

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**PROGRESSIVE CASUALTY INSURANCE COMPANY
PROGRESSIVE SPECIALTY INSURANCE COMPANY
PROGRESSIVE DIRECT INSURANCE COMPANY
(formerly Progressive Halcyon Insurance Company)**

Mayfield Village, Ohio

**AS OF
November 14, 2007
COMMONWEALTH OF PENNSYLVANIA**

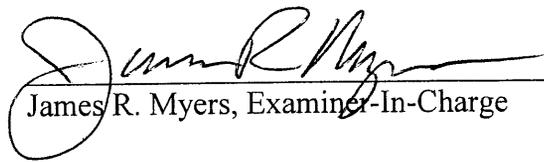


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: January 11, 2008

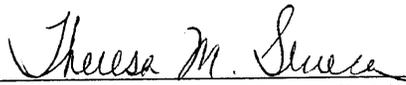
VERIFICATION

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).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 26 Day of October, 2007


Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

**PROGRESSIVE CASUALTY INSURANCE COMPANY
PROGRESSIVE SPECIALTY INSURANCE COMPANY
PROGRESSIVE HALCYON INSURANCE COMPANY**

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, 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.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
PROGRESSIVE CASUALTY	:	Sections 641.1-A and 671.1-A of Act
INSURANCE COMPANY,	:	147 of 2002 (40 P.S. §§ 310.41 and
PROGRESSIVE SPECIALTY	:	310.71)
INSURANCE COMPANY,	:	
PROGRESSIVE DIRECT	:	Section 903 of the Insurance
INSURANCE COMPANY	:	Department Act, Act of May 17,
(formerly PROGRESSIVE HALCYON	:	1921, P.L. 789, No. 285 (40 P.S.
INSURANCE COMPANY)	:	§ 323.3)
6300 Wilson Mills Road	:	
Mayfield Village, OH 44143	:	Act 1990-6, Sections 1705(a)(1) and
	:	(4), 1731(b) and (c), 1734, 1738(d)(1)
	:	(2), 1791, 1791.1(a) and (b), 1792(b)(1),
	:	1793(b), and 1799.3(a) and (d) (Title 75,
	:	Pa.C.S. §§ 1705, 1731, 1734, 1738,
	:	1791, 1793 and 1799)
	:	
	:	Sections 4, 5(a)(7)(iii) and 5(a)(10)(iii)
	:	and (vi) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.4
	:	and 1171.5)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Sections 2004, 2006(2), 2006(3) and
	:	2006(7) of Act 68 of 1998 (40 P.S. §§
	:	991.2004 and 991.2006)
	:	
	:	63 Purdons Statutes, Section 861
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	62.3(e)(1) and (4), 69.52(e), 146.6 and
	:	146.8
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	

Respondent. : Title 75, Pennsylvania Consolidated
: Statutes, Sections 1161(a) and (b),
: and 1822
:
:
: Docket No. MC07-11-014

CONSENT ORDER

AND NOW, this 11th day of January, 2008, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law. Respondent neither admits nor contests the Findings of Fact and Conclusions of Law herein.

FINDINGS OF FACT

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

Findings of Fact:

- (a) Respondent is Progressive Casualty Insurance Company, Progressive Specialty Insurance Company, and Progressive Direct Insurance Company (formerly known as Progressive Halcyon Insurance Company), and maintains its address at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 through December 31, 2005, unless otherwise noted in the Report of Examination.
- (c) On November 14, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on December 13, 2007.
- (e) After consideration of the December 13, 2007 response, the Insurance Department has modified the Examination Report as attached.

- (f) The Examination Report notes violations of the following:
- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Section 903(a) of the Insurance Department Act (40 P.S. § 323.3), which requires every company subject to examination to keep all books, records, accounts, papers, documents and any computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require in order that its representatives may readily verify the financial condition of the company, and ascertain whether the company has complied with the laws of this Commonwealth;
 - (iv) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (v) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vi) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (vii) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;
- (viii) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available under this chapter provided the notice is given to the insured at time of application;
- (ix) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing

the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages;

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

(xi) Section 1792(b)(1) of Act 1990-6, Title 75, Pa. C.S. § 1792, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;

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

(xiii) Section 1799.3 (a) of Act 1990-6, Title 75, Pa. C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,050 in excess of any self insured retention or deductible applicable to the named insured;

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

- (xv) Section 4 of Act 205 (40 P.S. § 1171.4), which states no person shall engage in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act;
- (xvi) Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits discrimination with regard to underwriting standards and practices or eligibility requirements by reason of marital status;
- (xvii) Sections 5(a)(10)(iii) and (iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which states refusing to pay claims without conducting a reasonable investigation based upon all available information is an unfair method of competition and unfair act or practice;
- (xviii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

(xix) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;

(xx) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for nonpayment of premium, the effective date may be 15 days from the date of mailing or delivery;

(xxi) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2003), which requires an insurer to deliver or mail to the named insured a cancellation notice and state the specific reason for cancellation;

(xxii) Section 2006(7) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice clearly state that when coverage is to be terminated due to nonresponse to a citation imposed under 75 Pa.C.S.

§ 1533, or nonpayment of a fine or penalty imposed under that section, coverage shall not terminate if the insured provides the insurer with proof that the insured has responded to all citations and paid all fines and penalties and that he has done so on or before the termination date of the policy;

(xxiii) 63 Purdon's Statutes, the Motor Vehicle Physical Damage Appraisers Act, Section 861, requires every appraiser to disregard any efforts on the part of others to influence his judgment in the interest of the parties involved. Every appraiser shall prepare an independent appraisal of damage.

(xxiv) Title 31, Pennsylvania Code, Section 62.3(e)(1), which requires the replacement value of a motor vehicle be calculated using the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method;

(xxv) 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;

(xxvi) Title 31, Pennsylvania Code, Section 69.52(e), which requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within five days of receipt;

(xxvii) Title 31, Pennsylvania Code, Section 146.6, which states that if an investigation cannot 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;

(xxviii) Title 31, Pennsylvania Code, Section 146.8, which states if an insurer prepares an appraisal of the cost of automobile repairs, the appraisal shall be in an amount for which it may be reasonably expected the damage can be satisfactorily repaired;

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

(xxx) 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; and

(xxxi) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires a warning notice on applications for insurance and claim forms. As of May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.”

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent’s violations of Sections 641.1-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 4, 5(a)(7) and 5(a)(10) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (d) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act (40 P.S. § 1196):
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
 - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.
- (f) Respondent's violations of Sections 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of

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

(g) Respondent's violations of Section 861 of the Motor Vehicle Physical Damage Appraisers Act are punishable by the following, under Section 856 of the Motor Vehicle Physical Damage Appraisers Act (63 P.S. § 856):

(i) The commissioner may suspend or revoke any appraiser's license for any of the following causes:

(1) If the licensee willfully violates, fails to comply with, or knowingly participates in the violation of or failure to comply with any provision of this act or regulation promulgated thereunder.

(2) If the licensee has materially misrepresented the terms of any insurance contract or has engaged in any fraudulent transaction.

(3) If the licensee has shown himself to be incompetent or untrustworthy.

(h) Respondent's violations of Title 31, Pennsylvania Code, Sections 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 Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Seventy-Five Thousand Dollars (\$75,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Office Manager, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg,

Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

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

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

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

BY:

PROGRESSIVE CASUALTY
INSURANCE COMPANY

PROGRESSIVE SPECIALTY
INSURANCE COMPANY


Dane A. Shallow, Secretary


Peter J. Albert, Secretary

PROGRESSIVE DIRECT INSURANCE
COMPANY (formerly known as PROGRESSIVE
HALCYON INSURANCE COMPANY)


Mike R. Uth, Secretary


COMMONWEALTH OF PENNSYLVANIA
By: Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Progressive Casualty Insurance Company, Progressive Specialty Insurance Company and Progressive Halcyon Insurance Company's offices located in Harrisburg, Pennsylvania and Mayfield Heights, Ohio, from January 30, 2007, through March 30, 2007. 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

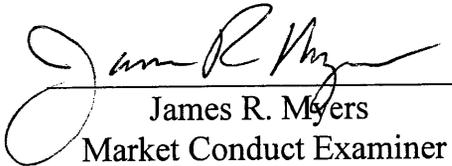
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

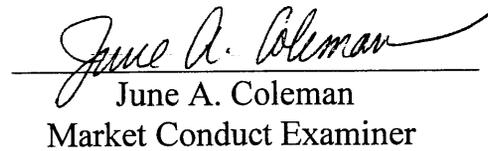
The undersigned participated in this examination and in preparation of this Report.



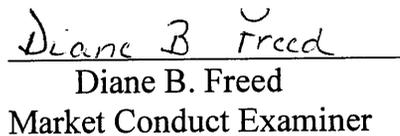
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



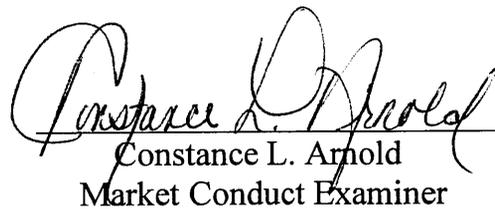
James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Progressive Casualty Insurance Company, Progressive Specialty Insurance Company and Progressive Halcyon Insurance Company, hereinafter referred to as "Company," at their offices located in Harrisburg, Pennsylvania and Mayfield Heights, Ohio. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2005, through December 31, 2005, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

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

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

3. Claims

4. Forms

5. Advertising

6. Complaints

7. Licensing

III. COMPANY HISTORY AND LICENSING

Progressive Casualty Insurance Company, the lead member of the Progressive Insurance Group, was incorporated November 17, 1956, under Ohio laws and began business on December 11, 1956.

Progressive Specialty Insurance Company was incorporated August 4, 1975, under the laws of Ohio as the Minerva Insurance Company. The present title was adopted in April 1976, and operations began on May 26, 1976.

Progressive Halcyon Insurance Company was incorporated under the laws of Ohio, on September 29, 1986, and began operations on January 14, 1987. On March 15, 2006, the Company changed its name to Progressive Direct Insurance Company.

LICENSING

Progressive Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2007. The Company is licensed in the District of Columbia, Guam, Puerto Rico and all states and Canada. It also operates on a surplus lines or non-admitted basis in U.S. Virgin Islands. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$106,760,538. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$11,983,903; Other Private Passenger Auto Liability \$50,797,933 and Private Passenger Auto Physical Damage \$40,057,574.

Progressive Specialty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2007. The Company is licensed in all states except Louisiana, Massachusetts, North Carolina, New Hampshire, and Wyoming. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$169,037,228. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$23,840,793; Other Private Passenger Auto Liability \$85,451,837 and Private Passenger Auto Physical Damage \$59,743,422.

Progressive Halcyon Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2007. The Company is licensed in all states except Arizona, Florida, Massachusetts, Michigan, New Jersey, Rhode Island and Texas. Credit is allowed for reinsurance in Arizona, Florida, Michigan and New Jersey, as it is accredited or licensed in other states. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$164,440,930. Premium volume related to the areas of this review were: Inland Marine \$395,202; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$14,384,226; Other Private Passenger Auto Liability \$89,059,604 and Private Passenger Auto Physical Damage \$60,356,722.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and Pennsylvania automobile product guides were furnished for private passenger automobile and boat. 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 finding was made:

1 Violation 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 terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company’s private passenger automobile guidelines indicated the following: For the Company to accept a request to designate a driver as list only, the

driver must meet at least one of the following criteria: is age 55 or older, unlicensed and does not drive; or ..., etc.”

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.

Progressive Casualty Insurance Company

From the universe of 2,125 private passenger automobile files identified as being cancelled in the first 60 days of new business, 27 files were selected for review. All 27 files were received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 11,013 private passenger automobile files identified as being cancelled in the first 60 days of new business, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

Progressive Halcyon Insurance Company

From the universe of 3,603 private passenger automobile files identified as being cancelled in the first 60 days of new business, 97 files were selected for review. All 97 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

Progressive Casualty Insurance Company

From the universe of 35,148 private passenger automobile files identified as midterm cancellations by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 20 violations noted were based on 11 files, resulting in an error ratio of 44%.

The following findings were made:

9 Violations Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has

concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The 9 files noted were cancelled for other than permitted reasons.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 60 days notice of cancellation for the 11 files noted.

Progressive Specialty Insurance Company

From the universe of 12,647 private passenger automobile files identified as midterm cancellations by the Company, 5 files were selected for review. All 5 files were received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 60%.

The following findings were made:

2 Violations Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor

vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The 2 files noted were cancelled for other than permitted reasons.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 60 days notice of cancellation for the 3 files noted.

Progressive Halcyon Insurance Company

From the universe of 20,054 private passenger automobile files identified as midterm cancellations by the Company, 12 files were selected for review. All 12 files were received and reviewed. The 15 violations noted were based on 9 files, resulting in an error ratio of 75%.

The following findings were made:

6 Violations Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or

revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The 6 files noted were cancelled for other than permitted reasons.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 60 days notice of cancellation for the 9 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 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.

Progressive Casualty Insurance Company

From the universe of 838 private passenger automobile files identified as nonrenewals by the Company, 100 files were selected for review. All 100 files were received and reviewed. The violation noted was based on 1 file, resulting in an error ratio of 1%.

The following finding was made:

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

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The Company did not provide a reason for nonrenewal.

Progressive Specialty Insurance Company

This Company did not report any private passenger automobile nonrenewals during the experience period.

Progressive Halcyon Insurance Company

From the universe of 491 private passenger automobile files identified as nonrenewals by the Company, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

4. Rescissions

A rescission is any policy, which was void *ab initio*.

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. The review also determined

compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

Progressive Casualty Insurance Company

From the universe of 45 private passenger automobile files identified as rescissions, 1 file was selected for review. The file was received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 1,124 private passenger automobile files identified as rescissions, 20 files were selected for review. All 20 files were received and reviewed. The violation noted resulted in an error ratio of 5%.

The following finding was made:

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

Progressive Halcyon Insurance Company

From the universe of 1,674 private passenger automobile files identified as rescissions, 6 files were selected for review. All 6 files were received and reviewed. No violations were noted.

Concern: While reviewing the rescissions, it was noted that the majority of the rescissions were the result of information received while processing a claim. It is the Company's procedure that all garaging issues are to be completed within the first 60 days of new business issuance. There appears to be a pattern that post-60 days underwriting takes place only to have the coverage rescinded and as a result, no coverage provided. On several occasions it had been noted that a garaging or residence issue came up during the underwriting period but no additional action was taken. While the reason for the rescissions were mostly a misrepresentation in an attempt to avoid higher rates in other territories, a more concerted effort should be taken to have the risk underwritten within the first 60 days of new business and the proper underwriting decisions made within that time frame.

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. Boat

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.

Progressive Casualty Insurance Company

This Company did not report any boat policies cancelled during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies cancelled during the experience period.

Progressive Halcyon Insurance Company

The universe of 25 boat policies which were cancelled within the first 60 days of new business was selected for review. All 25 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

Progressive Casualty Insurance Company

This Company did not report any boat policies cancelled during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies cancelled during the experience period.

Progressive Halcyon Insurance Company

From the universe of 170 boat policies which were cancelled midterm during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy, 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.

Progressive Casualty Insurance Company

This Company did not report any boat policies nonrenewed during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies nonrenewed during the experience period.

Progressive Halcyon Insurance Company

The universe of 3 boat policies which were nonrenewed during the experience period was selected for review. All 3 files were received and reviewed. No violations were noted.

4. Rescissions

A rescission is any policy, which was void *ab initio*.

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

Progressive Casualty Insurance Company

This Company did not report any boat rescissions during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat rescissions during the experience period.

Progressive Halcyon Insurance Company

The universe of 2 boat policies identified as a rescission was selected for review. Both files were received and reviewed. No violations were noted.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

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

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

Private Passenger Automobile – New Business Without Surcharges

Progressive Casualty Insurance Company

From the universe of 3,898 private passenger automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 3,900 violations noted were based on the universe of 3,898, resulting in an error ratio of 100%.

The following findings were made:

3,898 Violations Title 75, Pa. C.S §1791.1(b)

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

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

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

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The

Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

Progressive Specialty Insurance Company

From the universe of 84,209 private passenger automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 84,211 violations noted were based on the universe of 84,209, resulting in an error ratio of 100%.

The following findings were made:

84,209 Violations Title 75, Pa. C.S §1791.1(b)

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

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

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

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

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

Concern: Progressive Casualty Insurance Company and Progressive Specialty Insurance Company does provide a listing of minimum coverages at the time of application required by Title 75, Pa. C.S. §1791.1(a); however, the list is not itemized as described in the statute. The Company should correct this going forward.

Progressive Halcyon Insurance Company

From the universe of 51,425 private passenger automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 154,282 violations noted were based on the universe of 51,425, resulting in an error ratio of 100%. In addition to the violations noted during the exam, the Company reported 17,896 violations for motorcycle coverage.

The following findings were made:

23,502 Violations Title 75, Pa. C.S. §1791.1(a)

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

23,502 Violations Title 75, Pa. C.S. §1791.1(b)

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

23,502 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan at the time of application.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company issued the 7 policies with limited tort and but there was no evidence of a signed limited tort selection form.

*17,896 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The 17,896 policies were not rated in

accordance with the Company's filed and approved rating plan. Of the 17,896 violations, 8,426 were the result of motorcycle policies with incorrect comprehensive territory factors; 9,386 were the result of the Company providing an improper ultra preferred medical payment factor on motorcycle policies and the remaining 84 policies had an incorrect factor for stacked UIM for the \$500,000 combined single limit on motorcycle policies.

Private Passenger Automobile - New Business With Surcharges

Progressive Casualty Insurance Company

From the universe of 1,676 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 1,682 violations noted were based on the universe of 1,676, resulting in an error ratio of 100%.

The following findings were made:

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

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

1 Violation Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide a copy of the insured's signed rejection form for UM/UIM coverages in the file.

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

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

1 Violation Title 75, Pa. C.S. §1822

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

1,676 Violations Title 75, Pa. C.S §1791.1(b)

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

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue.

AND

Title 75, Pa. C.S. §1799.3(a)

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,150 in excess of any self insured retention or deductible applicable to the named insured. The Company applied an improper surcharge which resulted in an overcharge of \$233.51.

Progressive Specialty Insurance Company

From the universe of 32,108 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 32,113 violations noted were based on the universe of 32,108, resulting in an error ratio of 100%.

The following findings were made:

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

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

1 Violation Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide a copy of the insured's signed rejection form for UM/UIM coverages in the file.

1 Violation Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that

clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide a copy of the application with the fraud warning.

32,108 Violations Title 75, Pa. C.S §1791.1(b)

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

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue.

AND

Title 75, Pa. C.S. §1799.3(a)

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less

than \$1,150 in excess of any self insured retention or deductible applicable to the named insured. The Company improperly surcharged two insureds for the same accident which resulted in an overcharge of \$50.55.

1 Violation Title 75, Pa. C.S. §1799.3(d)

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

Concern: Progressive Casualty Insurance Company and Progressive Specialty Insurance Company does provide a listing of minimum coverages at the time of application required by Title 75, Pa. C.S. §1791.1(a); however, the list is not itemized as described in the statute. The Company should correct this going forward.

Progressive Halcyon Insurance Company

From the universe of 22,772 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 91,114 violations noted were based on the universe of 22,772, resulting in an error ratio of 100%. In addition to the violations noted during the exam, the Company reported 4,203 violations for motorcycle coverage.

The following findings were made:

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company issued the 13 policies noted with limited tort but there was no evidence of a signed limited tort selection form.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue.

AND

Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The Company failed to provide lower UM/UIM limits when the insured requested lower limits. This resulted in an overcharge of \$12.58.

2 Violations Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide a copy of the application with the fraud warning for the 2 files noted.

10,992 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company failed to provide the notice of available benefits and limits at the time of application.

10,992 Violations Title 75, Pa. C.S. §1791.1(a)

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

require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide an itemized invoice listing the minimum coverage at the time of application.

10,992 Violations Title 75, Pa. C.S §1791.1(b)

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

10,992 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time of application.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue.

AND

Title 75, Pa. C.S. §1799.3(a)

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,150 in excess of any self insured retention or deductible applicable to the named insured. The Company applied an improper surcharge, which resulted in an overcharge of \$509.19.

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

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

Company failed to provide the amount of surcharge and the dates of accidents and/or violations on the premium notice for the 9 files noted.

*4,203 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The 4,203 policies were not rated in accordance with the Company's filed and approved rating plan. Of the 4,203 violations, 2,024 were the result of motorcycle policies with incorrect comprehensive territory factors; 2,171 were the result of the Company providing an improper ultra preferred medical payment factor on motorcycle policies and the remaining 8 policies had an incorrect factor for stacked UIM for the \$500,000 combined single limit on motorcycle policies.

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

Progressive Casualty Insurance Company

From the universe of 68,314 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 68,314 violations noted were based on the universe of 68,314, resulting in an error ratio of 100%.

The following findings were made:

68,314 Violations Title 75, Pa. C.S. §1791.1(a)

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

Progressive Specialty Insurance Company

The universe of 1 private passenger automobile policy renewed without surcharges during the experience period was selected for review. The file was received and reviewed. The 4 violations noted were based on 1 file, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company failed to provide the notice of available limits at the time of application. This was a policy that was rewritten from Progressive Casualty Insurance Company.

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

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

application. This policy was rewritten from Progressive Casualty Insurance Company.

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

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of application. This policy was rewritten from Progressive Casualty Insurance Company.

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

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The Company failed to provide the signed statement from the insured requesting a deductible of less than \$500.

Progressive Halcyon Insurance Company

From the universe of 43,510 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted; however, the Company reported 34,136 violations for motorcycle coverage.

The following findings were made:

*34,136 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The 34,136 policies were not rated in accordance with the Company's filed and approved rating plan. Of the 34,136 violations, 17,580 were the result of motorcycle policies with incorrect comprehensive territory factors; 16,359 were the result of the Company providing an improper ultra preferred medical payment factor on motorcycle policies and the remaining 197 policies had an incorrect factor for stacked UIM for the \$500,000 combined single limit on motorcycle policies.

Concern: Progress Halcyon Insurance Company provides a notice listing the minimum mandated coverages at renewal. Hereafter, the Company should implement an invoice at renewal that itemizes the premium charge for the insured to purchase the minimum mandated coverages.

Concern: Progressive Halcyon Insurance Company provides a disclosure of tort options which includes the annual premium for the basic coverage. The Company should implement a disclosure of tort options verbatim with

the premium charge as outlined in Title 75, Pa. C. S. §1791.1(b) at the time of renewal.

Private Passenger Automobile – Renewals With Surcharges

Progressive Casualty Insurance Company

From the universe of 27,680 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 27,680 violations noted were based on the universe of 27,680 files, resulting in an error ratio of 100%.

The following findings were made:

27,680 Violations Title 75, Pa. C.S. §1791.1(a)

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

premiums for the insured's existing coverages. The Company failed to provide an itemized invoice listing the minimum coverages at the time of renewal.

Progressive Specialty Insurance Company

The universe of 1 private passenger automobile policy renewed with surcharges during the experience period was selected for review. The file was received and reviewed. The 5 violations noted were based on the universe of 1 file, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company failed to provide the notice of available limits at the time of application. This was a policy that was rewritten from Progressive Casualty Insurance Company.

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

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

Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the itemized invoice at the time of application. This policy was rewritten from Progressive Casualty Insurance Company.

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

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of application. This policy was rewritten from Progressive Casualty Insurance Company.

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

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

copy of a surcharge disclosure plan. This policy was rewritten from Progressive Casualty Insurance Company.

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

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

Progressive Halcyon Insurance Company

From the universe of 15,705 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted; however, the Company reported 2,443 violations for motorcycle coverage.

The following findings were made:

2,443 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in

accordance with filings or rates, which are in effect at the time of issue. The 2,443 policies were not rated in accordance with the Company's filed and approved rating plan. Of the 2,443 violations, 1,294 were the result of motorcycle policies with incorrect comprehensive territory factors; 1,144 were the result of the Company providing an improper ultra preferred medical payment factor on motorcycle policies and the remaining 5 policies had an incorrect factor for stacked UIM for the \$500,000 combined single limit on motorcycle policies.

Concern: Progress Halcyon Insurance Company provides a notice listing the minimum mandated coverages at renewal. Hereafter, the Company should implement an invoice at renewal that itemizes the premium charge for the insured to purchase the minimum mandated coverages.

Concern: Progressive Halcyon Insurance Company provides a disclosure of tort options which includes the annual premium for the basic coverage. The Company should implement a disclosure of tort options verbatim with the premium charge as outlined in Title 75, Pa. C. S. §1791.1(b) at the time of renewal.

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. Boat

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.

Boat Rating – New Business Without Surcharges

Progressive Casualty Insurance Company

This Company did not report any boat policies written as new business during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies written as new business during the experience period.

Progressive Halcyon Insurance Company

From the universe of 817 boat policies written as new business without surcharges during the experience period, 25 files were selected for review. All 20 files were received and reviewed. No violations were noted.

Boat Rating – New Business With Surcharges

Progressive Casualty Insurance Company

This Company did not report any boat policies written as new business during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies written as new business during the experience period.

Progressive Halcyon Insurance Company

From the universe of 200 boat policies written as new business with surcharges, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Concern: The boat policies contain only the MVR to verify an accident was at fault. It is recommended that the Company provide additional documentation to determine if an insured is at-fault when assigning driving record points to an accident.

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.

Boat Rating – Renewals Without Surcharges

Progressive Casualty Insurance Company

This Company did not report any boat policies renewed during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies renewed during the experience period.

Progressive Halcyon Insurance Company

From the universe of 854 boat policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Boat Rating – Renewals With Surcharges

Progressive Casualty Insurance Company

This Company did not report any boat policies renewed during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat policies renewed during the experience period.

Progressive Halcyon Insurance Company

From the universe of 117 boat policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were

received and reviewed. No violations were noted.

D. Automobile & Watercraft

Prior to the on-site examination, the Company identified private passenger automobile and watercraft policies that contained various rating errors which were inconsistent with filed and approved rates. At the Department's direction, the Company has refunded the identified overcharges to the affected policyholders.

The following violations were noted:

*114,474 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. Of the 114,474 violations noted, 114,306 were the result of private passenger automobile policies rated improperly. The remaining 168 violations were the result of watercraft policies rated improperly.

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. Boat 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

Progressive Casualty Insurance Company

From the universe of 15,755 private passenger automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 7,015 private passenger automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Halcyon Insurance Company

From the universe of 10,284 private passenger automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

Progressive Casualty Insurance Company

From the universe of 5,576 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 2,074 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Halcyon Insurance Company

From the universe of 5,143 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted

resulted in an error ratio of 4%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

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

C. Automobile Collision Claims

Progressive Casualty Insurance Company

From the universe of 14,512 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 5,605 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Halcyon Insurance Company

From the universe of 13,672 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Field Investigation Referral

As a result of other Department Enforcement efforts during 2006/2007 involving the Company, the following additional violations involving Collision Damage Claim appraisals were identified and are hereby incorporated into this Report for resolution.

2 Violations Title 31, Pa. Code, Section 146.8

Standards for prompt, fair and equitable settlements applicable to automobile insurance.

If an insurer prepares an appraisal of the cost of automobile repairs, the appraisal shall be in an amount for which it may be reasonably expected the damage can be satisfactorily repaired.

AND

Act 205, Section 5(a)(10)(iii)&(vi) [40 P.S. §1171.5(a)(10)(iii &(vi))]

Unfair methods of competition and unfair or deceptive acts or practices. Refusing to pay claims without conducting a reasonable investigation based upon all available information. Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear.

AND

63 P.S. §861

Compliance with act. Every appraiser shall: Disregard any efforts on the part of others to influence his judgment in the interest of the parties involved. (f)(4) Every appraiser shall: Prepare an independent appraisal of damage. The appraiser allowed a claims manager to subsequently influence the appraiser into reducing the initial amount of the appraisal which was prepared at the time of physical inspection of the damaged vehicle and allowed a claims manager to subsequently influence initial judgment of the appraiser

resulting in a lower appraisal.

D. Automobile Total Loss Claims

Progressive Casualty Insurance Company

From the universe of 3,481 private passenger automobile total loss claims reported during the experience period, 25 files were selected for review.

All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

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.

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

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to

whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The file noted did not reflect a Pennsylvania salvage title was obtained.

Progressive Specialty Insurance Company

From the universe of 1,612 private passenger automobile total loss claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 4 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 62.3(e)(1)

Requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company did not calculate the replacement value by using one of the 3 approved methods.

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

(a) General rule – Except as provided in Sections 1162 and

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The 2 files noted did not reflect a Pennsylvania salvage title was obtained.

Progressive Halcyon Insurance Company

From the universe of 2,812 private passenger automobile total loss claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 5 violations noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

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

Requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company failed to provide documentation to verify the proper method of calculating the replacement value.

2 Violations 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 2 files noted did not have the correct sales tax included in the replacement value of the vehicle.

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

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate

of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The 2 files noted did not reflect a Pennsylvania salvage title was obtained.

E. Automobile First Party Medical Claims

Progressive Casualty Insurance Company

From the universe of 8,154 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Specialty Insurance Company

From the universe of 3,955 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Progressive Halcyon Insurance Company

From the universe of 5,426 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

F. Automobile First Party Medical Claims Referred to a PRO

Progressive Casualty Insurance Company

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

Progressive Specialty Insurance Company

The universe of 2 private passenger automobile first party medical claims referred to a peer review organization was selected for review. Both files were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. The violation noted resulted in an error ratio of 50%.

The following finding was made:

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

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The Company did not provide a copy of the PRO report to the provider and insured within 5 days of receipt.

Progressive Halcyon Insurance Company

The universe of 4 private passenger automobile first party medical claims referred to a peer review organization was selected for review. The 4 files were received and reviewed. The Company was requested to provide

copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. No violations were noted.

G. Boat Claims

Progressive Casualty Insurance Company

This Company did not report any boat claims during the experience period.

Progressive Specialty Insurance Company

This Company did not report any boat claims during the experience period.

Progressive Halcyon Insurance Company

From the universe of 52 boat claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

VIII. FORMS

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

The following findings were made:

1 Violation Title 75, Pa. C.S. §1822

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

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on the personal property loss form.

1 Violation Act 68, Section 2006(7) [40 P.S. §991.2006(7)]

Requires that a cancellation notice clearly state that when coverage is to be terminated due to nonresponse to a citation imposed under 75 Pa. C.S. §1533 (relating to suspension of operating privilege for failure to respond to a citation) or nonpayment of a fine or penalty imposed under that section, coverage shall not terminate if the insured provides the insurer with proof that the insured has responded to all citations and paid all fines and penalties and that he has done so on or before the termination date of the policy. The Company failed to have the required language regarding nonresponse and nonpayment of citations and fines or penalties.

Concern: Form 3679 (2/99) PA, contains a fraud warning that references “Title 81”. The Company should change the typographical error to the correct Title 18 reference.

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 192 pieces of advertising which included customer brochures, producer's guides, magazine advertising, "Yellow Book" phone book advertising, radio audio spots, television video clips, internet advertising banners, billboard prints, magazine advertisement prints and direct mailing materials. 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 329 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 329 complaints reported, 125 complaints were requested, received and reviewed.

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

The following findings were made:

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

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

1 Violation Act 205, Section 4 [40 P.S. §1171.4]

Unfair methods of Competition and Unfair or Deceptive Acts or Practices Prohibited. No person shall engage in this State in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act.

AND

Title 75, Pa. C.S. §1738(c)(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not offer nonstacked uninsured and underinsured motorist coverage for a single vehicle. Waiver forms were signed by the named insured.

The following synopsis reflects the nature of the 125 complaints that were reviewed.

Progressive Casualty Insurance Company

• 27	Claims Related	54%
• 13	Cancellation/Nonrenewal	26%
• 5	Premium/Underwriting	10%
• 5	Miscellaneous/Service	10%
<hr/>		<hr/>
50		100%

Progressive Specialty Insurance Company

• 13	Claims Related	52%
• 10	Cancellation/Nonrenewal	40%
• 2	Premium/Underwriting	8%
<hr/>		<hr/>
25		100%

Progressive Halcyon Insurance Company

• 19	Claims Related	38%
• 19	Cancellation/Nonrenewal	38%
• 8	Premium/Underwriting	16%
• 4	Miscellaneous/Service	8%
<hr/>		<hr/>
50		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:

Progressive Casualty Insurance Company

2 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.

Mary & Gooder Agency, Inc.
Bane Insurance Agency, Inc.

Progressive Halcyon Insurance Company

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

[40 P.S. §310.41a]

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

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

Matthew T. Knight
Amy Clark

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2004 and 2006 [40 P.S. §§991.2004 and 991.2006], so that the violations noted in the Report do not occur in the future.
2. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
3. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options are provided at the time of application, as noted in the Report, and does not occur in the future.
4. The Company must review Title 75, Pa. C.S. §1791.1(a) violations to ensure that an itemized invoice listing minimum coverages is provided at the time of application and every renewal thereafter as noted in the Report and does not occur in the future.
5. The Company must review Title 75, Pa. C.S. §1791 violations to ensure that the notice of available benefits is given to the insured at renewal as noted in the Report.

6. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
7. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.
8. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms and the forms are retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.
9. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage and the forms are retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(1) do not occur in the future.
10. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

11. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.
12. When a surcharge is imposed on a private passenger automobile policy the Company must include the amount of the surcharge and the specifics of accidents and citations. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
13. The Company 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 providing status letters do not occur in the future.
14. The Company must review Title 31, Pa. Code, Section 69.52(e) with its claim staff to ensure that the provider and insured are provided a copy of a PRO evaluation in a timely manner.
15. The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company must recalculate the claim files noted in the Report and provide claimants with any refunds. Proof of the recalculation and any refunds to claimants must be provided to the Insurance Department within 30 days of the Report issue date.
16. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor

vehicle. The Company must review all claims where sales tax was not included in the replacement value of a motor vehicle. The sales tax must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

17. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained with the claim file.
18. 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.
19. 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 for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].
20. The Company must ensure that all applications and claim forms contain the required fraud warning notice.
21. The Company must implement procedures to ensure damage appraisals are made independently by the assigned adjuster in accordance with Title 31, Pa. Code, Section 146.8 and 63. P.S. §861.

XIII. COMPANY RESPONSE

PROGRESSIVE

6085 Parkland Blvd.
Mayfield Heights, OH 44124
Telephone: 440 461-5000
progressive.com

December 13, 2007

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

RE: Examination Warrant Number: 96-M22-002
Progressive Casualty Insurance Company
Progressive Specialty Insurance Company
Progressive Direct Insurance Company (formerly known as Progressive
Halcyon Insurance Company)

Dear Mr. Derk,

Enclosed are Progressive Casualty Insurance Company, Progressive Specialty Insurance Company and Progressive Direct Insurance Company responses to the examination report. An electronic copy has been sent to your attention as requested.

Should you have additional questions, please do not hesitate to contact me at 440.603.5588.

Sincerely,



Patricia Kraven
Market Conduct Auditor

Enclosures

PROGRESSIVE

6085 Parkland Blvd.
Mayfield Heights, OH 44124
Telephone: 440 461-5000
progressive.com

December 13, 2007

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

RE: Examination Warrant Number: 96-M22-002
Progressive Casualty Insurance Company
Progressive Specialty Insurance Company
Progressive Direct Insurance Company (formerly known as Progressive
Halcyon Insurance Company)

Dear Mr. Derk,

We reviewed the market conduct report concerning the examination of Progressive Casualty Insurance Company, Progressive Specialty Insurance Company and Progressive Direct Insurance Company (collectively, "Progressive"). We thank the Division for its observations. Our response will address each of the issues cited by the examiners. Where we agree, we will address any corrective action taken or to be taken. Our response does not address areas examined for which no violations were found.

Progressive values a strong, cordial working relationship with the Department. We are committed to providing the best possible experience for our Pennsylvania customers and look forward to working with the Department to improve that experience whenever possible.

IV. Underwriting Practices and Procedures

Progressive respectfully disagrees with this violation. We do not unfairly discriminate on the basis of age. The criteria listed in the above rule is merely a set of circumstances where a person may qualify for list only status. Under our rules, an applicant may designate a household member as list only if he or she is unlicensed. The age piece in the circumstance in question is simply a descriptive tool to identify a group of household residents that may or may not

be unlicensed. Another criteria for list only status is "has never been licensed or has surrendered license." Under this option, an unlicensed household member may achieve list only status irrespective of the person's age. Thus, no unfair discrimination exists because a household member may be designated as list only if he or she is unlicensed regardless of the person's age. However, to address the examiner's concerns, and because other criteria allow an applicant to exclude unlicensed household members, we will remove this provision from our underwriting rules.

V. Underwriting

A. Private Passenger Automobile

2. Midterm Cancellations

Progressive Casualty Insurance Company

Progressive agrees the 9 files noted were cancelled for nonpermissible reasons. We have reviewed and revised our internal control procedures to ensure compliance with the cancellation requirements of Act 68, Section 2004 [40 P.S. §991.2004].

Progressive agrees we failed to provide 60 days notice of cancellation for the 11 files noted. We have reviewed and revised our internal control procedures to ensure compliance with the cancellation notice requirements of Act 68, Section 2006(2) [40 P.S. §991.2006(2)].

Progressive Specialty Insurance Company

Progressive agrees the 2 files noted were cancelled for nonpermissible reasons. Progressive has reviewed and revised internal control procedures to ensure compliance with the cancellation requirements of Act 68, Section 2004 [40 P.S. §991.2004].

Progressive agrees we failed to provide 60 days notice of cancellation for the 3 files noted. Progressive has reviewed and revised internal control procedures to ensure compliance with the cancellation notice requirements of Act 68, Section 2006(2) [40 P.S. §991.2006(2)].

Progressive Halcyon Insurance Company

Progressive agrees the 6 files noted were cancelled for nonpermissible reasons. Progressive has reviewed and revised internal control procedures to ensure compliance with the

cancellation requirements of Act 68, Section 2004 [40 P.S. §991.2004].

Progressive agrees we failed to provide 60 days notice of cancellation for the 9 files noted. Progressive has reviewed and revised internal control procedures to ensure compliance with the cancellation notice requirements of Act 68, Section 2006(2) [40 P.S. §991.2006(2)].

3. Nonrenewals

Progressive Casualty Insurance Company

Progressive agrees we failed to provide a reason for nonrenewal in this single instance. We believe this incident is isolated in nature and not reflective of our overall level of compliance. Accordingly, we respectfully request that this violation be removed from the final examination report.

4. Rescissions

Progressive Specialty Insurance Company

Progressive agrees the single file noted did not have sufficient documentation to support the reason for rescission. We believe this incident is isolated in nature and not reflective of our overall level of compliance. Therefore, we respectfully request that this violation be removed from the final examination report.

Concern

Progressive takes appropriate steps to verify the insured's garaging address within the first 60 days of policy issuance. However, it has been our experience that some insureds have not been entirely truthful and in some instances have misrepresented their garaging address. We cannot always reasonably discover this misrepresentation during the first 60 days; hence, we are sometimes forced to rescind policies for misrepresentation outside of the 60 day window. Progressive only takes this action when necessary and does so in compliance with Pennsylvania law. Progressive appreciates the Department's guidance, but as there is no statutory or regulatory violation, we respectfully request that this concern be removed from the final examination report.

VI. Rating

A. Private Passenger Automobile

1. New Business

Private Passenger Automobile- New Business without Surcharges

Progressive Casualty Insurance Company

Progressive respectfully disagrees that we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we believed to be the time of application in the good faith belief we were following the requirements of the law. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to purchase of the policy. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provide the form during the application process as required by the statute and, therefore, respectfully request these violations be removed.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we

are willing to modify our process consistent with the Department's analysis.

Progressive agrees we issued the single noted policy with limited tort without evidence of a signed limited tort selection form in the file. We believe this is an isolated incident and not reflective of our overall level of compliance. Consequently, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we did not provide a signed rejection of stacked limits for uninsured and underinsured motorist coverage for the single file noted. However, we believe the incident is isolated in nature and not reflective of our overall level of compliance. Hence, we respectfully request that this violation be removed from the final examination report.

Progressive Specialty Insurance Company

Progressive respectfully disagrees that we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we in good faith believed to be the time of application. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to purchase of the policy. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provide the form during the application process as required by the statute and, therefore, respectfully request these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive agrees we issued the single noted policy with limited tort without evidence of a signed limited tort selection form in the file. However, we believe this is an isolated incident and not reflective of our overall level of compliance. Accordingly, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we failed to maintain a signed statement from the insured for a lower collision deductible in this single instance. However, we believe this incident is isolated in nature and not reflective of our overall level of compliance. Therefore, we respectfully request that this violation be removed from the final examination report.

Concern

Progressive appreciates the examiners' concern and will take this under advisement, but it is our position we provided notices which met the requirements of the statute. We will, however, review our form and consider making changes to itemize the coverages on a going forward basis consistent with the examiners' recommendation. Because no statutory or regulatory violations were found, however, we respectfully request that this concern be removed from the final examination report.

Progressive Halcyon Insurance Company

Progressive respectfully disagrees we failed to provide the itemized invoice required by the statute. We provided the required notice at the time of policy issuance in the good faith belief that our actions were in compliance with the applicable statute. Therefore, we respectfully request that these violations be removed.

In the alternative, should the Department continue to disagree with our position, we respectfully request that the report list this as a single violation. Any error regarding the timeliness of form issuance represents a single error, and we request that it be noted as such in the report. At the very least, if the Department continues to find each and every time we issued the form after policy purchase was a separate violation, we ask that the number of violations be changed to 23,502 to reflect the exclusion of policies purchased over the Internet. The form is presented to Internet customers before policy purchase, and thus no violation of the Department's strict interpretation of the statutory language occurred with respect to these policies.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the itemized invoice is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive respectfully disagrees we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we in good faith believed to be the time of application. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to purchase of the policy. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provide the form during the application process as required by the statute and, therefore, respectfully request these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute

despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position. At the very least, should the Department continue to disagree with our position and finds each and every instance of form issuance constitutes a separate violation, we respectfully request that the number of violations be changed to 23,502 to reflect the exclusion of policies purchased over the Internet. The notice is presented to Internet customers for electronic signature before policy purchase; thus, all policies purchased over the Internet must be excluded from the violation counts as these policies are compliant with the Department's strict interpretation of the statutory language regarding timely issuance.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive respectfully disagrees we failed to provide the surcharge disclosure plan at the time of application. Progressive provided the required documents during what we believed to be the time of application. We provide the form during the new business application process to explain our system of driving record points. We believe we provided the form in a timely manner in the good faith belief our action was compliant with the applicable law.

In the alternative, should the Department continue to disagree with our explanation, we respectfully request that the number of cited violations be changed to more accurately reflect that any error regarding the timeliness of form issuance represents a single violation. At the very least, should the Department continue to disagree with our position and find each and every instance of form issuance constitutes a separate violation, we respectfully request that the number of violations be changed to 23,502 to reflect the exclusion of policies purchased over the Internet. The notice is presented to Internet customers for

electronic signature before policy purchase; thus, all policies purchased over the Internet must be excluded from the violation counts as these policies are compliant with the Department's strict interpretation of the statutory language regarding timely issuance.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the surcharge disclosure plan is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive agrees we issued the 7 policies noted with limited tort and failed to maintain adequate evidence of a signed limited tort selection form in the file. However, we believe the incidents are isolated in nature and not reflective of our overall level of compliance. Hence, we respectfully request that these violations be removed from the final report.

Progressive agrees we mistakenly failed to rate the identified policies in accordance with our filed and approved rating plans. We have taken the appropriate steps to correct the impacted policies, including issuing refunds as appropriate.

Private Passenger Automobile- New Business with Surcharges

Progressive Casualty Insurance Company

Progressive agrees we issued the 2 noted policies with limited tort without adequate evidence of a signed limited tort selection form in the file. However, we believe these incidents are isolated in nature and not reflective of our overall level of compliance. Therefore, we respectfully request that these violations be removed from the final report.

Progressive agrees we failed to provide a copy of the insured's signed rejection form for UM/UIM coverage in the file with respect to this single policy. However, we believe this was an isolated error and not reflective of our overall level of compliance. Consequently, we respectfully request that this violation be removed from the final report.

Progressive agrees we did not provide a signed rejection form for stacked UM/UIM limits for the single file noted. However, we believe this is an isolated error and is not reflective of our overall level of compliance. Therefore, we respectfully request that this violation be removed from the final report.

Progressive respectfully disagrees we failed to include the proper fraud warning on the application. The application with the required language was provided to the customer; however, we failed to maintain a copy in the policy file. Accordingly, while we may not have fully discharged our record retention obligations with respect to this single policy, we did provide the application with the proper fraud language to the customer at the outset. As this record retention issue appears to be a single administrative error and is not reflective of our overall compliance efforts, we respectfully request that it be removed from the final examination report.

Progressive respectfully disagrees we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we in good faith believed to be the time of application. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to policy purchase. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provided the form during the application process as required by the statute and, therefore, respectfully request these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive agrees we improperly surcharged this single policy. We have taken the appropriate steps to correct the impacted policy, which includes the issuance of a refund for the amount of the overcharge. We believe this is an isolated incident and not reflective of our overall level of compliance. Accordingly, we respectfully request that this violation be removed from the final report.

Progressive Specialty Insurance Company

Progressive agrees we issued the noted policy with limited tort without adequate evidence of a signed limited tort selection form in the file. However, we believe this incident is isolated in nature and not reflective of our overall level of compliance. Therefore, we respectfully request that this violation be removed from the final report.

Progressive agrees we failed to maintain a copy of the insured's signed UM/UIM rejection form in the file with respect to this single policy. However, we believe this is an isolated error and not reflective of our overall level of compliance. Hence, we respectfully request that this violation be removed from the report.

Progressive respectfully disagrees we failed to include the proper fraud warning on the application. The application with the required language was provided to the customer; however, we failed to maintain a copy in the policy file. Accordingly, while we may not have fully discharged our record retention obligations with respect to this single policy, we did provide the application with the proper fraud language to the customer at the outset. As this record retention issue appears to be a single administrative error and is not reflective of our overall

compliance efforts, we respectfully request that it be removed from the final examination report.

Progressive respectfully disagrees that we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we in good faith believed to be the time of application. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to policy purchase. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provided the form during the application process as required by the statute and, therefore, respectfully request these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive agrees we improperly surcharged two insureds for the same accident. The applicable refund has been issued. As the appropriate remedial steps have been taken with respect to the impacted insureds and we believe this to be an isolated

incident, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we failed to provide the surcharge amount on the premium notice for the single file noted. However, as this is an isolated error and does not depict our overall level of compliance, we respectfully request that it be removed from the final examination report.

Concern:

Progressive appreciates the examiners' concern and will take this under advisement, but it is our position we provided notices which met the requirements of the statute. We will, however, review our form and consider making changes to itemize the coverages on a going forward basis consistent with the examiners' recommendation. Because no statutory or regulatory violations were found, however, we respectfully request that this concern be removed from the final examination report.

Progressive Halcyon Insurance Company

Progressive agrees we issued the 13 policies noted with limited tort without adequate evidence of a signed limited tort selection form in the file.

Progressive agrees we failed to honor the insured's request to provide lower UM/UIM limits in this single instance. We have issued a refund to the impacted customer for the amount of the premium overcharge. Because the appropriate remedial action has been taken and we believe this to be an isolated incident, we respectfully request this violation be removed from the final examination report.

Progressive respectfully disagrees we failed to include the proper fraud warning on the application for the 2 files noted. The application with the required language was provided to the customers; however, we failed to maintain a copy in the policy file. Accordingly, while we may not have fully discharged our record retention obligations with respect to these two policies, we did provide the application with the proper fraud language to the customers at the outset. As this record retention issue appears to be administrative in nature and not reflective of our overall compliance efforts, we respectfully request that these violations be removed from the final examination report.

Progressive respectfully disagrees that we failed to provide the notice of available benefits and limits at the time of application. It is our position we provided the required notice during what we in good faith believed to be the application period. In addition, an insurance company cannot be found in violation of Title 75, Pa. C.S. § 1791 as this statute establishes no duty to give a notice but merely provides for a statutory presumption if a notice is given in conformity with the notice set forth in the provision. Therefore, we respectfully request that these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report. At the very least, should the Department continue to disagree with our position and find each and every instance of form issuance constitutes a separate violation, we respectfully request that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The notice is presented to Internet customers for electronic signature before policy purchase; thus, all policies purchased over the Internet must be excluded from the violation counts as these policies are compliant with the Department's strict interpretation of the statutory language regarding timely issuance.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the notice of available benefits and limits is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive respectfully disagrees we failed to provide the itemized invoice required by the statute. We provided the required notice at the time of policy issuance in the good faith belief our actions were compliant with the applicable statute. Accordingly, we respectfully request that these violations be removed from the final report.

In the alternative, should the Department continue to disagree with our position, we respectfully request that the report list this as a single violation. Any error regarding the timeliness of form issuance represents a single error, and we request that it be noted as such in the report. At the very least, if the Department continues to find each and every time we issued the form after policy purchase to be a separate violation; we ask that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The form is presented to Internet customers for electronic signature before policy purchase, and thus no violation of the Department's strict interpretation of the statutory language occurred with respect to these policies.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the itemized invoice is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive respectfully disagrees we failed to provide the notice of tort options at the time of application on the noted files. Progressive provided the required documents during what we in good faith believed to be the time of application. The plain language of the statute requires an insurer to provide a notice of tort options at the time of application, but does not mandate receipt of the notice by the insured prior to purchase of the policy. The applicable form is produced when a new business policy is purchased and mailed within a few days. The insured is directed to make his or her selection on the form, sign it, and mail the completed document back to us within a prescribed number of days. If the selection on the form does not match what the customer told us on the telephone when the policy was purchased, we adjust the policy back to inception to make it consistent with the insured's choice on the completed form. Therefore, it is our belief we provided the form during the application process as required by the statute and, therefore, respectfully request these violations be removed from the final examination report.

In the alternative, Progressive disagrees with the number of cited violations. If the Department finds we violated the statute despite our explanation to the contrary, any error regarding the timeliness of form issuance represents a single violation and we request it be noted as such in the report should the Department continue to disagree with our position. At the very least, if the Department continues to find each and every time we issued the form after policy purchase was a separate violation, we ask that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The form is presented to Internet customers for electronic signature before policy purchase, and thus no violation of the Department's strict interpretation of the statutory language occurred with respect to these policies.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive respectfully disagrees we failed to provide the surcharge disclosure plan at the time of application. Progressive provided the required documents during what we in good faith believed to be the time of application. We provided the form during the new business application process to explain our system of driving record points.

In the alternative, should the Department continue to disagree with our explanation, we respectfully request that the number of cited violations be changed to more accurately reflect that any error regarding the timeliness of form issuance represents a single violation. At the very least, should the Department continue to disagree with our position and find each and every instance of form issuance constitutes a separate violation, we respectfully request that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The notice is presented to Internet customers for electronic signature before policy purchase; thus, all policies purchased over the Internet must be excluded from the violation

counts as these policies are compliant with the Department's strict interpretation of the statutory language regarding timely issuance.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the surcharge disclosure plan is provided to customers before policy purchase. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive agrees we applied an improper surcharge in this single instance. We have issued the appropriate refund to the customer. As the appropriate remedial action has been taken and this was an isolated incident, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we failed to provide the amount of surcharge and the dates of accidents and/or violations on the premium notices for the 9 files noted. However, there is no indication any customers were harmed by these administrative errors. Therefore, we respectfully request that these violations be removed from the final examination report.

Progressive agrees we mistakenly failed to rate the identified policies in accordance with our filed and approved rating plan. We have taken the appropriate steps to correct all impacted policies, including issuing refunds as appropriate.

2. Renewals

Private Passenger Automobile- Renewals without Surcharges

Progressive Casualty Insurance Company

Progressive respectfully disagrees we failed to provide the itemized invoice required by the statute. We provided the required notice at the time of renewal issuance in the good faith belief our actions were in compliance with the applicable statute. Accordingly, we respectfully request that these violations be removed.

In the alternative, should the Department continue to disagree with our position, we respectfully request that the report list this as a single violation. Any error regarding the timeliness of form issuance represents a single error, and we request that it be noted as such in the report. At the very least, if the Department continues to find each and every time we issued the form after policy purchase to be a separate violation; we ask that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The form is presented to Internet customers for electronic signature before policy purchase, and thus no violation of the Department's strict interpretation of the statutory language occurred with respect to these policies.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the itemized invoice is provided to customers at the time of renewal. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive Specialty Insurance Company

Progressive agrees we failed to provide the notice of available limits at the time of application on this single rewritten policy. However, we believe this is an isolated administrative error only and respectfully request that it be removed from the final examination report.

Progressive agrees we failed to provide the itemized invoice at the time of application on this single rewritten policy. However, we believe this is an isolated administrative error only and respectfully request that it be removed from the final examination report.

Progressive agrees we did not provide the notice of tort options at the time of application on this single rewritten policy. However, we believe this is an isolated administrative error only and respectfully request that it be removed from the final examination report.

Progressive agrees we failed to maintain a signed statement from the insured requesting a deductible of less than \$500.

However, we believe this to be a record retention issue only. As this retention issue appears to be a single administrative error and not reflective of our overall compliance efforts, we respectfully request that it be removed from the final examination report.

Progressive Halcyon Insurance Company

Progressive agrees we mistakenly failed to rate the identified policies in accordance with our filed and approved rating plan. We have taken the appropriate steps to correct all impacted policies, including issuing refunds as appropriate.

Concern:

Progressive appreciates the examiners' concern and will take this under advisement, but it is our position we provided notices which met the requirements of the statute. We will, however, review our form and consider making changes to itemize the coverages on a going forward basis consistent with the examiners' recommendation. Because no statutory or regulatory violations were found, however, we respectfully request that this concern be removed from the final examination report.

Concern:

Progressive appreciates the examiners' concerns, but disagrees we should implement a disclosure of tort options without the premium charge for limited tort and full tort. Pursuant to Title 75, Pa C.S. § 1705 and case law, Pestcoe v. Nisenzone, 1995 WL 870777 (Pa. Com. Pl. 1995); Azaria v. Sacks, 1996 WL 932772 (Pa. Com. Pl. 1996); Mariyamma Thomas v. Thomas George and Mary Ann Melinson, 1996 WL 1358471 (Pa. Com. Pl. 1996); and Thomas v. George, 1996 WL 942108 (Pa. Com. Pl. 1996), an insurance company is required to provide notice and list for cost comparison purposes the charge for limited tort versus full tort at new business and first renewal. Pursuant to the above case law, an insurance company is permitted, but not required, to list the limited and full tort premium charge on the notice at second and subsequent renewals. Accordingly, we are not prohibited from disclosing the premium charge at subsequent renewal by any statute or regulation, and in fact are expressly permitted to do so by case law, and therefore we respectfully request that this concern be removed from the final examination report.

Private Passenger Automobile- Renewals with Surcharges

Progressive Casualty Insurance Company

Progressive respectfully disagrees we failed to provide the itemized invoice required by the statute. We provided the required notice at the time of renewal issuance in the good faith belief our actions were compliant with the applicable statute. Therefore, we respectfully request that these violations be removed from the final report.

In the alternative, should the Department continue to disagree with our position, we respectfully request that the report list this as a single violation. Any error regarding the timeliness of form issuance represents a single mistake, and we request that it be noted as such in the report. At the very least, if the Department continues to find each and every time we issued the form after policy purchase was a separate violation, we ask that the number of violations be changed to 10,992 to reflect the exclusion of policies purchased over the Internet. The form is presented to Internet customers for electronic signature before policy purchase, and thus no violation of the Department's strict interpretation of the statutory language occurred with respect to these policies.

While maintaining the arguments set forth above and without admitting liability or noncompliance, upon learning of the Department's interpretation of the statutory language, we have agreed to modify our process to ensure the itemized invoice is provided to customers at the time of renewal. We believe this outcome is neither mandated by the plain language nor the intent of the statutory provision, but in an effort to maintain a strong working relationship with the Department we are willing to modify our process consistent with the Department's analysis.

Progressive Specialty Insurance Company

Progressive agrees we did not provide the notice of available limits in this single instance. We believe this is an isolated incident and is not reflective of our overall level of compliance. Consequently, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we failed to provide the itemized invoice with respect to this single policy. This was an isolated incident and not reflective of our overall level of compliance. Therefore, we

respectfully request that this violation be removed from the final examination report.

Progressive agrees we did not provide the notice of tort options in this single instance. This was an administrative error only and not reflective of our overall level of compliance. Accordingly, we respectfully request this violation be removed from the final examination report.

Progressive agrees we did not provide this single insured with a copy of the surcharge disclosure plan. As this was an isolated error, we respectfully request that it be removed from the final examination report.

Progressive agrees we issued this single policy with limited tort without adequate evidence of a signed tort selection form in the file. We believe this incident is isolated in nature and not reflective of our overall level of compliance. Hence, we respectfully request that this violation be removed from the final examination report.

Progressive Halcyon Insurance Company

Progressive agrees we mistakenly failed to rate the noted policies in accordance with our filed and approved rating plan. We have taken the appropriate steps to correct all impacted policies, including issuing refunds as appropriate.

Concern:

Progressive appreciates the examiners' concern and will take this under advisement, but it is our position we provided the requisite notices which met the requirements of the statute. We will, however, review our form and consider making changes to itemize the coverages on a going forward basis consistent with the examiners' recommendation. Because no statutory or regulatory violations were found, however, we respectfully request that this concern be removed from the final examination report.

Concern:

Progressive appreciates the examiners' concerns, but disagrees we should implement a disclosure of tort options without the premium charge for limited tort and full tort. Pursuant to Title 75, Pa C.S. § 1705 and case law, Pestcoe v. Nisenzone, 1995 WL 870777 (Pa. Com. Pl. 1995); Azaria v. Sacks, 1996 WL 932772 (Pa. Com. Pl. 1996); Mariyamma Thomas v. Thomas George and

Mary Ann Melinson, 1996 WL 1358471 (Pa. Com. Pl. 1996); and Thomas v. George, 1996 WL 942108 (Pa. Com. Pl. 1996), an insurance company is required to provide notice and list for cost comparison purposes the charge for limited tort versus full tort at new business and first renewal. Pursuant to the above case law, an insurance company is permitted, but not required, to list the limited and full tort premium charge on the notice at second and subsequent renewals. Accordingly, we are not prohibited from disclosing the premium charge at subsequent renewal by any statute or regulation, and in fact are expressly permitted to do so by case law, and therefore we respectfully request that this concern be removed from the final examination report.

C. Boat

1. New Business

Boat Rating- New Business with Surcharges

Concern

Progressive appreciates the examiners' concern; however, we respectfully disagree that we should provide additional documentation to determine if an insured is at-fault when assigning driving record points to an accident. There is no statutory requirement to support this recommendation. Accordingly, we respectfully request that his concern be removed from the final examination report.

D. Automobile and Watercraft

Progressive agrees in part with this criticism. Progressive agrees with the number of violations for private passenger auto and boat, but disagrees the refunds were made at the Department's direction. Progressive processed and issued most of the refunds before notification was given to the Department. At the time the Department was notified, the only refunds outstanding were those amounting to less than \$2.00 per policyholder. Progressive asked for the Department's direction with respect to these refunds only. Progressive made the decision to refund all policyholders no matter how small the amount and has completed the process of issuing refunds with interest. Progressive would also like to note that while the quantity of violations may appear large, each refund involved a small monetary amount and thus the impact to each affected policyholder was relatively minor.

VII. Claims

B. Automobile Comprehensive Claims

Progressive Halcyon Insurance Company

Progressive agrees we did not provide a timely status letter for the single claim noted. However, this was an isolated incident and not reflective of our overall level of compliance in this area. Accordingly, we respectfully request that this violation be removed from the final examination report.

C. Automobile Collision Claims

Field Investigation Referral

Progressive agrees with the two violations noted in this section concerning the preparation of an independent appraisal of damage. However, these were exceptions and not our general business practice. Consequently, we respectfully request that these violations be removed from the final examination report.

D. Automobile Total Loss Claims

Progressive Casualty Insurance Company

Progressive agrees we mistakenly failed to include sales tax in the vehicle replacement value on this single file. This was an isolated error as evidenced by the fact we properly included sales tax on all other files reviewed. Accordingly, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we did not request the claimant to produce evidence that a salvage title was obtained prior to issuing payment on this single claim. However, this was an isolated incident and not reflective of our overall level of compliance in this area. Consequently, we respectfully request that this violation be removed from the final examination report.

Progressive Specialty Insurance Company

Progressive agrees we did not calculate the vehicle replacement value by using one of the 3 approved methods in these 2 instances. These were isolated errors and do not reflect our general business practice. Therefore, we respectfully request that these violations be removed from the examination report.

Progressive agrees in part with this criticism. We agree the file does not contain sufficient evidence to show a salvage title was obtained with respect to one of the violations. However, this was an isolated incident and not reflective of our overall level of compliance in this area. With

respect to the other noted violation, the loss occurred outside the state of Pennsylvania and the salvage was disposed of in accordance with the laws of that state in the good faith belief we were acting in accordance with the law. Upon learning of the Department's interpretation of the salvage and titling requirements with respect to this issue during the course of the examination, we will begin handling out of state salvage consistent with the Department's analysis. Accordingly, we respectfully request that these violations be removed from the final examination report.

Progressive Halcyon Insurance Company

Progressive agrees we did not provide sufficient documentation to verify the proper method of calculating the vehicle replacement value in this single instance. However, the failure to maintain proper documentation is a record retention issue only. Importantly, the failure to maintain documentation does not mean we did not properly calculate the vehicle's replacement value in this case. Therefore, we respectfully request that this violation be removed from the examination report.

Progressive agrees we did not include sales tax in the vehicle's replacement value in the 2 instances noted. These were isolated administrative errors as evidenced by the fact we properly included sales tax on all other files reviewed. Accordingly, we respectfully request that these violations be removed from the final examination report.

Progressive agrees a Pennsylvania salvage title was not obtained for the 2 files noted. However, these losses occurred outside the state of Pennsylvania and the salvage was disposed of according to the laws of those states in the good faith belief we were complying with the law. Upon learning of the Department's interpretation of the salvage and titling requirements with respect to this issue during the course of the examination, we will begin handling out of state salvage consistent with the Department's analysis. Consequently, we respectfully request these violations be removed from the examination report.

F. Automobile First Party Medical Claims Referred to a PRO

Progressive Specialty Insurance Company

Progressive agrees we did not provide a copy of the PRO report to the provider and insured within 5 days of receipt in this single instance. We believe the incident is isolated in nature and not reflective of our overall level of compliance. Accordingly, we respectfully request that this violation be removed from the final examination report.

G. Boat Claims

Progressive Halcyon Insurance Company

Progressive agrees we did not provide status letters within the statutory time frames for the 2 claims noted. However, these were isolated incidents and not reflective of our overall level of compliance. Consequently, we respectfully request that these violations be removed from the examination report.

VIII. Forms

Progressive respectfully disagrees that we failed to provide the fraud warning on the vehicle appraisal report when we had a statutory duty to do so. The vehicle appraisal report is not a claim form; therefore, there is no requirement to include a fraud warning on the report. A "claim form" is any form in which an insured or claimant makes a representation regarding their respective claim for damages, i.e., an application for no-fault benefits, an affidavit of theft or other similar form. The vehicle appraisal report does not qualify as a claim form because the insured or claimant does not make a representation regarding his or her claim via this report. Because no fraud warning is required on the vehicle appraisal report, we respectfully request that this violation be removed from the final examination report.

Progressive agrees we did not provide the required fraud warning on the personal property loss form. Appropriate steps have been taken to ensure that the fraud language per Title 75 is included on this form.

Progressive respectfully disagrees that we failed to have the required language regarding nonresponse and nonpayment of citations and fines or penalties on our nonpay cancel notice. The form in question is a notice of cancellation or refusal to renew for nonpayment of premium. The information Progressive is cited for failing to include applies only when coverage is terminated due to suspension of operating privilege for failure to respond to a citation or nonpayment of a fine or penalty imposed under the vehicle code. Progressive does not include this information on form 6268 because it is inapplicable to and not required on a nonpay cancel notice. Form 7024 is our notice of cancellation or refusal to renew for all reasons other than nonpayment of premium. Form 7024 contains the required information regarding nonresponse and nonpayment to citations and fine or penalty. This form was provided to the examiners prior to the start of the examination. Accordingly, we respectfully request that this violation be removed from the final examination report.

Concern

Progressive would like to thank the examiners for pointing out this typographical error. We will have the form corrected to reflect Title 18. Because this was a minor administrative error only, we respectfully request that this concern be removed from the final examination report.

X. Consumer Complaints

Progressive agrees with the 2 violations noted in this section. However, as the remaining 123 complaints reviewed did not contain any errors, we respectfully request that these isolated incidents be removed from the examination report.

XI. Licensing

Progressive Casualty Insurance Company

Progressive agrees we failed to file a notice of appointment and submit appointment fees to the Department with respect to these 2 producers. We believe these were isolated incidents and not reflective of our overall level of compliance in this area. Accordingly, we respectfully request that these violations be removed from the final examination report. In the alternative, we request that the names of the producers be removed from the published report.

Progressive Halcyon Insurance Company

Progressive agrees the 2 producers noted were writing and/or soliciting policies but were not found in Insurance Department records as holding a Pennsylvania producer license. We believe these incidents are isolated in nature and not reflective of our overall compliance on this issue. Accordingly, we respectfully request that these violations be removed from the examination report. In the alternative, we request that the names of the individual producers be removed from the published report.

XII. Recommendations

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2004 and 2006 [40 P.S. §§ 991,2004 and 991.2006], so that the violations noted in the Report do not occur in the future.

We have reviewed and revised internal control procedures to ensure compliance with the cancellation and nonrenewal notice requirements. As we have already acted upon this recommendation, we respectfully request that it be removed from the final examination report.

2. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.

We provided a surcharge disclosure plan at the time of policy issuance in the good faith belief our actions were compliant with the law. Upon learning of the Department's interpretation of the statutory language, and without admitting liability or noncompliance, we have agreed to modify our process to ensure the surcharge disclosure plan is provided to customers prior to policy purchase.

3. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options are provided at the time of application, as noted in the Report, and does not occur in the future.

We provided a notice of tort options at the time of policy issuance in the good faith belief our actions were compliant with the law. Upon learning of the Department's interpretation of the statutory language, and without admitting liability or noncompliance, we have agreed to modify our process to ensure the notice of tort options is provided to customers before policy purchase.

4. The Company must review Title 75, Pa. CS. § 1791.1(a) violations to ensure that an itemized invoice listing minimum coverages is provided at the time of application and every renewal thereafter as noted in the Report and does not occur in the future.

We provided an invoice listing minimum coverages at the time of policy issuance and renewal in the good faith belief our actions were compliant with the law. Upon learning of the Department's interpretation of the statutory language concerning timeliness of issuance and itemization of the invoice, and without admitting liability or noncompliance, we have agreed to modify our process to ensure the invoice is provided in an itemized fashion prior to policy purchase and at the time of renewal.

5. The Company must review Title 75, Pa. C.S. §1791 violations to ensure that the notice of available benefits is given to the insured at renewal as noted in the Report.

We provided the notice of available benefits at the time of renewal issuance in the good faith belief our actions were compliant with the law. Upon learning of the Department's interpretation of the statutory language, and without admitting liability or noncompliance, we have agreed to modify our

process to ensure the notice of available benefits is provided to customers at the time of renewal.

6. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a) (1) (4) do not occur in the future.

We believe we have adequate procedures to ensure applicants for private passenger automobile liability insurance are provided an opportunity to elect a tort option and that the signed tort option selection forms are obtained and retained in the file. The exceptions noted during the examination were isolated and represent a low error ratio. Accordingly, we respectfully request that this recommendation be removed from the final examination report.

7. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.

We believe we have adequate procedures in place to ensure that each applicant for automobile liability insurance is provided an opportunity to exercise the waiver of UM/UIM coverage. The single error on this issue noted during the examination was isolated in nature and not reflective of our general business practice. Because we are already compliant with this recommendation, we respectfully request that it be removed from the published examination report.

8. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms and the forms are retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d) (1) and (2) do not occur in the future.

We believe we have appropriate procedures in place to ensure the insured is aware he or she may waive stacked limits for UM/UIM coverage by signing a written rejection form. The isolated errors noted during the examination were administrative in nature and not reflective of our general business practice. Consequently, we respectfully request that this recommendation be removed from the final examination report.

9. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage and the forms are retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. CS, §1792(b) (1) do not occur in the future.

We believe we have appropriate procedures in place to ensure the insured is aware there is an additional cost to purchase a lower deductible. The isolated errors noted during the examination were administrative in nature and not reflective of our general business practice. Accordingly, we respectfully request that this recommendation be removed from the final examination report.

10. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

We have issued refunds to all customers overcharged as a result of the rating violations noted in the report. Proof has already been provided to the Department.

11. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.

We believe we have processes and procedures in place to make it unlikely that the rating violations listed in the report will occur in the future. Accordingly, we respectfully request that this recommendation be removed from the examination report.

12. When a surcharge is imposed on a private passenger automobile policy the Company must include the amount of the surcharge and the specifics of accidents and citations. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. § 1799.3(d) do not occur in the future.

We have procedures in place to ensure the surcharge amount and the date of the accident or violation appears on the premium notice. We believe the issues found during the examination were the result of administrative error. Because we already have the recommended procedures in place, we respectfully request that this item be removed from the final examination report.

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

We have procedures in place to ensure the required status letters are provided during the statutory time frames. We believe the exceptions noted during the examination were isolated incidents and not reflective of our general business practice. A communication has been sent to those involved to reinforce the requirements. Consequently, we respectfully request that this recommendation be removed from the final report.

14. The Company must review Title 31, Pa. Code, Section 69.52(e) with its claim staff to ensure that the provider and insured are provided a copy of a PRO evaluation in a timely manner.

We have processes and procedures in place to ensure that the PRO evaluation is provided within the statutorily required amount of days. The single instance of noncompliance found during the examination is isolated in nature and not reflective of our overall level of compliance. A communication has been sent to the appropriate claims personnel to reinforce the requirements. Accordingly, we respectfully request that this recommendation be removed from the final report.

15. The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company must recalculate the claim files noted in the Report and provide claimants with any refunds. Proof of the recalculation and any refunds to claimants must be provided to the Insurance Department within 30 days of the Report issue date.

We have processes and procedures in place to ensure the replacement value of a motor vehicle is calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The proof of refunds was submitted to the Department during the examination. Because we are already compliant with this recommendation, we respectfully request that it be removed from the published examination report.

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

provided to the Insurance Department within 30 days of the Report issue date.

We have processes and procedures in place to ensure the sales tax is included in the replacement value of a motor vehicle. The proof of refunds was submitted to the Department during the examination. Because we are already compliant with this recommendation, we respectfully request that it be removed from the published examination report.

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

We have processes and procedures in place to ensure Pennsylvania salvage certificates are obtained and retained with the claim file. The issues noted during the examination were a combination of isolated administrative errors and a good faith belief we were handling out of state losses consistent with the law. Upon learning of the Department's interpretation of the salvage and titling requirements with respect to out of state losses, we will begin handling these files consistent with the Department's analysis. Consequently, we respectfully request that this recommendation be removed from the examination report.

18. The Company must ensure all producers are properly licensed and appointed, as required by Section 64L(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.

We believe we take appropriate steps to ensure producers are properly licensed and appointed prior to accepting business from them. The incidents found during the examination were isolated exceptions that do not rise to the level of a general business practice. As we believe we already comply with this recommendation, we respectfully request that it be removed from the published report.

19. 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 for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1 171.5(a)(7)(iii)].

We do not believe our underwriting guidelines in question excluded applicants from being eligible to obtain insurance in violation of the law. At issue was our inclusion of age as a circumstance under which a person could qualify for list only status. We believe other criteria in our guidelines allow insureds to qualify for list only status, and thus our guidelines never

improperly excluded applicants from the ability to obtain coverage. However, in response to the Department's views on this issue, we have removed age from the list of qualifying criteria for list only status. This was updated with the Pennsylvania rate revision with the new business effective date of 06/15/2007. As this recommendation has already been complied with, we respectfully request that it be removed from the examination report.

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

The appropriate corrective action was taken with respect to the single form that was found not to contain the fraud warning when it should have. We have verified all applications and claim forms contain the required fraud language. Consequently, we respectfully request that this recommendation be removed from the final examination report.

21. The Company must implement procedures to ensure damage appraisals are made independently by the assigned adjuster in accordance with Title 31, Pa, Code. Section 146.8 and 63. P.S. §861.

These were isolated instances and do not reflect our normal business practice in this area. We have reviewed the requirements with those involved so as to avoid any misunderstandings in the future. Accordingly, we respectfully request that this recommendation be removed from the published report.

Progressive would like to thank the Department and the examiners for their cooperation and professionalism throughout the course of the examination.

If you have any questions, please do not hesitate to call me at 440.603.5588.

Respectfully,



Patricia Kraven
Market Conduct Auditor