of 76 private passenger automobile assigned risk policies cancelled during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation resulted in an error ratio of 4%.

The following finding was made:

1 Violation PA Assigned Risk Plan, Section 14. Cancellations

A Company which has issued a policy or binder under this Plan shall have the right to cancel the insurance by giving notice as required in the policy or binder if the insured fails to respond to at least two written requests for pertinent underwriting information which would have a direct bearing on the rating of the policy. The Company cancelled the policy when the current address was only requested one time.

2. Nonrenewals

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

The purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743, 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

The universe of 62 private passenger assigned risk policies nonrenewed during the experience period was selected for review. All 62 files were received and reviewed. The 8 violations noted were based on 7 files, resulting in an error ratio of 11%.

The following findings were made:

7 Violations Pennsylvania Assigned Risk Plan, Personal Automobile Part, Section 12.A.3

The assigned company shall mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced. The take-out notice shall contain a provision premium quotation for the voluntary market coverage being offered. If the assigned company complies with this section and the insured accepts take-out, the Plan shall give credit to the assigned company, at the expiration date of the Plan policy, for writing a voluntary market policy for a risk previously insured by the Plan. The Company failed to provide take-out notices for the 7 files noted.

1 Violation Pennsylvania Assigned Risk Plan, Personal Automobile Part, Section 16.A.4.

At least 60 calendar days prior to the expiration date of the final renewal, the company shall notify the insured that the period of assignment under the Plan will terminate on said expiration date. A copy of such notice shall be sent to the producer of record. The company failed to provide the

insured with the required notice at least 60 days prior to expiration.

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 6 personal property policies which were cancelled in the first 60 days of new business was selected for review. All 6 policies were received and reviewed. The property policies consisted of homeowners and tenant homeowners. 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 743 property policies which were cancelled midterm during the experience period, 125 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 125 files were received and reviewed. The violation noted resulted in an error ratio of .8%.

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 file noted was canceled due to an increase in hazard which was not supported by the policy file contents.

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 44 property policies which were nonrenewed during the experience period was selected for review. All 44 files were received and reviewed. The policies consisted of homeowners and tenant homeowners. 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 17 commercial property policies which were cancelled within the first 60 days was selected for review. All 17 files were received and reviewed. The policies consisted of tenant occupied dwelling fire and commercial package. The 2 violations noted were based on 2 files, resulting in an error ratio of 12%.

The following findings were made:

2 Violations Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The Company did not provide at least 30 days notice of cancellation for the 2 files noted.

2. Midterm Cancellations

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

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

From the universe of 675 commercial property policies which were cancelled during the experience period, 132 files were selected for review. All 132 files were received and reviewed. The policies consisted of commercial package, commercial inland marine, commercial fire and tenant occupied dwelling fire. The 4 violations noted were based on 4 files, resulting in an error ratio of 3%.

The following findings were made:

2 Violations Act 86, Section 3(a)(1) [40 P.S. §3401]

The midterm cancellation notice shall be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any documentation in the 2 files noted to indicate a notice of cancellation was mailed to the insured.

2 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination.

Concern: The Department is concerned with the method being used to return premiums. The Company determined the amount of return premium on a canceled policy and applied it to other unpaid accounts the policyholder may have had outstanding. If any unearned premium remained after that process, it was returned to the insured. Return premium is to be applied to the particular contract that is being canceled and not applied to any other unpaid premium balance owed by the insured.

3. Nonrenewals

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

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

From the universe of 241 commercial property policies identified as nonrenewals during the experience period, 60 files were selected for review. Of the 60 files requested, 59 were received and reviewed. The policies consisted of tenant occupied dwelling fire, commercial fire and commercial package. The 8 violations noted were based on 8 files, resulting in an error ratio of 13%.

The following findings were made:

1 Violation Act 86, Section 3(a)(1) [40 P.S. §3401]

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

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal for the 3 files noted.

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

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific reason for nonrenewal for the 3 files noted.

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.

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 6,574 commercial property policies which were renewed during the experience period, 205 files were selected for review. All 205 files were received and reviewed. The commercial policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and commercial package. The 10 violations noted were based on 10 files, resulting in an error ratio of 5%.

The following findings were made:

10 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 10 files noted.

E. Commercial Automobile

1. 60-Day Cancellations

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

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

The universe of 5 commercial automobile policies which were cancelled within the first 60 days was selected for review. All 5 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 252 commercial automobile policies identified as midterm cancellation, 50 files were selected for review. All 50 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

1 Violation Act 86, Section 2 [40 P.S. §3402]

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is

prohibited for any reason other than those enumerated under this section. The file noted was cancelled for other than permitted reasons.

3. Nonrenewals

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

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

From the universe of 82 commercial automobile policies identified as nonrenewals by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

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

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and

education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific reason for nonrenewal in the 2 files 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 2,376 commercial automobile policies which were renewed during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 8%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 8 files noted.

F. Workers' Compensation

1. Midterm Cancellations

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

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

From the universe of 120 workers' compensation policies identified as midterm cancellations, 60 files were selected for review. All 60 files were received and reviewed. One file was identified as a nonrenewal. The 3 violations noted were based on 1 file, resulting in an error ratio of 2%.

The following findings were made:

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

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

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

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific reason for nonrenewal.

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

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

2. Nonrenewals

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

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

The universe of 72 workers’ compensation policies nonrenewed during the experience period was selected for review. Of the 72 files requested, 70 files were received and reviewed. The 25 violations noted were based on 21 files, resulting in an error ratio of 29%.

The following findings were made:

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

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

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 4 files noted contained a nonrenewal notice which required supporting business.

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

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons

for nonrenewal. The Company did not provide a specific reason for the 17 files noted.

2 Violations 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 2 files noted were not produced by the Company.

3. Renewals

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

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

From the universe of 1,409 workers' compensation policies which were renewed during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 15 violations noted were based on 15 files, resulting in an error ratio of 30%.

The following findings were made:

15 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 15 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 1,499 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 4,502 violations noted were based on the universe of 1,499, resulting in an error ratio of 100%.

The following findings were made:

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

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

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

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

1 Violation Title 75, Pa. C.S. §1792(b)(1)

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the

amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The Company did not provide the signed statement from the insured requesting a deductible less than \$500.

2 Violations Title 75, Pa. C.S. §1734

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

1,499 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 failed to provide the required notice at the time of application.

1,499 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.

1,499 Violations Title 75, Pa. C.S. §1793(b)

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

Private Passenger Automobile – New Business With Surcharges

The universe of 33 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 33 files were received and reviewed. The 141 violations noted were based on the universe of 33, resulting in an error ratio of 100%.

The following findings were made:

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 2 violations noted were the result of policies issued with limited tort and no evidence of a signed limited tort selection form.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 6 files noted.

1 Violation Title 75, Pa. C.S. §1792(b)(1)

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The Company did not provide the signed statement from the insured requesting a deductible less than \$500.

33 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 failed to provide the required notice at the time of application.

33 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.

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

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the

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

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

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

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 3,820 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 327 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The 327 violations noted were based on 327 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

Private Passenger Automobile – Renewal In a Higher Plan

The universe of 2 private passenger automobile policies identified as renewals in a higher plan was selected for review. The 2 files were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

NGM Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

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 primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean

From the universe of 125 assigned risk private passenger automobile new business policies written as clean during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – New Business – Other Than Clean

The universe of 37 assigned risk private passenger automobile new business policies written as other than clean during the experience period was selected for review. All 37 files were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – Renewals – Clean

From the universe of 55 assigned risk private passenger automobile renewal policies written as clean during the experience period, 25 files were

selected for review. All 25 files were received and reviewed. The 55 violations noted were based on the universe of 55 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

The universe of 10 assigned risk private passenger automobile renewal policies written as other than clean during the experience period was selected for review. All 10 files were received and reviewed. The 10 violations noted were based on the universe of 10 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

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 545 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Homeowner Rating – New Business With Surcharges

The universe of 5 homeowner policies written as new business with surcharges during the experience period was selected for review. All 5 files were received and reviewed. No violations were noted.

The following concern was made:

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

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 8,064 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

From the universe of 621 homeowner policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

The following concern was made:

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

D. Tenant 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.

Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 133 tenant homeowner policies written as new business during the experience period, 25 files were selected for review. All 25 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.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 524 tenant homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

E. 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.

The universe of 2 dwelling fire policies written as new business during the experience period was selected for review. Both 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.

The universe of 17 dwelling fire policies renewed during the experience period was selected for review. All 17 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. Property 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 282 private passenger automobile property damage claims reported during the experience period, 78 files were selected for review. All 78 files were received and reviewed. Of the 78 files, 28 claims were identified as assigned risk. The violation noted resulted in an error ratio of 1%.

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

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company did not accept the claim within 15 working days after proof of loss was received.

D. Automobile Total Loss Claims

From the universe of 98 private passenger automobile total loss claims reported during the experience period, 52 files were selected for review. All 52 files were received and reviewed. Of the 52 files, 2 were identified as assigned risk. The 10 violations noted were based on 10 files, resulting in an error ratio of 19%.

The following findings were made:

5 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

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 a timely status letter for the claim noted.

B. Automobile Comprehensive Claims

From the universe of 343 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 296 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 2%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.6

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

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 5 claim files noted did not reflect a salvage title was obtained.

2 Violations Title 31, Pa. Code, Section 146.6

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

1 Violation Title 31, Pa. Code, Section 62.3(e)(4)

Requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value. The file noted did not have sales tax included in the owner retained settlement.

2 Violations Title 31, Pa. Code, Section 62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy of within 5 days after its completion. The Company did not provide a copy of the total loss evaluation to the insured within 5 working days after the appraisal was completed.

E. Automobile First Party Medical Claims

From the universe of 65 private passenger automobile first party medical claims reported during the experience period, 36 files were selected for review. All 36 files were received and reviewed. Of the 36 files, 11 were identified as assigned risk. The 4 violations noted were based on 3 files, resulting in an error ratio of 8%.

The following findings were made:

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company did not provide any evidence that a written denial was sent to the insured and the provider in a timely manner.

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

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the claim noted within 30 days.

1 Violation Title 75, Pa. C.S. §1716

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

expended. The Company did not pay interest on the claim that was not paid within 30 days.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 16 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 16 files were received and reviewed. Of the 16 files, 2 were identified as assigned risk. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. No violations were noted.

G. Property Claims

From the universe of 620 property claims reported during the experience period, 89 files were selected for review. All 89 files were received and reviewed. The claim files consisted of homeowner, tenant homeowner and dwelling fire. The 4 violations noted were based on 3 files, resulting in an error ratio of 3%.

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.

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The claim file was closed but did not reflect a notice of acceptance or denial was sent to the claimant.

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:

Homeowner Rating – New Business Without Surcharges

16 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 could not verify on 16 files that the applications had the required fraud statement.

Homeowner Rating – New Business With Surcharges

4 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 could not verify on 4 files that the applications had the required fraud statement.

Tenant Homeowner Rating – New Business Without Surcharges

3 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 could not verify on 3 files that the applications had the required fraud statement.

IX. ADVERTISING

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

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 29 brochures directed toward policyholders, 16 brochures and 2 newsletters to producers. The Company does not have an independent internet site. 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 18 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 18 complaints were requested, received and reviewed.

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

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal for the 3 files noted.

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

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

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

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

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 3 files noted contained a nonrenewal notice which did not provide the required information.

The following synopsis reflects the nature of the 18 complaints that were reviewed.

• 8	Cancellation/Nonrenewal	45%
• 6	Claims	33%
• 2	Premium	11%
• 2	Service	11%
<hr/>		<hr/>
18		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:

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

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

insurer's holding company system or group the appointment is made.

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

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

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

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

Penn-Weber Associates, Inc.
Tri County Ins. Group, LLC
A J Lupas Ins Agency
AAI Insurance
Allston Insurance Agency
Fayette Ins. Assoc., Inc.
Fedele Ins. Serv.
First Niagara Risk Management, Inc.
Frank H. Reis, Inc.
Hamlin Ins. Assoc., Inc.
Harry A. Mullins Ins. Agency
Horenbert Insurance Services, Inc.
Chesapeake Bay Insurance Agency

Insurance Brokers of Maryland
Mayville Tremaine, Inc.
Michele G. Deseve
Olvany Ins. Agency
Perry & Carroll, Inc.
Purdy Ins. Agency, Inc.
W. R. Sims Agency, Inc.
W. S. Hoffman Ins. Agency
Wagner-Huffnagle & Assoc.
Walton & Suder Ins. Agency
Watt Ins. Agency, Inc.

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

[40 P.S. §310.41a]

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

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

Dodge Ins. Inc.
Rhodes Ins. Agency
Drahcir Insurance Store
The Huntington Agency

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, 2004 and 2006 [40 P.S. §§991.2003, 991.2004 and 991.2006], so that the violations noted in the Report do not occur in the future.
2. The Company must review the Pennsylvania Assigned Risk Plan Manual and take appropriate measures to ensure the underwriting violations listed in the Report do not occur in the future.
3. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.
4. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
5. 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.

6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2, 3, 4 and 7 [40 P.S. §§3402, 3403, 3404 and 3407], so that the violations noted in the Report do not occur in the future.
7. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
8. 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.
9. 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, as noted in the Report, and does not occur in the future.
10. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and every renewal thereafter, as noted in the Report, does not occur in the future.
11. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.

12. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
13. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
14. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage. This is to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(1) do not occur in the future.
15. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.
16. 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 acceptance and denial of claims do not occur in the future.

17. 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.

18. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor vehicle. The Company must review all claims where sales tax was not included in the replacement value of a motor vehicle. The sales tax 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.

19. The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.

20. The Company must ensure that all applications contain the required fraud warning notice.

21. 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.

XIII. COMPANY RESPONSE



THE MAIN STREET AMERICA GROUP

NGM Insurance Company • Old Dominion Insurance Company
Main Street America Assurance Company • MSA Insurance Company
Information Systems and Services Corporation



March 15, 2007

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

Re: Examination Warrant Number: 05-M17-089- National Grange Mutual Ins. Co.

Dear Mr. Derk:

Please accept this document as the official response to the Report of Examination of NGM Insurance Company covering the period January 1, 2005, through December 31, 2005. Our response will specifically address each of the twenty-one recommendations made by the Department. All reference to summary sections identified by Roman numerals refer to the Exit Summary Report presented by the Department during our January 30, 2007 exit conference.

We are confident that staff meetings to review the alleged violations, noted in the report, and, where indicated, the implementation of improved systems, will eliminate their repetition, but this will be validated by ongoing self audits. We are also confident that strengthened communications between our field representatives and the customers that represent NGM Insurance Company will assure that documents maintained in the agent's office will be available for review when requested. This will be validated through the agency audit program.

We are concerned with the number of alleged violations cited in Summary XX Automobile Rating New Business Without Surcharges, XXI Automobile Rating New Business With Surcharges, and XXIII Automobile Rating Renewals With Surcharges. In particular we are concerned with those sections dealing with providing the insured with an itemized invoice, the availability of different tort options, provision of the surcharge disclosure plan at the time of application, as well as specifying the date of accidents and violations that are being surcharged. Although we addressed these sections previously in our response to the initial summaries, we would like to reiterate that we in good faith believed that we were compliant in producing the information within the new business policy package, as well as in the renewal policy package. We are working to ensure

Home Office

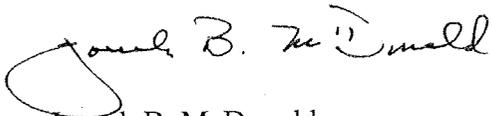
4601 Touchton Road East, Suite 3400, Jacksonville, FL 32246-4486 • (800) 207-0446

inclusion of this information in our personal lines quick quote program as well as in our comparative rating programs. We are also on track to identify the date of the surcharged accident or violation by March 21, 2007 so the insured is aware of the particular incident causing the surcharge.

We trust this explanation and immediate response to remedy the situation will be considered by the Department as indicative of our dedication to remedying the issues raised in your report.

Finally, we would like to thank you, Ms. Arnold, Ms. Sutton, and the other examiners for your help, understanding, and professionalism during the course of the exam.

Sincerely,

A handwritten signature in cursive script that reads "Joseph B. McDonald". The signature is written in dark ink and is positioned above the printed name.

Joseph B. McDonald
Director, Personal Lines Product Management

CC: W. McKenna , V.P. Legal & Asst Secretary
L. S. Brown, Compliance Consultant & Counsel

Enclosures

XIII. COMPANY RESPONSE

Recommendation # 1.

The recommendation was specific to Summary IV Automobile Non-renewals. A copy of 40 P.S. §991.2003(a)(12) was provided to our Regional Underwriting Manager with the directive to provide a copy of it to all persons that are involved in the declination, cancellation, or non-renewal process, and to promptly meet with his staff to review the document in detail and to include this area in future self audits. A meeting with all personal lines underwriters and the Pennsylvania Territory Manager has been scheduled for March 26, 2007. This is a mandatory meeting with 100% attendance requested. All issues related to Recommendation # 1 will be covered and the cancellations, declinations and non-renewals will be included in quarterly self audits conducted by the region.

Recommendation # 2.

The recommendation was specific to Summary VII Assigned Risk Automobile Non-renewals, VIII Assigned Risk Automobile Mid-term Cancellations, XXVII Assigned Risk Automobile Rating Renewals Clean, and XXVIII Assigned Risk Automobile Rating Renewals Other Than Clean. Our Lead Personal Lines Product Analyst has been assigned to review the Pennsylvania Assigned Risk Plan Manual to ensure that the alleged underwriting violations listed in the report do not occur in the future. The product analyst established work order P1728 on March 8, 2007 to address issues directly relating to attaching the surcharge disclosure notice on renewals, as well as providing take-out notices 45 days prior to the policy expiration.

Recommendation # 3.

The recommendation was specific to Summary XIV Commercial Property Non-renewals and XVIII Workers' Compensation Non-renewals. A copy of 40 P.S. §323.3 was provided to our Sr. Commercial Lines Underwriting Analyst with the directive to bring it to the attention of all persons responsible for maintaining company records. Consistent with that directive, our Sr. Commercial Lines Underwriting Analyst brought this recommendation to the attention of the Vice President of the Syracuse Region on February 28, 2007. Our Regional Underwriting Manager met with the Regional Records Supervisor on March 7, 2007 and reviewed 40 P.S. §323.3 with him. He also provided a copy of said Section to him as well for future reference. Furthermore, a new records management control system has been installed for all files housed in the Syracuse Region. This provides an improved tracking system which will allow greater control of where files are located while outside of the Records Department.

Recommendation # 4.

The recommendation was specific to Summary II Mid-term Cancellations, XLIV Complaints, and XLVII Underwriting Practices and Procedures. A copy of 40 P.S. §1171.5(a)(9) was provided to our Regional Underwriting Manager with the directive to provide a copy of that document to all persons that are involved in the declination, cancellation, or non-renewal process for both personal and commercial lines business, and to promptly meet with his staff to review the document in detail and to include this

area in future self audits. A meeting with all personal lines and commercial lines underwriters and the Pennsylvania Territory Manager has been scheduled for March 26, 2007. This is a mandatory meeting with 100% attendance requested. All issues related to Recommendation # 4 will be covered and the cancellations, declinations and non-renewals will be included in quarterly self audits conducted by the region.

A meeting was held on March 9, 2007 between the Director of Personal Lines Product Management and a Lead Personal Lines Product Analyst to review the existing guidelines and to identify those sections that needed to be changed based on Summary XLVII Underwriting Practices and Procedures. The guidelines were changed the week of March 12th.

Recommendation # 5.

The recommendation was specific to Summary IX Commercial Automobile Renewals, XIII Commercial Property Renewals, and XVII Workers' Compensation Renewals. A copy of 40 P.S. §3401 was provided to our Regional Underwriting Manager with the directive to provide a copy of that document to all persons involved in the processing of premium increases on commercial lines business, and to promptly meet with his staff to review the document in detail and to include this area in future self audits. A meeting with all commercial lines underwriters and the Pennsylvania Territory Manager has been scheduled for March 26, 2007. This is a mandatory meeting with 100% attendance requested. All issues related to Recommendation # 5 will be covered. A copy of 40 P.S. §3401 will also be given to, and this recommendation will be discussed with the processing supervisor. Compliance with the 30 day notice requirement will be included in quarterly self audits conducted by the region.

Recommendation # 6.

The recommendation was specific to Summary X Commercial Automobile Non-renewals, XI Commercial Automobile Mid-term Cancellations, XIV Commercial Property Non-renewals, XV Commercial Property Mid-term Cancellations, XVI Commercial Property 60 Day Cancellations, XVIII Workers' Compensation Non-renewals, XIX Workers' Compensation Mid-term Cancellations, and XLIV Complaints. A copy of 40 P.S. §3402, §3403, §3404, and §3407 was provided to our Regional Underwriting Manager with the directive to provide the documents to all persons involved in the declination, cancellation, or non-renewal process for commercial lines business, and to promptly meet with his staff to review the documents in detail and to include these areas in future self audits. A meeting with all commercial lines underwriters and the Pennsylvania Territory Manager has been scheduled for March 26, 2007. This is a mandatory meeting with 100% attendance requested. Cancellations, declinations and non-renewals are included in quarterly self audits conducted by the region and will continue to be included in the audits.

Recommendation # 7.

The recommendation was specific to Summary XVIII Workers' Compensation Non-renewals. A copy of 40 P.S. §1171.5(a)(4) was provided to our Regional Underwriting Manager with the directive to provide the document to all persons involved in the

declination, cancellation, or non-renewal process for commercial lines business, and to promptly meet with his staff to review the document with them. A meeting with all commercial lines underwriters and the Pennsylvania Territory Manager has been scheduled for March 26, 2007. This is a mandatory meeting with 100% attendance requested. Cancellations, declinations and non-renewals are included in quarterly self audits conducted by the region and will continue to be included in the audits.

Recommendations # 8

The recommendation was specific to Summary XX Automobile Rating New Business Without Surcharges, and XXI Automobile Rating New Business With Surcharges. On March 9, 2007 the Director of Personal Lines Product Management met with the Manager of Personal Lines Automation to review the requirement to provide an itemized invoice listing minimum coverages as outlined in Title 75, PA. C.S. §1791.1(a). The intent of the meeting was to determine how this process could be automated within the personal lines quick quote program utilized by our agency force as well as automating the program within several comparative rating programs. The Manager of PL Automation needs to research this project in more detail and will report back on the resources and programming required to complete the automation. A follow up meeting has been scheduled for March 27, 2007.

Recommendation # 9

The recommendation was specific to Summary XX Automobile Rating New Business Without Surcharges, and XXI Automobile Rating New Business With Surcharges. On March 9, 2007 the Director of Personal Lines Product Management met with the Manager of Personal Lines Automation to review the requirement to provide a notice of tort options at the time of application as outlined in Title 75, PA. C.S. §1791.1(b). The intent of the meeting was to determine how this process could be automated within the personal lines quick quote program utilized by our agency force as well as automating the program within several comparative rating programs. The Manager of PL Automation needs to research this project in more detail and will report back on the resources and programming required to complete the automation. A follow up meeting has been scheduled for March 27, 2007.

Recommendation # 10

The recommendation was specific to Summary XX Automobile Rating New Business Without Surcharges, and XXI Automobile Rating New Business With Surcharges. On March 9, 2007 the Director of Personal Lines Product Management met with the Manager of Personal Lines Automation to review the requirement to provide the insured with a surcharge disclosure plan notification at the time of application as outlined in Title 75, PA. C.S. §1793(b). The intent of the meeting was to determine how this process could be automated within the personal lines quick quote program utilized by our agency force as well as automating the program within several comparative rating programs. The Manager of PL Automation needs to research this project in more detail and will report back on the resources and programming required to complete the automation. A follow up meeting has been scheduled for March 27, 2007.

Recommendation # 11.

The recommendation was specific to Summary XX New Business Without Surcharges. A copy of Title 75, Pa C.S. §1734 was provided to our Director of Business Development with the directive to provide this document to our Pennsylvania Territory Manager so she can discuss this issue with our Pennsylvania agents. It was also requested that this becomes a part of our agency audit program. Our Regional Underwriting Manager will meet with our Territory Manager on March 26, 2007 to discuss this issue. Our Territory Manager will include this topic in agency visits. This will be included in future agency audits.

Recommendation # 12.

The recommendation was specific to Summary XXI Automobile Rating New Business With Surcharges. The Director of Personal Lines Product Management met with representatives of the IT Department on February 27, 2007 to provide the requirements of the change based on Title 75, Pa. C.S. §1799.3(d). A work order (P1689) was completed to outline the change with the target date for implementation being March 21, 2007.

Recommendation # 13.

The recommendation was specific to Summary XX Automobile Rating New Business Without Surcharges and XXI Automobile Rating New Business With surcharges. A copy of Title 75, Pa C.S. §1705(a)(1) & (4) was provided to our Director of Business Development with the directive to provide this document to our Pennsylvania Territory Manager so she can discuss this issue with our Pennsylvania agents. It was also requested that this becomes a part of our agency audit program. Our Regional Underwriting Manager will meet with our Territory Manager on March 26, 2007 to discuss this issue. Our Territory Manager will include this topic in agency visits. This will be included in future agency audits.

Recommendation # 14.

The recommendation is specific to Summary XX Automobile Rating New Business Without Surcharges. A copy of Title 75, Pa. C.S. §1792(b)(1) was provided to our Director of Business Development with the directive to provide this document to our Territory Manager so she can discuss this issue with our Pennsylvania agents. It was also requested that this becomes a part of our agency audit program. Our Regional Underwriting Manager will meet with our Territory Manager on March 26, 2007 to discuss this issue. Our Territory Manager will include this topic in agency visits. This will be included in future agency audits.

Recommendation # 15.

The recommendation is specific to Summary XX Automobile Rating New Business Without Surcharges and XXI Automobile Rating New Business With Surcharges. A copy of Title 75, Pa. C.S. §1738(d)(1) & (2) was provided to our Director of Business Development with the directive to provide this document to our Territory Manager so she can discuss this issue with our Pennsylvania agents. It was also requested that this becomes a part of our agency audit program. Our Regional Underwriting Manager will meet with our Territory Manager on March 26, 2007 to discuss this issue. Our Territory

Manager will include this topic in agency visits. This will be included in future agency audits.

Recommendation # 16.

The recommendation is specific to Summary XXXVII Automobile Property Damage Claims, XXXIX Automobile Collision Claims, XL Automobile Total Loss Claims, XLI Automobile First Party Medical Claims, and XLIII Property Claims. A copy of Title 31, Pennsylvania Code, Chapter 146 was provided to our Director of Auburn Field Claims with the directive to provide a copy of the document to all persons that are involved in the Pennsylvania claims handling process and that she promptly meet with her staff to review it in detail. The meeting with staff occurred on March 7, 2007 with respect to Auto Physical Damage, Casualty and the Medical Product line. A meeting regarding Property was held with half of the staff on March 6, 2007, and with the remaining staff on March 13, 2007. By March 13, 2007, all Pennsylvania claims handling staff will have been provided a copy of Title 31, Pennsylvania Code, Chapter 146 and will have reviewed it in detail.

Recommendation # 17.

The recommendation is specific to Summary XLI Automobile First Party Medical Claims. The Director of Auburn Field Claims was directed to review Title 31, PA Code Section 69.52(b) and Title 75, Pa. C.S. §1716 with all persons on her staff that are responsible for claims of these types in Pennsylvania. A meeting was held with the medical unit on March 7, 2007 to review Title 31, Pa. Code Section 69.52(b) and Title 75, Pa. C.S. §1716. Included as Exhibit # 1 is documentation to support a payment was made on March 4, 2007 in the amount of \$12.48 for interest due relating to policy number 71Y94493.

Recommendation # 18.

The recommendation is specific to Summary XL Automobile Total Loss Claims. The Director of Auburn Field Claims was directed to review Title 31, Pa. Code, Section 62.3(e)(4) with all persons on her staff that are responsible for claims of these types in Pennsylvania. A meeting was held with the total loss unit on March 7, 2007 to review Title 31, Pa. Code, Section 62.3(e)(4). Included as Exhibit # 2 is documentation to support a payment was made on March 5, 2007 in the amount of \$51.60 for sales tax due on an owner retained settlement relating to policy number 01I56037.

Recommendation # 19.

The recommendation is specific to Summary XL Automobile Total Loss Claims. The Director of Auburn Field Claims was directed to review Title 31, Pa. Code, Section 62.3(e)(7) with all persons on her staff that are responsible claims of this type in Pennsylvania. A meeting was held with the total loss unit on March 7, 2007 to review Title 31, Pa. Code, Section 62.3(e)(7).

Recommendation # 20.

The recommendation was specific to Summary XXIX Homeowner Rating New Business Without Surcharges, XXX Homeowner Rating New Business With Surcharges, and XXXIII Tenant Homeowner Rating New Business Without Surcharges. A recommendation was made to our Director of Business Development that new business applications maintained in the agency file become a part of the agency audit program to assure that the fraud warning notice is maintained. The Director of Business Development has advised that retaining original signed applications is currently part of the agency audit process but he will review the process with the Syracuse Management Team.

Recommendation # 21.

The recommendation is specific to Summary XLVI Producer Licensing. A copy of 40 P.S. §310.41(a) and §310.71 was provided to our Manager of Field Operations Support Center with the directive that the document be reviewed in detail with all persons involved in the licensing process. Our manager has verified that corrective actions have been taken on all listed items in the exam, and follow-up procedures are in place with the field representatives to ensure that this information is received and acted upon.