

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

PACIFIC INDEMNITY COMPANY
Milwaukee, Wisconsin

**AS OF
June 12, 2006**

COMMONWEALTH OF PENNSYLVANIA

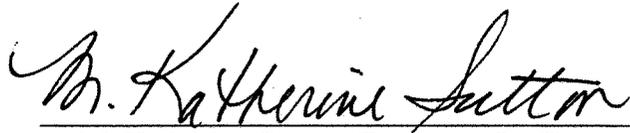


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 31, 2006

VERIFICATION

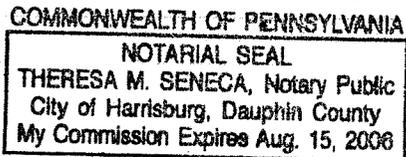
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 15 Day of *May*, 2006


Notary Public



PACIFIC INDEMNITY COMPANY

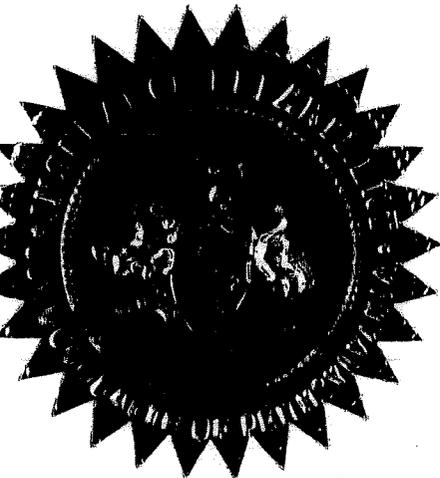
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
PACIFIC INDEMNITY COMPANY	:	Sections 641-A and 671-A of Act 147
15 Mountain View Road	:	of 2002 (40 P.S. §§ 310.41 and 310.71)
Warren, NJ 07061	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Sections 1161(a) and (b)
	:	
	:	Act 1990-6, Section 1716 (Title 75,
	:	Pa.C.S. § 1716)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	and 5(a)(9)(iii) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Section 2003(b) of Act 68 of 1998
	:	(40 P.S. §§991.2003)
	:	
	:	Sections 1 and 3(a)(6) of the Act of
	:	July 3, 1986, P.L. 396, No. 86 (40 P.S.
	:	§§ 3401 3403)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	62.3(e)(4) and (7), 69.52(b) and 146.6
	:	
	:	
Respondent.	:	Docket No. MC06-06-025

CONSENT ORDER

AND NOW, this 31st day of July, 2006, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Pacific Indemnity Company, and maintains its address at 15 Mountain View Road, Warren, New Jersey 07061.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2004 through June 30, 2005.

- (c) On June 12, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on July 11, 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 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;

- (iv) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;
- (v) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines an unfair method of competition and deceptive act or practice 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;
- (vi) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality

or ethnic group, age, sex, family size, occupation, place of residence or marital status;

- (vii) 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;

- (viii) Section 5(a)(9)(iii) of Act 205 (40 P.S. § 1171.5), which requires that a nonrenewal notice state the specific reason or reasons of the insurer for refusal to renew;
- (ix) Section 2003(b) of Act 68 of 1998 (40 P.S. § 991.2003), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the 36 month period prior to the upcoming anniversary date of the policy;
- (x) Section 1 of Act 86 (40 P.S. § 3401), which 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;
- (xi) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which 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;

- (xii) 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;

- (xiii) 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;

- (xiv) 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; and

- (xv) 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.

CONCLUSIONS OF LAW

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

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

- (b) Respondent's violations of 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), 5(a)(7)(iii) 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 Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Section 2003 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 and 3 of Act 86 (40 P.S. §3401) are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

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

(g) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 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 Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Twenty-Five Thousand Dollars (\$25,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

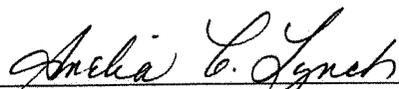
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

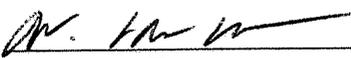
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

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

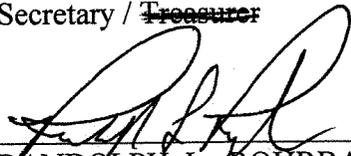
BY: PACIFIC INDEMNITY COMPANY,
Respondent



President / Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Pacific Indemnity Company's offices located in Chesapeake, Virginia; Philadelphia, Pennsylvania and Whitehouse Station, New Jersey, from November 28, 2005, through January 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.

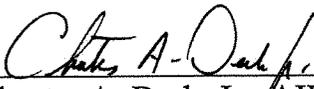
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

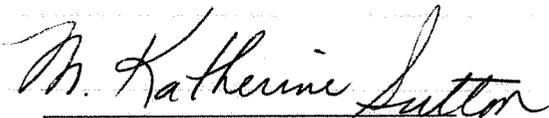
the various types of violations identified during the examination and review written summaries provided on the violations found.

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.



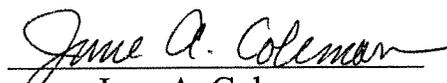
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



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 Pacific Indemnity Company, hereinafter referred to as "Company," at their offices located in Chesapeake, Virginia; Philadelphia, Pennsylvania and Whitehouse Station, New Jersey. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2004, through June 30, 2005, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. 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.

3. Commercial Automobile
 - Underwriting – Appropriate and timely notices of declinations and renewals.

4. Commercial Property

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

5. Workers' Compensation

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

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Pacific Indemnity Company was incorporated on January 16, 1926, under the laws of California. It began business February 5, 1926. During 1997, the Company redomesticated to the state of Wisconsin.

LICENSING

Pacific Indemnity Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in all states and the District of Columbia. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$29,268,931. Premium volume related to the areas of this review were: Homeowners multiple peril \$13,150,215; Commercial multiple peril (non-liability portion) \$1,172,298; Commercial multiple peril (liability portion) \$1,006,439; Inland Marine \$2,389,852; Workers' Compensation \$5,689,860; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$243,291; Other Private Passenger Auto Liability \$1,719,247 and Private Passenger Auto Physical Damage \$1,790,977; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$2,675; Other Commercial Auto Liability \$56,359 and Commercial Auto Physical Damage \$17,772.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile personal lines property and commercial risks. 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:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The Company’s guidelines used occupation, place of residence and age as a basis for imposing additional underwriting standards and practices.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or

intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's underwriting guidelines required supporting coverage, which is prohibited.

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 6 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 6 files selected were received and reviewed. The violation noted resulted in an error ratio of 17%.

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of

insurance. The policy was cancelled due to “unsupported auto with coverage for liability only.”

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 153 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 11 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 11 files selected were received and reviewed. The violation noted resulted in an error ratio of 9%.

The following finding was made:

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

States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy. The policy was nonrenewed based on one accident.

B. Private Passenger Automobile – Assigned Risk

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

C. Property

1. 60-Day Cancellations

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

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

The universe of 10 property policies which were cancelled within the first 60 days of new business was selected for review. The property policies consisted of homeowners and tenant homeowners. All 10 files selected were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 583 property policies which were cancelled midterm during the experience period, 128 files were selected for review. The property policies consisted of homeowners, tenant homeowners and inland marine. All 128 files requested were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company did not demonstrate an actual increase in hazard and cancelled the policy outside the first 60 days of new business.

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 10 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowners and inland marine. All 10 files requested were received and reviewed. The violation noted resulted in an error ratio of 10%.

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.

AND

Adjudication: Mohnal/Lebanon Mutual, P95-08-048 (1998).

When the insurer notifies its agent of an allegedly hazardous condition on the insureds' property together with recommendations to correct the condition but does not notify the insureds, a cancellation based upon a failure to comply with the recommendations violates Act 205. The Company

did not notify the insured of the required corrections for the violation noted.

D. Commercial Automobile

1. Declinations

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

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

From the universe of 1,173 commercial automobile files identified as declinations by the Company, 75 files were selected for review. All 75 files selected 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 measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

The universe of 2 commercial automobile policies which were renewed during the experience period was selected for review. The 2 files selected were received and reviewed. The violation noted resulted in an error ratio of 50%.

The following finding was made:

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

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

E. Commercial Property

1. Midterm Cancellations

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

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

The universe of 5 commercial package policies which were cancelled during the experience period was selected for review. All 5 files selected were received and reviewed. No violations were noted.

2. Nonrenewals

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

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

The universe of 16 commercial package policies identified as nonrenewals by the Company was selected for review. All 16 files selected were received and reviewed. The violation noted resulted in an error ratio of 6%.

The following finding was made:

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.

3. Declinations

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

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

From the universe of 2,188 commercial property files identified as declinations by the Company, 101 files were selected for review. The commercial files consisted of commercial package, commercial fire and commercial inland marine. All 101 files selected were received and reviewed. No violations were noted.

4. Renewals

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

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

From the universe of 185 commercial property policies which were renewed during the experience period, 75 files were selected for review. The commercial policies consisted of commercial package and tenant occupied dwelling fire. All 75 files selected were received and reviewed. The 15 violations noted were based on 15 files, resulting in an error ratio of 20%.

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.

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.

The universe of 1 workers' compensation policy cancelled during the experience period was selected for review. The file selected was received and reviewed. No violations were noted.

2. Nonrenewals

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

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

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

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.

The universe of 31 workers' compensation policies which were renewed during the experience period was selected for review. All 31 files selected were received and reviewed. The 12 violations noted were based on 12 files, resulting in an error ratio of 39%.

The following findings were made:

12 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 12 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

The universe of 16 private passenger automobile policies identified as new business without surcharges by the Company was selected for review. All 16 files requested were received and reviewed. No violations were noted.

Private Passenger Automobile – New Business With Surcharges

The universe of 3 private passenger automobile policies identified as new business with surcharges was selected for review. The 3 files requested 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 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 1,144 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 223 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Private Passenger Automobile Renewed in a Higher Plan

The universe of 25 private passenger automobile policies identified as renewals in a higher plan was selected for review. All 25 files requested were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

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

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

C. Homeowners

1. New Business

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

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

Homeowner Rating – New Business Without Surcharges

From the universe of 318 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 5,828 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

The following findings were made:

3 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 3 claims noted.

B. Automobile Comprehensive Claims

From the universe of 70 private passenger automobile comprehensive claims reported during the experience period, 35 files were selected for review. All 35 files requested were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 211 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

The universe of 28 private passenger automobile total loss claims reported during the experience period was selected for review. All 28 files selected were received and reviewed. The 34 violations noted were based on the universe of 28 files, resulting in an error ratio of 100%.

The following findings were made:

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

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined in Section 1702 (relating to definitions), who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. Of the 4 violations noted, 3 files noted did not reflect a salvage title was obtained. For the remaining violation, the Company paid the vehicle replacement value to the insured on an owner retained settlement prior to seeing evidence of an issued certificate of salvage.

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 replacement value of the vehicle.

28 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 for the 28 claims noted.

1 Violation Title 31, Pa. Code, Section 146.6

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

Concern: It was noticed that on four occasions a Certificate of Salvage was obtained from a state other than Pennsylvania. The Company should be securing a Certificate of Salvage obtained from the Commonwealth of Pennsylvania on all Pennsylvania registered vehicles involved in total loss claims.

E. Automobile First Party Medical Claims

The universe of 26 private passenger automobile first party medical claims reported during the experience period was selected for review. All 26 files requested were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 4%.

The following findings were made:

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

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

1 Violation Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable

manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on a claim that was not paid within 30 days.

F. Automobile First Party Medical Claims Referred to a PRO

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

G. Homeowner Claims

From the universe of 1,216 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 5%.

The following findings were made:

5 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 5 claims noted.

VIII. FORMS

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

No violations were noted.

IX. ADVERTISING

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

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

The Company provided 14 pieces of advertising which included brochures and pamphlets. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 6 consumer complaints received during the experience period and provided all consumer complaint logs requested. The 6 complaint files were requested, received and reviewed.

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

The following findings were made:

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

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

premium when due or for any other reasons approved by the Commissioner. The Company cancelled the policy for loss activity.

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

Requires that a nonrenewal notice state the specific reason or reasons of the insurer for refusal to renew. The violation was due to a nonrenewal notice being issued that did not provide a specific reason.

The following synopsis reflects the nature of the 6 complaints that were reviewed.

• 4	Cancellation/Nonrenewal	67%
• 2	Other	33%
<hr/>		<hr/>
6		100%

XI. LICENSING

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

The following findings were made:

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

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

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

Hobbs Group (NY), LLC
Insurance Office of Central Ohio, Inc.
Sturhahn, Dickenson & Bernard, Inc.

Anderson Insurance Services, Inc.
Associated Community Brokers, Inc.

14 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.

Martin Rosner Eleftherion
SKCG Group, Inc.
Frenkel & Co., Inc.
Palos/Chudy Company, LTD.
Moody and Associates, Inc.
Meyer & Eckenrode/DBA Sky Insurance
D J Colby Co., Inc.
Barry D. Rosenberg, Inc.
Weymouth & Smith Insurance, Inc.
KEH Insurance Agency, Inc.
Associated Insurance Management, Inc.
Trident Insurance Agency Company, LP
Paist & Noe, Inc.
Sweet & Sons, Inc.

XII. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
2. 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.
3. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.
4. 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.

5. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
6. The Company must review Title 31, Pennsylvania Code, Sections 62.3(e)(4) and 62.3(e)(7) regarding total loss evaluations, as noted in the Report, to ensure the violations do not occur in the future.
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
8. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance based on age, occupation and place of residence.
9. 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 and remove such reference from all underwriting guidelines.

XIII. COMPANY RESPONSE



CHUBB GROUP OF INSURANCE COMPANIES

15 Mountain View Road, P.O. Box 1615, Warren, NJ 07061-1615

July 11, 2006

VIA DHL

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

RECEIVED
INSURANCE DEPT.

JUL 12 2006

BUREAU OF ENFORCEMENT

**Re: Examination Warrant Number: 05-M17-064
Pacific Indemnity Company**

Dear Mr. Derk:

We have received and reviewed the Report of Examination dated June 12, 2006. This response will address the 9 recommendations found on pages 40- 41 of the Report.

RECOMMENDATION #1

The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for:

- not demonstrating an actual increase in hazard and cancelled one (1) policy outside the first 60 days of new business;
- issuing one (1) non-renewal notice without providing a specific reason;
- canceling one (1) policy for loss activity.

COMPANY RESPONSE:

To address this, the Company will send a directive during the week of July 17, 2006 to all our underwriters who handle Pennsylvania business that, if they intend to make mandatory recommendations and the insured's failure to comply could result in cancellation of the policy, they must notify the insured directly of the recommendations and the potential consequence of not complying. In addition, by the end of the 3rd quarter 2006, the Company will update our electronic library of cancellation and nonrenewal regulations, GCCANCL, to reflect that in Pennsylvania the Company must advise the insured directly about mandatory recommendations and that failure to do so would result in an invalid cancellation or nonrenewal.

RECOMMENDATION #2

The Company must review Act 86, Sections 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.

INSURANCE DEPARTMENT CRITICISM:

The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for 1 commercial automobile file and 15 commercial property files noted.

COMPANY RESPONSE:

On June 14, 2006 the Company issued a directive to U.S. field staff, which clarified and re-emphasized the requirements for 30 days advance notice to the named insured in Pennsylvania of an increase in renewal premium. Additionally, the commercial lines' compliance training program will be updated by September 30, 2006 to include this topic, which should assist in our compliance efforts.

RECOMMENDATION #3

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

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for nine (9) violations because it did not provide a timely status letter for the claims noted.

COMPANY RESPONSE:

The Company will issue a directive by August 15, 2006 to all staff handling Pennsylvania losses regarding the specific requirements of the Pennsylvania Unfair Claims Settlement Practices Act. An automatic electronic reminder has been implemented in the Claim system to remind the adjusters of Pennsylvania requirements. Compliance will be monitored through random mini-audits conducted by claim supervisors and management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #4

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 became 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.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- not paying a medical bill within 30 days on one (1) policy;
- not paying interest on a claim that wasn't paid within 30 days on that same policy.

COMPANY RESPONSE:

Interest has been paid on the medical bill that was not paid within 30 days, and proof of payment was provided to the Insurance Department on April 26, 2006. The Company will issue a directive by August 15, 2006 to all staff handling Pennsylvania losses regarding the timeliness of medical payments. Compliance will be monitored through random mini-audits conducted by claim supervisors, field management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #5

The Company must review Title 75, Pa. C.S. 1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- not obtaining a salvage title on three (3) files;
- paying the vehicle replacement value to the insured on an owner returned settlement prior to seeing evidence of an issued certificate of salvage on one (1) policy.

COMPANY RESPONSE:

The Company will ensure that salvage certificates are obtained on all total loss vehicles and retained in the claim file, and that Pennsylvania salvage certificates are obtained on all vehicles located or registered in Pennsylvania. Additionally, an electronic automatic reminder will be implemented in the Claim system to remind the adjusters of Pennsylvania requirements. Compliance will be monitored through random mini-audits conducted by claim supervisors, field management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #6

The Company must review Title 31, Pennsylvania Code, Sections 62.3(e)(4) and 62.3(e)(7) regarding total loss evaluations, as noted in the Report, to ensure the violations do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for:

- not including sales tax in the replacement value of a vehicle on one (1) file;
- not providing a copy of the total loss evaluation to the insured for twenty-eight (28) claims noted.

COMPANY RESPONSE:

Sales tax on the total loss settlement on one file was returned to the insured, and proof of payment was provided to the Insurance Department on April 26, 2006. The Company will issue a directive by August 15, 2006 to all staff handling Pennsylvania total losses regarding the specific requirement of the Pennsylvania Unfair Claims Settlement Practices Act to provide total loss evaluations. An electronic automatic reminder will be implemented in the Claim system to remind the adjuster of Pennsylvania requirements. Compliance will be monitored through random mini-audits conducted by claim supervisors, field management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #7

The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- Five (5) violations because the producers were found to be writing and / or soliciting policies but were not found in the Insurance Departments records as holding a Pennsylvania producer license
- Fourteen (14) violations because producers were found to be writing policies but the Company failed to file an appointment and submit the appointment fee to the department.

COMPANY RESPONSE:

We have taken the following actions to ensure all producers are properly licensed and appointed:

- *For the 5 violations noted where producers were not properly licensed in Pennsylvania, our Agency Services Department has contacted each of these producers and instructed them to obtain a Pennsylvania license immediately.*
- *For the 14 violations where properly licensed producers did not hold the correct appointments for the Pacific Indemnity Company, appointments have been filed with the state.*

To ensure that every producer writing business in Pacific Indemnity Company is properly appointed, a monthly report is generated which identifies any producers not appointed and is sent to the responsible branch office. This report is also sent to producers on a quarterly basis.

To improve compliance with license and appointment requirements for our commercial lines systems, we will supplement current procedures with a manual workflow to ensure that producer licensing and appointments are reviewed. This new workflow will be distributed to all US field staff via a communication to be published on August 2, 2006, with an implementation date of September 1, 2006. This manual workflow will remain in place until such time it is replaced with an enhanced automated process that edits for all producer licensing and appointment requirements.

To improve compliance with these requirements for our personal lines system, in May 2006 we implemented an automated process to verify that producers are properly licensed and appointed. Our personal lines policy issuance system (Masterpiece) now automatically checks a data base of license and appointment information (PALIS) maintained by the Company's Agency Services Department. If licensing and / or appointment information is not found in PALIS, then policy issuance is blocked. A System Error message is generated which indicates that the Agency Services Department must be contacted to set up a license and / or appointment. Once this is done, PALIS is updated which enables Masterpiece to issue the policy for the producer.

RECOMMENDATION #8

The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance based on age, occupation and place of residence.

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized because the underwriting guidelines referred to age, occupation and place of residence as the basis for imposing additional underwriting standards and practices.

COMPANY RESPONSE:

With regard to the agents' binding restriction for "An operator over 68 years or licensed less than 3 years," we signed a Consent Order in conjunction with the Pennsylvania Insurance Department's examination of Great Northern conducted in July 2005 stating that we would remove this binding restriction. This change was implemented effective May 29, 2006.

On May 15, 2006, we had a conversation with Chet Derk, the PA Market Conduct Division Chief, and he agreed that Chubb's binding guideline for agents, which restricts the binding coverage for "individuals who receive considerable publicity," does not discriminate based on occupation. However, he cautioned us to make sure that this not be used as a pretext for discriminating based on occupation. To address this, we will send out a formal announcement to all underwriters reiterating our position that Chubb does not discriminate with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. We will also emphasize that we cannot decline to write a risk simply because the nature of a prospective insured's occupation (sports figure, entertainer, politician, TV personality, etc.) thrusts him or her into the public eye.

The Company is in the process of revising our agents' binding guideline for "property that is located out of your local area" to read "residence located outside the producer's geographic marketing area, due to lack of familiarity with hazards (i.e. earthquake, wildfire, distance to coast, etc.) or unique state rating and/or regulatory requirements." This will be included with the next filing submitted to the Insurance Department for approval (which will be for the revisions to the Pennsylvania Vehicle Supplemental form). We believe this change will clarify why we ask agents to contact us prior to binding coverage for risks located outside of their geographic marketing area. Risks located in areas that agents are unfamiliar with may have serious catastrophe management concerns. In addition, the agents are unlikely to be familiar the writing companies used in other states or the eligibility requirements for them. During our Exit Conference call on May 15, 2006, Chet Derk agreed to this revision.

RECOMMENDATION #9

The Company must review Act 205, Section 5(a)(4) [P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report do not occur in the future and remove such reference from all underwriting guidelines.

INSURANCE DEPARTMENT CRITICISM:

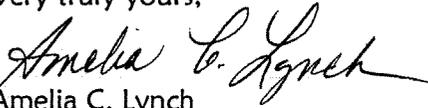
The Company was cited because underwriting guidelines for homes and contents required supporting coverage, which is prohibited.

COMPANY RESPONSE:

The Company has removed the agents' binding restriction that reads "Seasonal, secondary, or tenant occupied residences, unless we insure the owner's primary residence" from our agents' binding guidelines effective May 29, 2006.

We appreciate the professionalism and efficiency of your staff during the examination and the continued cooperation and assistance with respect to our specific issues / questions in resolving this examination. Should you require additional information or have any questions, please let me know.

Very truly yours,



Amelia C. Lynch
Senior Vice President and Insurance Compliance Officer

Cc: D. Fiorot
M. Dayter
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