

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**PENNSYLVANIA LUMBERMENS MUTUAL
INSURANCE COMPANY**
Philadelphia, Pennsylvania

**AS OF
July 19, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 9, 2005

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

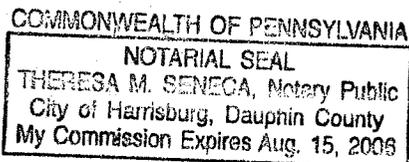
M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 22 Day of *June*, 2005

Theresa M. Seneca

Notary Public



PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY

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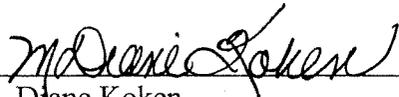
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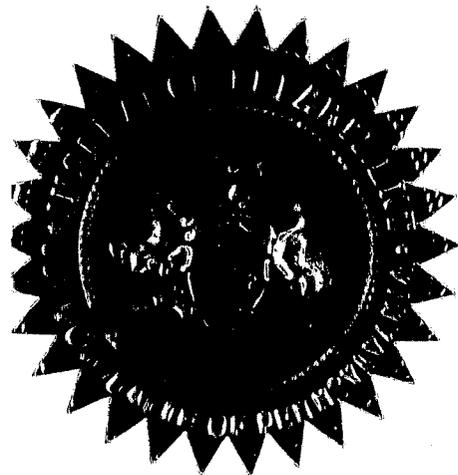
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY 170 South Independence Mall West Philadelphia, PA 19106	:	Sections 1, 2, 3(a)(1), 3(a)(2), 3(a)(5), 3(a)(6), 4(a) and 4(b) of the Act of July 3, 1986, P.L. 396, No. 86 (40 P.S. §§ 3401, 3402, 3403 and 3404)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(i) and 5(a)(11) of the Unfair Insurance Practices Act, Act of July 22, 1974, P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections 113.88, 146.6 and 146.7(a)(1)
	:	
	:	Title 75, Pennsylvania Consolidated Statutes, Sections 1161(a) and (b)
	:	
Respondent.	:	Docket No. MC05-07-017

CONSENT ORDER

AND NOW, this *9th* day of *September*, 2005, 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 Pennsylvania Lumbermens Mutual Insurance Company, and maintains its address at 170 South Independence Mall West, Philadelphia, Pennsylvania 19106.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.
- (c) On July 19, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on August 18, 2005.

(e) The Examination Report notes violations of the following:

(i) Section 1 of Act 86 (40 P.S. § 3401), which provides that a policy of insurance covering commercial property or casualty risks shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;

(ii) Section 2 of Act 86 (40 P.S. § 3402), which state canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following:

(1) A condition, factor or loss experience material to insurability has changed substantially or a substantial condition, factor or loss experience material to insurability has become known during the policy term.

(2) Loss of reinsurance or a substantial decrease in reinsurance has occurred, which loss or decrease shall, at the time of cancellation, be certified to the Insurance Commissioner as directly affecting in-force policies.

(3) The insured has made a material misrepresentation which affects the insurability of the risk.

(4) The policy was obtained through fraudulent statements, omissions

or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company.

(5) The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit.

(6) The insured has requested cancellation.

(7) Material failure to comply with policy terms, conditions or contractual duties.

(8) Other reasons that the Insurance Commissioner may approve.

(iii) 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;

(iv) 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 the termination;

(v) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which 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;

- (vi) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;
- (vii) Section 4(a) of Act 86 (40 P.S. § 3404), which requires that unearned premium must be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer;
- (viii) Section 4(b) of Act 86 (40 P.S. § 3404), which requires unearned premium must 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;
- (ix) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;

- (x) 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;
- (xi) Section 5(a)(9)(i) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a nonrenewal notice be approved as to form by the Insurance Commissioner prior to use;

- (xii) Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires a complete record of all complaints received during the preceding four years;
- (xiii) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;
- (xiv) 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;
- (xv) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such

provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and

- (xvi) Title 75, Pa. C.S. § 1161(a) and (b), which requires a certificate of salvage:
- (a) A person, including an insurer or self-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; and
- (b) An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. The transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection.

CONCLUSIONS OF LAW

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

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

- (b) Respondent's violations of Section 1, 2, 3(a)(1), 3(a)(2), 3(a)(5), 3(a)(6), 4(a) and 4(b) of Act 86 (40 P.S. §§ 3403), 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.

- (c) Respondent's violations of Sections 5(a)(4), 5(a)(9), 5(a)(9)(i) and 5(a)(11) 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 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 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 Thirty Thousand Dollars (\$30,000.00) 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.

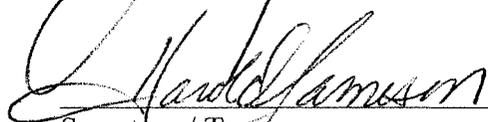
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy

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.

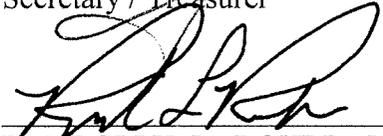
BY: PENNSYLVANIA LUMBERMENS
MUTUAL INSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Pennsylvania Lumbermens Mutual Insurance Company's office located in Philadelphia, Pennsylvania, from April 19, 2005, through May 5, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

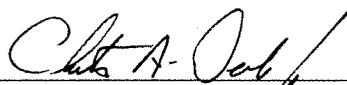
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

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

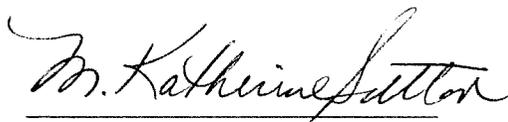
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

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

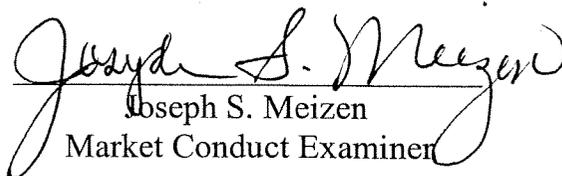
The undersigned participated in this examination and in preparation of this Report.



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



M. Katherine Sutton, AIC
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner

II. SCOPE OF EXAMINATION

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

The examination focused on Company operations in the following areas:

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

6. Forms

7. Advertising

8. Complaints

9. Licensing

III. COMPANY HISTORY AND LICENSING

Pennsylvania Lumbermens Mutual Insurance Company was incorporated on February 26, 1895, under the laws of Pennsylvania. Charter powers, adopted on June 2, 1950, authorized the writing of multiple line or fire and casualty lines of insurance. The present title was adopted on June 15, 1950. Operations had been conducted under the name Pennsylvania Lumbermens Mutual Fire Insurance Company.

LICENSING

Pennsylvania Lumbermens Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on February 26, 1895. The Company is licensed in the District of Columbia and all states except Alaska, Arizona, Colorado, Hawaii, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$16,575,231. Premium volume related to the areas of this review were: Fire \$6,283,341; Homeowners multiple peril \$18,247; Inland Marine \$454,325; Workers' Compensation \$2,728,135; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$76,249; Other Commercial Auto Liability \$2,280,305 and Commercial Auto Physical Damage \$541,628.

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. 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 Company did not produce any written underwriting guidelines. No violations were noted.

V. UNDERWRITING

A. Homeowners

1. 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.

The universe of 7 homeowner policies which were cancelled midterm during the experience period was selected for review. All 7 files requested were received and reviewed. No violations were noted.

2. Nonrenewals

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

The 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 Company did not report any homeowner nonrenewals during the experience period.

B. 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 2 commercial automobile policies which were cancelled within the first 60 days was selected for review. The 2 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 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 15 commercial automobile policies which were cancelled during the experience period was selected for review. All 15 files selected were received and reviewed. The 5 violations noted were based on 4 files, resulting in an error ratio of 27%.

The following findings were 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 Company declined to continue coverage without supporting lines of business.

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 3 files noted were absent any evidence this requirement was complied with.

1 Violation Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not refund the insured within 10 business days after the effective date of termination.

3. Nonrenewals

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

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

The universe of 26 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 26 files selected were received and reviewed. The 6 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were 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 Company declined to continue coverage due to lack of supporting coverage.

2 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 2 files noted did not contain a specific reason for nonrenewal.

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 were absent any evidence this requirement was complied with.

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 190 commercial automobile policies, which were renewed during the experience period, 50 files were selected for review.

All 50 files selected were received and reviewed. The 26 violations noted were based on 26 files, resulting in an error ratio of 52%.

The following findings were made:

26 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 26 files noted were absent any evidence this requirement was complied with.

C. 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 3 commercial property policies which were cancelled within the first 60 days was selected for review. The commercial property policies consisted of commercial fire and commercial inland marine. The 3 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 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 43 commercial property policies which were cancelled during the experience period was selected for review. The commercial policies consisted of commercial fire and commercial inland marine. All 43 files selected were received and reviewed. The 12 violations noted were based on 11 files, resulting in an error ratio of 26%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 3 files noted were absent any evidence this requirement was complied with.

1 Violation Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of

termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not refund the insured within 10 business days after the effective date of termination.

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

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not refund the insured within 30 days after the effective date of termination on the 8 files noted.

3. Nonrenewals

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

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

The universe of 71 commercial property policies identified as nonrenewals by the Company was selected for review. The commercial property policies consisted of commercial fire and commercial inland marine. All 71 files selected were received and reviewed. The 21 violations were based on 12 files, resulting in an error ratio of 17%.

The following findings were made:

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

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

AND

Title 31, Pa. Code, Section 113.88

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. The Company did not provide a specific reason for nonrenewal on the 4 files noted.

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

Grounds for cancellation. Cancelling 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 2 files noted were cancelled midterm for other than permitted reasons.

11 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 11 files noted were absent any evidence this requirement was complied with.

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 60 days notice of nonrenewal on the 3 files noted.

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide a notice of nonrenewal nor any documentation to indicate a notice was mailed.

4. Declinations

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

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

From the universe of 168 commercial property files identified as declinations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

5. Renewals

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

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

From the universe of 682 commercial property policies, which were renewed during the experience period, 75 files were selected for review. The commercial property policies consisted of commercial fire and commercial inland marine. All 75 files selected were received and reviewed. The 29 violations noted were based on 29 files, resulting in an error ratio of 39%.

The following findings were made:

29 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 29 files noted were absent any evidence this requirement was complied with.

D. Workers Compensation

1. Midterm Cancellations

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

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

The universe of 5 workers' compensation policies 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, 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 14 workers' compensation policies which were nonrenewed during the experience period was selected for review. All 14 files selected were received and reviewed. The violation noted resulted in an error ratio of 7%.

The following finding was made:

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

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

AND

Title 31, Pa. Code, Section 113.88

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

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 71 workers’ compensation policies which were renewed during the experience period was selected for review. All 71 files selected were received and reviewed. The 36 violations noted were based on 36 files, resulting in an error ratio of 51%.

The following findings were made:

36 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 36 files noted were absent any evidence this requirement was complied with.

VI. RATING

A. 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.

The Company did not report any homeowner new business policies during the experience period.

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 45 homeowner policies renewed without surcharges during the experience period was selected for review. All 45 files selected were received and reviewed. The 21 violations noted were based on 21 files, resulting in an error ratio of 47%.

The following findings were made:

7 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 sent written notice to the insured of intent to nonrenew at other than the expiration date of the policy on the 7 files noted.

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

Requires that a nonrenewal notice be approved as to form by the Insurance Commissioner prior to use. The notice used

was not approved for use for personal lines property insurance.

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. Commercial Automobile Property Damage Claims
- B. Commercial Automobile Comprehensive Claims
- C. Commercial Automobile Collision Claims
- D. Commercial Automobile Total Loss Claims
- E. Homeowner Claims
- F. Commercial Fire Claims
- G. Commercial General Liability Claims
- H. Commercial Inland Marine 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. Commercial Automobile Property Damage Claims

From the universe of 153 commercial automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

B. Commercial Automobile Comprehensive Claims

The universe of 23 commercial automobile comprehensive claims reported during the experience period was selected for review. All 23 files requested were received and reviewed. No violations were noted.

C. Commercial Automobile Collision Claims

From the universe of 64 commercial automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

D. Commercial Automobile Total Loss Claims

The universe of 5 commercial automobile total loss claims reported during the experience period was selected for review. All 5 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 40%.

The following findings were made:

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

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or

recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company paid the replacement value of the vehicle prior to securing a salvage title from the vehicle owner. No salvage title was ever delivered to the Company.

E. Homeowner Claims

The universe of 4 homeowner claims reported during the experience period was selected for review. All 4 files selected were received and reviewed. The violation noted resulted in an error ratio of 25%.

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 the required 30 day status letter to the claimant.

F. Commercial Fire Claims

From the universe of 37 commercial fire claims reported during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The violation noted resulted in an error ratio of 10%.

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 the required 30 day status letter to the claimant.

G. Commercial General Liability Claims

From the universe of 29 commercial general liability claims reported during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 20%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

H. Commercial Inland Marine Claims

The universe of 13 commercial inland marine claims reported during the experience period was selected for review. All 13 files selected were received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 23%.

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 the required 30 day status letter to the claimant on the 3 files noted.

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

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 2 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

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)], which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

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 30 pieces of advertising which included direct mailers, newspaper advertisements, Annual Statement, brochures and broker bulletins which were published six times a year. 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 4 consumer complaints received during the experience period and provided 2 of the 4 consumer complaint logs requested. All 4 complaints reported were selected, received and reviewed.

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

The following findings were made:

1 Violation Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]

Requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint. The violation noted was the result of the Company not maintaining required complaint records for 2002 and 2003. In addition, 2 complaints were not noted on the Company's 2004 complaint log that were noted on the Department's complaint register. The logs also did not record the classification by line of insurance and the total number of complaints.

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 was absent any evidence this requirement was complied with.

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 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.

The following synopsis reflects the nature of the 4 complaints that were reviewed.

•	2	Cancellation/Nonrenewal	50%
•	1	Claims	25%
•	1	Premium	25%
	<hr/>		<hr/>
	4		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. No violations were noted.

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 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.
3. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2, 3 and 4 [40 P.S. §§3402, 3403 and 3404], so that the violations noted in the Report do not occur in the future.
5. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so

that the violations relating to status letters and acceptance or denial of a claim, as noted in the Report, do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance with Title 75, Pa. C.S. §1161(a)&(b) so that the violations regarding certificates of salvage, as noted in the Report, do not occur in the future.

7. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)], with its claim staff to ensure that the Company maintains a complete record of all complaints received during the preceding four years, indicating the required information.

XIII. COMPANY RESPONSE



*Pennsylvania Lumbermens Mutual
Insurance Company*

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Philadelphia, Pennsylvania 19106*

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August 18, 2005

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

VIA E-MAIL & OVERNIGHT MAIL

RE: Pennsylvania Lumbermens Mutual Insurance Company
Response to Market Conduct Examination Warrant Number: 05-M17-001

Dear Mr. Derk:

This letter is in response to your correspondence of July 19, 2005 regarding the Report of Examination of Pennsylvania Lumbermens Mutual Insurance Company (PLM).

Enclosed please find our response to the Department's Recommendations covering the examination period of January 1, 2004 through December 31, 2004.

Pennsylvania Lumbermens Mutual Insurance Company believes that the Market Conduct Examination has been very helpful to us in identifying areas in which we can improve our future compliance performance. We have already begun to take steps to address all the issues raised in the recommendations from the examination. We trust that our company's responses reflect that.

We have organized our responses in relation to the recommendations set forth in the Report.

Should you have any questions, please do not hesitate to contact me at your convenience.

RECOMMENDATION #1 [*HOMEOWNERS – NON-RENEWALS*]

Pennsylvania Lumbermens Mutual Insurance Company (PLM) acknowledges the Department's findings and has reviewed its processes and procedures to ensure compliance with respect to conditions under which personal property policies can be cancelled along with the form requirements of the cancellation or non-renewal notice.

PLM believed that we had, in good faith, filed and had our Residential Property Withdrawal Plan approved for use by the PA Insurance Department. We therefore began to non-renew (at policy anniversary) a handful of remaining three (3) year residential property policies. Many of these policies were written for our Board Members or for current and former employees, many of whom were aware of our intention to non-renew our remaining personal property book of business upon receiving the PA Insurance Department's approval.

As a result of the Market Conduct Examination, we followed up with the PA Insurance Department regarding our approved Withdrawal Plan and were advised that they were unaware that we wrote three (3) year policies and that they would not have approved the filing having known the same.

RECOMMENDATION #2 [*SUPPORTING COVERAGES*]

Pennsylvania Lumbermens Mutual Insurance Company accepts the Department's recommendation and will comply with the Department's position with respect to writing unsupported business. The activities and the circumstances surrounding the declination of coverage on the couple of cited files were inadvertent and have already been addressed.

Our Underwriting Manager has taken steps to apprise all our underwriting staff of the Department's findings and requirements under Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] and the necessity for full and consistent compliance.

RECOMMENDATION #3 [*NOTIFICATION OF INCREASE IN PREMIUM*]

Pennsylvania Lumbermens Mutual Insurance Company's previous practice on the majority of the accounts cited regarding *Notification of Increase in Premium* was to provide the Broker with the aforementioned information. This large broker not only represented the insureds but also acted as the administrator of the association in which a majority of the accounts are written. The broker in turn would review each account and the various renewal terms & conditions and provide the renewal information to the respective insured.

Going forward PLM will comply with the Examination Recommendations as provided. All underwriting personnel have been apprised of the Department's findings and have reviewed and been re-educated on the requirements of the statute.

A computer program has been designed to prompt our underwriting personnel and generate a 30 Day Advance Notice of a Premium Increase.

RECOMMENDATION #4 *[COMMERCIAL CANCELLATION & NONRENEWAL]*

Pennsylvania Lumbermens Mutual Insurance Company accepts this recommendation and we have already reviewed and revised our processes and procedures to ensure compliance with the cited statutes.

PLM discovered a procedural flaw during the examination and has taken steps to reprogram our systems to automatically check-off the box within the cancellation & non-renewal notices offering to provide the insured with Loss Information. Loss Information was provided to insured's upon request as a matter of course.

Additionally, PLM has instituted our corporate-wide World Class Customer Service Standards and made changes to our processes which will help serve to ensure that unearned premium refunds are returned in a timely and compliant manner.

Finally, all underwriting personnel responsible for handling the cancellation of commercial lines coverage policies have been apprised of the Department's findings and have reviewed and been re-educated on the requirements of the statute as respects the cancellation of insurance policies.

RECOMMENDATION #5 *[CLAIMS – STATUS LETTERS]*

Pennsylvania Lumbermens Mutual Insurance Company accepts the Department's recommendations and reports that we have met with our claims staff in order to ensure full and consistent compliance with the recommendations relating to status letters and acceptance or denial of a claim. A computer program has been designed to prompt claims personnel that 30 day status letters and subsequent 45 day status letters should be sent to claimants.

RECOMMENDATION #6 *[CLAIMS – SALVAGE]*

Pennsylvania Lumbermens Mutual Insurance Company accepts the Department's recommendations and reports that we have met with our claims staff in order to ensure full and consistent compliance with the recommendations pursuant regarding Certificates of Salvage. PLM has engaged the assistance of a salvage specialty company to ensure our future compliance in this area.

RECOMMENDATION #7 *[COMPLAINT RECORDS]*

Pennsylvania Lumbermens Mutual Insurance Company accepts the Department's recommendations with respect to the finding in violation of *Act 205, Section 5(a)(1)[40 P.S. §1171.5(a)(1)]*. This matter has been resolved through education, training and the re-distribution of an internal Bulletin regarding complaint recordkeeping.

We would like to take this opportunity to thank M. Katherine Sutton, Joseph Meizen and the rest of the Market Conduct Division for their professionalism and efficiency in conducting the exam of Pennsylvania Lumbermens Mutual Insurance Company.

Thank you for providing us with an opportunity to respond to the Market Conduct Report. We want to assure you that we value our relations with our customers who have placed their trust and confidence in us, and we want to provide them with all of the protections afforded to them under the Commonwealth of Pennsylvania's insurance statutes.

All of the recommendations provided have been taken seriously and are viewed by us as constructive and opportunities to make improvements in our compliance processes. All recommendations will be complied with in the future in the manner outlined in your examination report, except as otherwise noted. If there are any open issues after you have had the opportunity to review our response, we would like to request a meeting in order to discuss those open items.

Finally, our personnel will be trained to implement corrective measures that will bring us into full compliance with PA Insurance Statutes going forward. We also plan to perform periodic self-testing in the future in the areas where compliance problems have been identified. We are committed to improving our compliance results and making our staff in all areas aware of the importance of complying with PA Insurance Statutes.

Sincerely,



Harold Jamison

Pennsylvania Lumbermens Mutual Insurance Company

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