REPORT OF
MARKET CONDUCT EXAMINATION
OF

SAFECO INSURANCE COMPANY
OF AMERICA

Seattle, Washington

AS OF
April 28, 2010

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: June 16, 2010

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).

Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 13th Day of April, 2010

Notary Public

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Bobbi L. Lawyer, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires July 7, 2012
Member, Pennsylvania Association of Notaries

SAFECO INSURANCE COMPANY OF AMERICA

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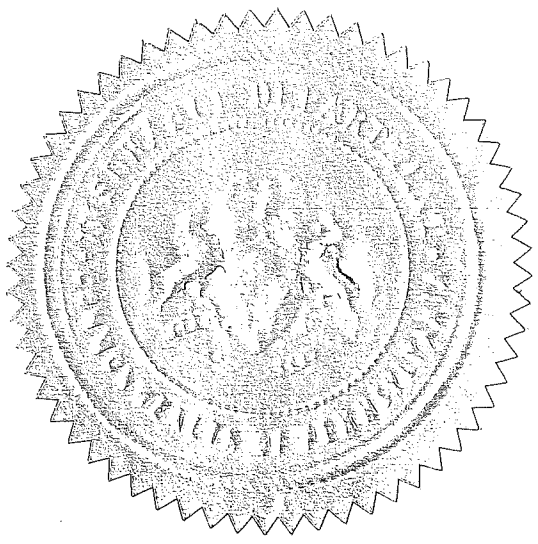
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22nd day of July, 2008, 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 Ronald A. Gallagher, 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:
	:	
SAFECO INSURANCE COMPANY OF AMERICA Safeco Plaza Seattle, WA 98185	:	Section 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. §323.3)
	:	Sections 641.1A and 671-A of Act 147 of 2002 (40 P.S. §§ 310.41 and 310.71)
	:	Act 1990-6, Sections 1705(a)(1) and (4), 1738(c)(d)(1)&(2), 1791.1(b) and 1799.3(d) (Title 75 Pa.C.S. §§ 1705, 1738, 1791 and 1799)
	:	Sections 1, 2, and 3(a)(6) of the Act of July 3, 1986, P.L. 396, No. 86 (40 P.S. §§3401, 3402 and 3403)
	:	Sections 2003(b), 2004 and 2005(c) of Act 68 of 1998 (40 P.S. §§991.2003, 991.2004 and 991.2005)
	:	Section 506.1 of the Insurance Company Law, Act of May 17, 1921, P.L. 682, No. 284 (40 P.S. §636.1)
	:	Title 31, Pennsylvania Code, Sections 69.42, 69.43, 69.52(b), 69.52(d), 146.5(b), and 146.6
	:	Title 75, Pennsylvania Consolidated Statutes, Section 1822
Respondent.	:	Docket No. MC10-05-003

CONSENT ORDER

AND NOW, this 16th day of June, 2010, 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 denies the Findings of Fact contained herein.

FINDINGS OF FACT

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

(a) Respondent is Safeco Insurance Company of America, and maintains its address at Safeco Plaza, Seattle, WA 98185.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience periods from January 1, 2008 through December 31, 2008.

(c) On April 28, 2010, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on May 27, 2010.

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

(i) Section 903(a) of the Insurance Department Act, (40 P.S. §323.3(a)), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

(ii) Section 641.1-A of Act 147 of 2002 (40 P.S. §310.41), which prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license;

(iii) Section 671-A of Act 147 of 2002 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;

(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 1738(c)(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;

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

(vii) 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;

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

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

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

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

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

(4) The policy was obtained through fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company.

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

(6) The insured has requested cancellation.

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

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

(x) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

(xi) Section 2003(b) of Act 68 of 1998 (40 P.S. § 991.2003(b)), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy;

(xii) 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;

(xiii) Section 2005(c) of Act 68 of 1998 (40 P.S. §991.2005), which requires all insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of a 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;

(xiv) Section 506.1 of the Insurance Company Law (40 P.S. §636.1), which requires that basic property insurance shall be continued 180 days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid;

(xv) Title 31, Pennsylvania Code, Section 69.42, which states an insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the

Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under § 69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer;

(xvi) Title 31, Pennsylvania Code, Section 69.43, which states an insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under § 69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable, including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under § 69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount;

(xvii) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;

(xviii) Title 31, Pennsylvania Code, Section 69.52(d), which stats a PRO's initial determination shall be completed within 30 days after the receipt of requested information. When a provider fails to respond to the PRO's inquiry or provide requested information, a PRO may commence its review 30 days after the request for information is postmarked. If additional information critical for the outcome of the determination is submitted by a provider or requested by a PRO, the 30-day review period may be rolled up to 20 days for the information to be received and taken into consideration;

(xix) Title 31, Pennsylvania Code, Section 146.5(b), which states every insurer, upon receipt of an inquiry from the Department respecting a claim shall, within 15 working days of receipt of such inquiry, furnish the Department with an adequate response to the inquiry;

(xx) Title 31, Pennsylvania Code, Section 146.6 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; and

(xxi) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to $15,000.00.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the 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 641.1A 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 Act 86, Sections 1, 2 and 3 (40 P.S. §§ 3401, 3402 and 3403) are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

(i) Order that the insurer cease and desist from the violation.

(ii) Impose a fine or not more than $5,000 for each violation.

(d) Respondent's violations of Sections 2003, 2004 and 2005 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars ($5,000.00).

(e) Respondent's violations of Section 506.1 of The Insurance Company Law, No. 284 (40 P.S. § 636.1) are punishable by the following, under Section 507 of the Insurance Company Law (40 P.S. § 637), which provides that the Insurance Commissioner may suspend or revoke the license of any offending entity, refuse to issue a new license, or impose a penalty of not more than $1,000 for each violation of this section.

(f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5(b) and 146.6 subject Respondent to the following penalties under the Unfair Insurance Practices Act (40 P.S. §§1171.1, et seq.):

(i) a cease and desist order (40 P.S. § 1171.9);

(ii) suspension or revocation of the license(s) of Respondent (40 P.S. § 1171.9);

(iii) a five thousand dollar ($5,000) penalty for each method of competition, act or practice which Respondent knew or should have known was in violation of the law (not to exceed $50,000 in any six month period) (40 P.S. § 1171.11);

(iv) a one thousand dollar ($1,000) penalty for each violation for each method of competition, act or practice which Respondent did not know nor reasonably should have known was in violation of the law (not to exceed $10,000 in any six month period) (40 P.S. § 1171.11).

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 Twenty-Five Thousand Dollars ($25,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Market Conduct, 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 an intentional breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The 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 the Department may enforce the provisions of this

Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been an intentional 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: SAFECO INSURANCE COMPANY OF AMERICA, Respondent

~~President~~ / Vice President

~~Secretary~~ / Treasurer

RONALD A. GALLAGHER, JR.
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Safeco Insurance Company of America's office located in Seattle, Washington, from November 3, 2009, through December 18, 2009. 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

Jerry L. Houston, AIE, CPCU
Market Conduct Examiner

Joseph S. Meizen
Market Conduct Examiner

Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Safeco Insurance Company of America, hereinafter referred to as "Company," at their office located in Seattle, Washington. 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, 2008, through December 31, 2008, 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 midterm cancellations and 60-day cancellations.
- Rating – Proper use of all classification and rating plans and procedures.

2. Property

- Underwriting – Appropriate and timely notices of nonrenewals and midterm cancellations.
- Rating – Proper use of all classification and rating plans and procedures.

3. Commercial Property

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

4. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Safeco Insurance Company of America was incorporated on September 2, 1953, under the laws of Washington and began active operations on October 1, 1953. Operations were conducted under the corporate title Selective Auto and Fire Insurance Company of America until November 2, 1953, at which time the present name was adopted.

LICENSING

Safeco Insurance Company of America's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2010. The Company is licensed in all states, District of Columbia, Guam and Canada. The Company's 2009 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as $15,911,276. Premium volume related to the areas of this review were: Fire $472,077; Homeowners Multiple Peril $1,617,675; Commercial Multiple Peril (non-liability portion) $398,866; Commercial Multiple Peril (liability portion) $193,029; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) $244,867; Other Private Passenger Auto Liability $1,274,187 and Private Passenger Auto Physical Damage $1,053,534.

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 underwriting guides were furnished for private passenger automobile, homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

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.

From the universe of 70 private passenger automobile files identified as being cancelled in the first 60 days of new business, 19 files were selected for review. All 19 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 959 private passenger automobile files identified as midterm cancellations, 19 files were selected for review. All 19 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 11%.

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 the license suspension of a driver who was not the named insured.

3. Nonrenewals

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

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

The universe of 12 private passenger automobile files identified as nonrenewals was selected for review. All 12 files were received and reviewed. The violation resulted in an error ratio of 8%.

The following finding was made:

1 Violation *Act 68, Section 2003(b) [40 P.S. §991.2003(b)]*
States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy. The Company cancelled the policy based on one accident.

B. Private Passenger Automobile – Assigned Risk

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

C. Property

1. Midterm Cancellations

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

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

From the universe of 400 property policies which were cancelled midterm during the experience period, 73 files were selected for review. The property policies consisted of homeowner, tenant homeowner and owner occupied dwelling fire. All 73 files were received and reviewed. No violations were noted.

2. Nonrenewals

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

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

The universe of 11 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowner and dwelling fire. All 11 files were received and reviewed. The violation noted resulted in an error ratio of 9%.

The following finding was made:

1 Violation *Insurance Company Law, Section 506.1 [40 P.S. §636.1]*
Requires that basic property insurance shall be continued one hundred and eighty days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid. The Company cancelled the policy within the 180 days of the death of the named insured.

D. Commercial Property

1. 60-Day Cancellations

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

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

From the universe of 105 tenant occupied dwelling fire policies cancelled within the first 60 days, 25 files were 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 purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified

reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

From the universe of 334 commercial property policies cancelled midterm during the experience period, 56 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire and commercial package. All 56 files were received and reviewed. The 11 violations noted were based on 11 files, resulting in an error ratio of 20%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide an offer of loss information on the notice as required.

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

Grounds for cancellation. Cancelling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The 10 files noted were cancelled for other than permitted reasons.

3. Renewals

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

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

From the universe of 1,082 commercial property policies renewed during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 2 files noted.

4. Declinations

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

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

From the universe of 290 tenant occupied dwelling fire files identified as declinations by the Company during the experience period, 25 files were selected for review. All 25 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

From the universe of 135 private passenger automobile policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 143 violations noted were based on the universe of 135 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

1 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 failed to provide a signed limited tort selection form.

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

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

6 Violations *Insurance Department Act, Section 903(a) [40 P.S. §323.3]*

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company failed to provide an application with signed documents for the 6 files noted.

Private Passenger Automobile - New Business With Surcharges

The universe of 38 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 38 files were received and reviewed. The 91 violations noted were based on the universe of 38 files, resulting in an error ratio of 100%.

The following findings were made:

38 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.

38 Violations *Act 68, Section 2005(c) [40 P.S. §991.2005(c)]*

All insurers shall provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of a 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.

AND

Title 75, Pa. C.S. §1799.3(d)

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

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

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

13 Violations Insurance Department Act, Section 903(a) [40 P.S. §323.3]

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company failed to provide an application with signed documents for the 13 files noted.

2. Renewals

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

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

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies

were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 1,918 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 1,918 violations noted were based on the universe of 1,918, resulting in an error ratio of 100%.

The following findings were made:

1,918 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 failed to provide the required notice with correct statutory language at the time of renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 342 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 684 violations noted were based on the universe of 342 files, resulting in an error ratio of 100%.

The following findings were made:

342 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 failed to provide the required notice with correct statutory language at the time of renewal.

342 Violations Act 68, Section 2005(c) [40 P.S. §991.2005(c)]

All insurers shall provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of a 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.

AND

Title 75, Pa. C.S. §1799.3(d)

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

B. Private Passenger Automobile – Assigned Risk

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

C. Homeowners

1. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 2,336 homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

D. Tenant Homeowners

1. Renewals

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

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

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 182 tenant homeowner policies renewed without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

A. Automobile Property Damage Claims

From the universe of 264 private passenger automobile property damage 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.

B. Automobile Comprehensive Claims

From the universe of 169 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.

C. Automobile Collision Claims

From the universe of 266 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 12%.

The following findings were made:

6 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 6 claims noted.

D. Automobile Total Loss Claims

From the universe of 86 private passenger automobile total loss claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

From the universe of 136 private passenger automobile first party medical claims reported during the experience period, 40 files were selected for review. All 40 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 15%.

The following findings were made:

6 Violations *Title 31, Pa. Code, Section 69.42*

An insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer.

AND

Title 31, Pa. Code, Section 69.43

An insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount. The Company failed to have medical bills repriced or adjusted for cost containment for the 6 files noted.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 5 automobile first party medical claims referred to a peer review organization by the Company was selected for review. All 5 files were received and reviewed. The Company was also asked to provide a

copy of all peer review contracts in place during the experience period. The contracts were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 40%.

The following findings were made:

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

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

2 Violations *Title 31, Pa. Code, Section 69.52(d)*

A PRO's initial determination shall be completed within 30 days after the receipt of requested information. When a provider fails to respond to the PRO's inquiry or provide requested information, a PRO may commence its review 30 days after the request for information is postmarked. If additional information critical for the outcome of the determination is submitted by a provider or requested by a PRO, the 30-day review period may be tolled up to 20 days for the information to be received and taken into consideration. The initial determination was not completed within 30 days for the 2 claims noted.

G. Homeowner Claims

From the universe of 233 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation resulted in an error ratio of 4%.

The following finding was made:

1 Violation *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.

H. Tenant Homeowner Claims

The universe of one tenant homeowner claim reported during the experience period was selected, received and reviewed. No violations were noted.

VIII. FORMS

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

The following findings were made:

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 failed to include a fraud statement on an "Authorization to disclose health information and other records" form and a medical provider summary sheet.

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 207 pieces of advertising in use during the experience period. The advertising materials provided included: brochures, radio, TV, newspapers, online solicitation and newsletters. 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 9 consumer complaints received during the experience period and provided all consumer complaint logs requested. One additional complaint was handled directly by the Insurance Department and not included in the Company's records. All 9 complaint files were requested, received and reviewed.

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

The following finding was made:

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

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

The following synopsis reflects the nature of the 9 complaints that were reviewed.

• 4	Cancellation/Nonrenewal	45%
• 4	Claims	45%
• 1	Underwriting Question	10%
9		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:

1 Violation *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 producer was found to be writing and /or soliciting policies but was not found in Insurance Department records as holding a Pennsylvania producer license.

Sky Insurance, Inc.

7 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.

The Alexis-Hunter Group, Inc.
Fred A. Moreton & Co.
Simpson & McCrady Insurance Brokers, LLC
Brosky Insurance Agency, Inc.
McGovern Insurance Agency, Inc.
Roscoe Snyder Insurance Agency, Inc.
Keckler & Heitefuss, Inc.

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2003 and 2004 [40 P.S. §991.2003 and 2004], so that the violations noted in the Report do not occur in the future.

2. The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

3. The Company must review Act 86, Sections 2 & 3 [40 P.S. §3402 & §3403] to ensure that violations regarding proper cancellation do not occur in the future.

4. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.

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

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

7. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.

8. When a surcharge is imposed on a private passenger automobile policy the Company must specify the manner in which the surcharge was made and clearly identify the amount of the surcharge and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Act 68, Section 2005(c) [40 P.S. §991.2005(c)] and Title 75, Pa. C.S. §1799.3(d) do not occur in the future.

9. 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.

10. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so

that the violations relating to status letters, as noted in the Report, do not occur in the future.

11. The Company must review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.

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

13. The Company must review Title 31, Pa. Code, Section 69.52(d) with its claim staff to ensure that initial determinations are completed by a PRO within 30 days after the receipt of the requested information.

14. 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.

15. The Company must review Title 31, Pa. Code, Section 146.5(b) with its claim staff to ensure that all Department inquiries respecting a claim are responded to within 15 working days of receipt of such inquiry.

16. The Company must ensure that all claim forms contain the required fraud warning notice.

XIII. COMPANY RESPONSE

Hector Reyes, ARM
Regional Director, Market Conduct Services
Liberty Mutual Group
175 Berkeley Street
P.O. Box 140
Boston, MA 02116-0140
Telephone: (617) 357-9500

May 27, 2010

VIA EMAIL and OVERNIGHT DELIVERY

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

Re: **Safeco Insurance Company of America**
Examination Warrant Number 09-M19-014

Dear Mr. Derk:

The Company reviewed the Report of Examination of Safeco Insurance Company of America (Company) issued by the Pennsylvania Insurance Department for the period of January 1, 2008, through December 31, 2008, as of the close of business on April 28, 2010. The Company thanks the Market Conduct Division for the observations and the recommendations that are part of the report.

The Company strives to comply with the Pennsylvania statutes and Department regulations; it believes that market conduct examinations do serve the consumers of the Commonwealth and the Company as an effective tool to help avoid compliance issues. The Report, in addition to individual findings, contains Recommendations in Section XII. To address the Market Conduct Division's recommendations, the Company is enclosing its response to each recommendation. There are findings in the Report that we believe can be categorized as human error and which are statistically insignificant, differences in the interpretation of Pennsylvania law between the Department and the Company and other findings are statistically material. The Company respectfully submits that any finding of a violation of Pennsylvania law by the Department was not intentional and that it will take the corrective actions detailed in the Company's responses.

We want to thank you and the entire staff of the Bureau for the cooperation extended to everyone in the Company associated with this examination. I look forward to working with you to reach a mutually agreeable resolution to the Report. If you have any question in connection with the Company's response or require additional information, please do not hesitate to call me.

Sincerely,

Hector D. Reyes, ARM
Regional Director, Market Conduct Services
Office of Corporate Compliance

Attachment

1. The Company must review and revise internal control procedures to compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2003 and 2004 [40 P.S. 991.2003 and 2004], so that the violations noted in the Report do not occur in the future.

   Company Response: The Company will reinforce its training to ensure that underwriters are cognizant of the requirements for cancellation and nonrenewal of policies.

2. The Company must review Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

   Company Response: The Company acknowledges the Department's recommendation on this inadvertent error. The Company will reinforce its training to ensure underwriters are cognizant of the requirements for cancellation of personal property insurance. The Company also updated underwriting reference materials in January 2010 to highlight this requirement.

3. The Company must review Act 86, Sections 2 & 3 [40 P.S. 3402 & 3403] to ensure that violations regarding proper cancellation do not occur in the future.

   Company Response: The Company will reinforce its training to ensure that underwriters are cognizant of the requirements for cancellation of policies. The Company revised its cancellation notice to include the proper offer of loss information to package policies as of January 2010.

4. The Company must review Act 86, Section 1 [40 P.S. 3401] to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.

   Company Response: The Company revised its procedures for notification to the insured of an increase in premium for commercial policies as of January 2010.

5. The Company must review Title 75, Pa. C.S.1791.1(b) violations to ensure that tort options are provided at the time of application and every renewal thereafter, as noted in the Report, and do not occur in the future.

   Company Response: The Company corrected the notice of tort options in February 2009 to ensure it was included with the application and provided to the applicant. This change was made prior to the commencement of the examination. Regarding the wording of the tort options form, the Company continues to disagree with this finding, because the tort option form was approved by the Pennsylvania Insurance Department. The Company will revise the form per the Department's recommendation.

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

   Company Response: The Company acknowledges the Department's recommendation on this inadvertent error. All applicants are made aware of the right and provided an opportunity to exercise the waiver of stacked limits for uninsured and underinsured motorist coverage. In addition, the waiver form is presented to the applicant as an integral part of the application.

7. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. 323.3], so that violations noted in the Report do not occur in the future.

   Company Response: The Company will take necessary steps to ensure appropriate controls are in place.

8. When a surcharge is imposed on a private passenger automobile policy the Company must specify the manner in which the surcharge was made and clearly identify the amount of the surcharge and give notice to the insured. This procedure must be within 30 days of the Report issue date. This is to ensure that violations noted under Act 68, Section 2005(c) [40 P.S. 991.2005 (c)] and Title 75, Pa. C.S. 1799.3(d) do not occur in the future.

   Company Response: The Company revised the Declarations page to print the amount of surcharge on private passenger automobile polices on April 10, 2010.

9. The Company must reinforce its internal underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect 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.

   Company Response: The Company acknowledges the Department's recommendations. All applicants are provided an opportunity to select a tort option as the tort option selection form is an integral part of the application.

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

    Company Response: The Company's practice is to comply with Title 31, Pa Code, Section 146.6. However, a reminder bulletin will be issued to the adjusting staff within 30 days.

11. The Company must review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.

    Company Response: The Company's general practice is to comply with Title 31, Pa Code, Sections 69.42 and 69.43. Our medical bill review vendor implemented a system change on 4/29/2010 that will allow for the capture of the required data elements for repricing of non trauma ambulance bills.

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

    Company Response: The Company's general practice is to comply with Title 31, Pa. Code, Section 69.52(b). Refresher training was provided to the claim handlers in December 2009.

13. The Company must review Title 31, Pa. Code, Section 69.52(d) with its claims staff to ensure that the initial determinations are completed by a PRO within 30 days after the receipt of the requested information.

    Company Response: The Company's general practice is to comply with Title 31, Pa. Code, Section 69.52(d). Refresher training was provided to the claim handlers in December 2009.

14. 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.

    Company Response: The Company will reinforce the license and appointment requirements of 40 P.S. Section 310.41(a) and 40 P.S. section 310.71 with its relevant departments and will take steps to ensure all producers that act on behalf of Safeco Insurance Company of America are properly licensed and appointed.

15. The Company must review Title 31, Pa. Code, Section 146.5(b) with its claim staff to ensure that all Department inquiries respecting a claim are responded to within 15 working days of receipt of such inquiry.

    Company Response: The Company's general practice is to comply with Title 31, Pa. Code, Section 146.5(b). The Company acknowledges the Department's recommendations on this inadvertent error.

16. The Company must ensure that all claim forms contain the required fraud warning.

    Company Response: Revisions to the forms cited during this examination will be published to our forms database within 60 days. A bulletin was issued to the adjusting staff on 5/13/2010, reminding handlers to add the warning statement manually as required.