

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**TWIN CITY FIRE INSURANCE
COMPANY**

Indianapolis, Indiana

**AS OF
March 27, 2007**

COMMONWEALTH OF PENNSYLVANIA

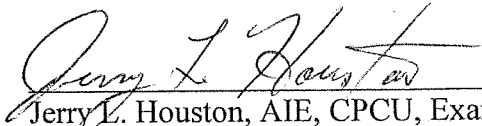


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 18, 2007

VERIFICATION

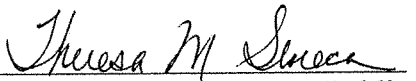
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



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

Sworn to and Subscribed Before me

This 7 Day of *March*, 2007



Notary Public
COMMONWEALTH OF PENNSYLVANIA

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

TWIN CITY FIRE INSURANCE COMPANY

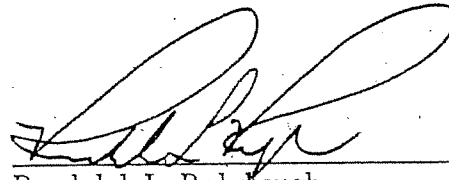
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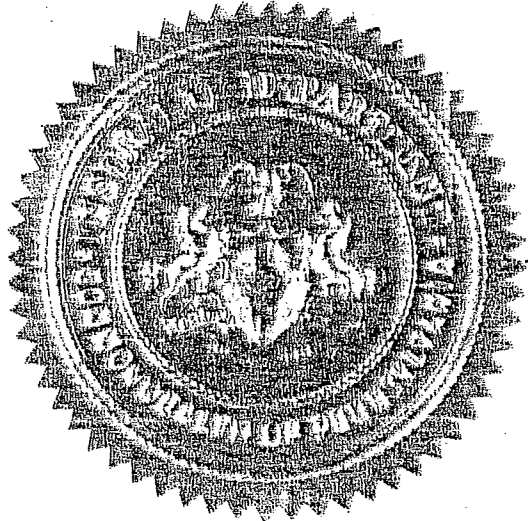
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20th day of February, 2007, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Randolph L. Rohrbaugh
Acting Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
TWIN CITY FIRE INSURANCE	:	Section 671-A of Act 147 of 2002
COMPANY	:	(40 P.S. § 310.71)
One Hartford Plaza	:	
Hartford, CT 06155	:	Act 1990-6, Sections 1716 and
	:	1791.1(b) (Title 75, Pa.C.S. §§ 1716
	:	and 1791)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii) and
	:	5(a)(9) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Sections 2003(a)(1) and 2003(e)
	:	of Act 68 of 1998 (40 P.S. 991.2003)
	:	
	:	Sections 1, and 3(a)(5) of the Act of
	:	July 3, 1986, P.L. 396, No. 86 (40 P.S.
	:	§§ 3401 and 3403)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	69.52(b), 113.88 and 146.6
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Sections 1161(a) and (b),
	:	and 1822
	:	
Respondent.	:	Docket No. MC07-04-009

CONSENT ORDER

AND NOW, this 18th day of May, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Twin City Fire Insurance Company, and maintains its address at One Hartford Plaza, Hartford, Connecticut 06155.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2005 through June 30, 2006.
- (c) On March 27, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on April 26, 2007.

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

(i) 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).

(ii) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

(iii) 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;

- (iv) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance;
- (v) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;
- (vi) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial

increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

- (xii) Section 2003(a)(1) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Age;

- (xiii) Section 2003(e) of Act 68 of 1998 (40 P.S. § 991.2003), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a 24 month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked;

- (ix) Section 1 of Act 86 (40 P.S. § 3401), which states 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;

- (x) Section 3(a)(5) of Act 86 (40 P.s. § 3403), which requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience which caused the nonrenewal;

- (xi) 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;

- (xii) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;

- (xiii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the

claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;

- (xiv) 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;

- (xv) 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 Deputy Insurance Commissioner makes the following Conclusions of Law:

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

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

- (c) Respondent's violations of Sections 5(a)(4), 5(a)(7)(iii) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 –

1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Sections 2003 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (f) Respondent's violations of Sections 1 and 3 of Act 86 (40 P.S. §§ 3401 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.

- (g) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the 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 Thirty Thousand Dollars (\$30,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. 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.

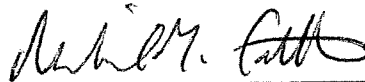
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

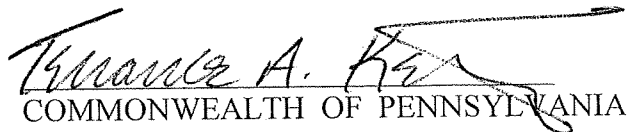
BY: TWIN CITY FIRE INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA

By: Terrance A. Keating
Deputy Chief Counsel

I. INTRODUCTION

The market conduct examination was conducted at Twin City Fire Insurance Company's offices located in Farmington, Connecticut, Southington, Connecticut and Hartford, Connecticut, from November 27, 2006, through January 12, 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.

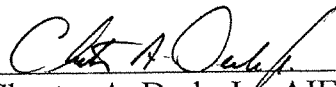
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

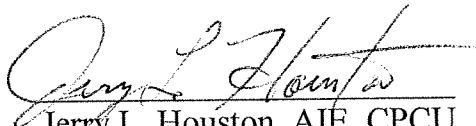
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

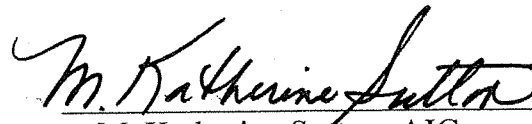
The undersigned participated in this examination and in preparation of this Report.



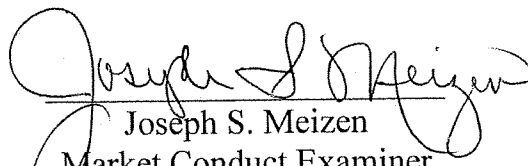
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Jerry L. Houston, AIE, CPCU
Market Conduct Examiner



M. Katherine Sutton, AIC
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Twin City Fire Insurance Company, hereinafter referred to as "Company," at their offices located in Farmington, Connecticut, Southington, Connecticut and Hartford, Connecticut. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2005, through June 30, 2006, 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 and midterm cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. Property
 - Underwriting – Appropriate and timely notices of nonrenewal 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, declinations and renewals.

4. Commercial Automobile

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

5. Workers' Compensation

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

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Twin City Fire Insurance Company was incorporated on March 5, 1987, under the laws of Indiana with the temporary title of Twin City Fire Insurance Company of Indiana to serve as the vehicle for a change in domicile of the Company from Minneapolis, Minnesota to Indianapolis, Indiana. The change became effective on July 1, 1987. The predecessor company was incorporated in December 1910, under the laws of Minnesota and began business on April 8, 1913.

LICENSING

Twin City Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in all states and the District of Columbia. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$96,088,328. Premium volume related to the areas of this review were: Homeowner's Multiple Peril \$2,851,870; Commercial Multiple Peril (non-liability portion) \$3,431,820; Commercial Multiple Peril (liability portion) \$3,562,438; Inland Marine \$47,980; Workers' Compensation \$44,984,210; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$800,835; Other Private Passenger Auto Liability \$3,628,722 and Private Passenger Auto Physical Damage \$3,435,824; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$43,896; Other Commercial Automobile Liability \$1,770,229 and Commercial Automobile Physical Damage \$482,279.

IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following findings were made:

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

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four (24) month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked. The Company's private passenger automobile Inforce Base Underwriting Guidelines, Edition 3/1/04, states "Any policy with an operator who has a license suspension, revocation or has been convicted of any of the following major violations....".

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

Discrimination Prohibited. An insurer may not cancel or refuse to write or renew a policy of automobile insurance for age. The Company's private passenger automobile Inforce Base Underwriting Guidelines, Edition 3/1/04, states: "A favorable medical statement

will be required for drivers age 75 and over who incur an accident or conviction, failure to provide this information when requested may result in nonrenewal.”

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company incorporated supporting business in the renewal decision process for private passenger automobile as stated in their Inforce Base Underwriting Guidelines, Edition 3/1/04.

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

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

Guidelines, Edition 3/1/04, lists nonrenewal considerations for unsatisfactory loss history and breed of dog.

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 Inforce Property Underwriting Guidelines, Edition 3/1/04, lists nonrenewal considerations for the owner’s occupation or status as a public figure.

V. UNDERWRITING

A. Private Passenger Automobile

1. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with 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 355 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

2. Nonrenewals

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

The 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 25 private passenger automobile files identified as nonrenewals by the Company was 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 Act 68, Section 2003(e) [40 P.S. §991.2003(e)]

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four (24) month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked. The Company nonrenewed the policy for a license suspension of someone other than the named insured.

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 289 property policies which were cancelled midterm during the experience period, 112 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 112 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 6 property policies which were nonrenewed during the experience period was selected for review. All 6 files were received and reviewed. The policies consisted of homeowners and tenant homeowners. The violation noted resulted in an error ratio of 17%.

The following finding was made:

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

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

D. Commercial Property

1. Midterm Cancellations

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

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

The universe of 9 commercial package policies which were cancelled during the experience period was selected for review. All 9 files were received and reviewed. No violations were noted.

2. Nonrenewals

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

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

The universe of 1 commercial package policy identified as a nonrenewal was selected for review. The file was received and reviewed. No violations were noted.

3. Declinations

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

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

From the universe of 673 commercial property files identified as declinations by the Company, 50 files were selected for review. All 50 files were received and reviewed. The policies consisted of commercial inland marine and commercial package. No violations were noted.

4. Renewals

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

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

From the universe of 146 commercial property policies which were renewed during the experience period, 34 files were selected for review. All 34 files were received and reviewed. The commercial policies consisted of commercial inland marine and commercial package. The 3 violations noted were based on 3 files, resulting in an error ratio of 9%.

The following findings were made:

3 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 3 files noted.

E. Commercial Automobile

1. Midterm Cancellations

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

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

The universe of 2 commercial automobile policies identified as midterm cancellation was selected for review. Both files were received and reviewed. No violations were noted.

2. Nonrenewals

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

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

The universe of 2 commercial automobile policies identified as nonrenewals by the Company was selected for review. Both files were received and reviewed. No violations were noted.

3. Declinations

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

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

From the universe of 50 commercial automobile files identified as declinations by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company declined to write the two files noted for lack of supporting coverage.

4. Renewals

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

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

The universe of 39 commercial automobile policies which were renewed during the experience period was selected for review. All 39 files were received and reviewed. The violation resulted in an error ratio of 3%.

The following finding was made:

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

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

F. Workers' Compensation

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 102 workers' compensation policies cancelled within the first 60 days of new business, 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 anniversary date.

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

From the universe of 987 workers' compensation policies identified as midterm cancellations, 100 files were selected for review. All 100 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

The universe of 27 workers' compensation policies nonrenewed during the experience period was selected for review. All 27 files were received and

reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 22%.

The following findings were made:

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

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

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The Company did not provide a specific reason for the 6 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 defined unfair methods of competition and unfair or deceptive acts or practices

From the universe of 2,174 workers' compensation files identified as declinations by the Company, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

5. Renewals

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

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

From the universe of 6,046 workers' compensation policies which were 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.

VI. RATING

A. Private Passenger Automobile

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 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 5,579 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 5,579 violations noted were based on the universe of 5,579 files, resulting in an error ratio of 100%.

The following findings were made:

5,579 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 renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 573 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 573 violations noted were based on the universe of 573 files, resulting in an error ratio of 100%.

The following findings were made:

573 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 renewal.

The following concern was noted:

Concern: Title 75, Pa. C.S. §1799.3(d) requires surcharge, rate penalty and driver record point assignment and amount of surcharge to be clearly identified on the premium notice. While Act 68, Section 2005(c) [40 P.S. §2005(c)], requires all insurers to provide to insureds a detailed statement of the components of a premium and to 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 provides the reason for surcharges on its pre-renewal letter. The amount of surcharge is shown on the billing statement and the declarations page contains a general statement regarding accidents and violations which could cause a surcharge. All information should be contained in one place; on the billing statement or declarations page, not in three different places. Consolidating rating information onto one form and in one place would more effectively communicate the details of a surcharge.

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 3,509 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

The universe of 36 homeowner policies renewed with surcharges during the experience period was selected for review. All 36 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 167 tenant homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

A. Automobile Property Damage Claims

From the universe of 388 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

1 Violation 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 462 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 535 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 91 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following findings were made:

6 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 6 claim files noted did not reflect a Pennsylvania salvage certificate was obtained.

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.

E. Automobile First Party Medical Claims

From the universe of 158 private passenger automobile first party medical claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 12 violations noted were based on 8 files, resulting in an error ratio of 16%.

The following findings were made:

8 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 8 claims noted.

3 Violations Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the

insurer receives sufficient documentation supporting the bill. The Company did not pay the 3 claims noted within 30 days.

1 Violation Title 75, Pa. C.S. §1716

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

The following concern was noted:

Concern: Title 31, Pa. Code, Section 69.22(c) states if an insured's first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first party limits have been exhausted.

The Company sends the insured an initial letter that the first-party limits have been exhausted and is diligent in sending the notices to the providers; however, the Company does not send a copy of the every provider notice to the insured as subsequent notices are sent, as required.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 2 private passenger automobile first party medical claims referred to a peer review organization was selected for review. 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.

G. Property Claims

From the universe of 312 property claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The claim files consisted of homeowner and tenant homeowner. The 8 violations noted were based on 8 files, resulting in an error ratio of 11%.

The following findings were made:

8 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 8 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. C.S. §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 finding was 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 failed to provide the fraud statement on a driver supplemental report for automobile.

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 56 pieces of advertising which included brochures, agent's kits, mail solicitation and bulletins. 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 10 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 10 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.

No violations were noted.

The following synopsis reflects the nature of the 10 complaints that were reviewed.

• 6	Cancellation/Nonrenewal	60%
• 2	Claims	20%
• 1	Rating	10%
• 1	Policyholder Service	10%
<hr/>		<hr/>
10		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:

10 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.

John T. Costa Agency
Financial & Professional Risk Solutions, Inc.
Goins & Hewitt
Hagedorn and Company
Independent Underwriters Agency
Lamb Little & Company
KEH/LH Brenner, Inc.
Caitlin-Morgan Ins. Services
S.L. Nusbaum Ins. Agency, Inc.
WNC First Ins. Services

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2003 [40 P.S. §991.2003], so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for nonrenewal notices, as noted in the Report, do not occur in the future.
3. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance relative to commercial nonrenewal requirements of Act 86, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.
5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.

6. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options is provided at renewal, as noted in the Report, and does not occur in the future.
7. 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 do not occur in the future.
8. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
9. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
10. The Company must ensure that all claim forms contain the required fraud warning notice.
11. The Company must ensure all producers are properly appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

12. 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)].

XIII. COMPANY RESPONSE

RECEIVED
INSURANCE DEPT.

APR 27 2007



BUREAU OF ENFORCEMENT

Kathleen Querfeld
Counsel
Law Department

April 26, 2007

Via Facsimile and Overnight Mail

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

Re: Exam Warrant Number 06-M19-019
Twin City Fire Insurance Company

Dear Mr. Derk,

Twin City Fire Insurance Company ("Twin City") has received your March 27, 2007 letter and Report of Examination ("Report"). We appreciate the opportunity to respond to the Examination and request your additional consideration regarding Twin City's renewal tort notice procedures and out-of-state salvage title practices.

This letter will serve as Twin City's response to the Report and recommendations contained on pages 37 -39. Where appropriate, our response will address exceptions noted in the Report that fall outside specific department recommendations.

- 1. The company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2003 [40 P.S. §991.2003], so that the violations noted in the report do not occur in the future.**

The Company accepts the Department's Recommendation and has implemented a corrective action plan to ensure compliance with 40 P.S. §991.2003. The Company began using the Oden Terminator in April 2006. This system improved state compliance associated with Company initiated cancellation notices regarding acceptable and prohibited reasons.

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- 2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for nonrenewal notices, as noted in the Report, do not occur in the future.**

The Company accepts the Department's Recommendation and has implemented a corrective action plan to ensure compliance with 40 P.S. §1171.5(a) (9). The Company began using the Oden Terminator in April 2006. This system improved state compliance associated with non-renewal notices regarding acceptable and prohibited reasons.

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

The Company accepts the Department's Recommendation and has reviewed our internal procedures to ensure compliance with 40 P.S. §3401. These internal procedures continue to be in compliance with Pennsylvania law and field underwriting staff has been reminded of the requirement to provide thirty (30) days advance written notice of an increase in commercial lines premium in Pennsylvania.

- 4. The Company must review and revise internal control procedures to ensure compliance relative to commercial nonrenewal requirements of Act 86, Section 3 [40 P.S. § 3403], so that the violations noted in the Report do not occur in the future.**

The Company accepts the Department's Recommendation and has reinforced existing procedures in accordance with the provisions of 40 P.S. §3403. The Company began underwriter training in July 2005, midway through the examination period. To confirm that the underwriting training has had the desired effect in Pennsylvania, the Company will conduct a follow-up audit in late 2007.

- 5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.**

The Company accepts the Department's Recommendation and has reinforced existing procedures in accordance with the provisions of 40 P.S. §3403. The Company began underwriter training in July 2005, midway through the examination period. To confirm that the underwriting training has had the desired effect in Pennsylvania, the Company will conduct a follow-up audit in late 2007.

- 6. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options is provided at renewal, as noted in the Report, and does not occur in the future.**

The Company respectfully submits that our existing process complies fully with the provisions of Title 75, Pa. C.S. §1791.1(b). The finding contained in the Report states that “[t]he Company did not provide the notice of tort options to the insured at the time of renewal.” The Company uses form CAF – 1863-2 to notify renewal policyholders of the opportunity to change their initial tort option selection at each renewal. The issue that was raised during the exam involved the content of the notice and the process that is used to obtain a renewal policyholder’s tort option selection if the renewal policyholder decides to make a change at renewal. Therefore, at a minimum, we respectfully request that the report be changed to reflect the issue that was raised during the exam – failure to provide *correct* notice of tort options at time of renewal.

Form CAF-1863-2 was filed with and approved by the Pennsylvania Insurance Department. The Company acknowledges that the form does not include the precise language that appears after the tort option descriptions that instructs renewal policyholders to contact the Company or the agent or broker if they would like to change their previous tort option selection. Instead, the Company’s form streamlines the renewal election process by providing the renewal policyholder with the opportunity to change the tort option without having to make a specific request to obtain and complete a separate selection form. The Company believes that this process meets the requirement to re-offer the tort option at each renewal and allows its renewal policyholders an efficient method to change their selection.

In fact, the process is more efficient than what is required by the statute, because it does not require the insured to contact a third party before requesting a change. Given that policyholders usually communicate with our service center for policy changes and not their agent, this approved form embodies the most efficient means of executing any requested change to a previous tort option coverage selection.

- 7. 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 do not occur in the future.**

The Company has reviewed its internal control procedures to ensure compliance with Title 31, Chapter 146 so that violations relating to status letters do not occur in the future. To this end, the Company has instituted the following remedial actions: (a) a compliance component has been included in the Company’s Claims Excellence reviews (which include quality assurance and process improvement) to ensure that delay letters are sent as required; (b) a state specific compliance matrix has been developed to assist the claims personnel with the key claim handling requirements for each state; and (c) a memo was sent to all claims personnel reiterating the need to properly follow the electronic claims system generated tasks for delay letters.

8. **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. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, PA.C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.**

The Company has reviewed its internal control procedures to ensure that requirements contained in Title 31 to pay first party benefits within 30 days are executed. The Company has also reviewed its internal control procedures to ensure that those claims that are not paid within 30 days bear interest at the rate of 12% annum from the date the benefits became due as required by Title 75. While the Company takes seriously any exception noted by the Department, the Company would like to point out that the Department only identified one violation in connection with this Recommendation. The Company will, however, take internal measures to remind the claims personnel of the requirements pertaining to the payment of interest pursuant to Title 75, Pa. C.S. 1716.

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

The Company has reviewed its current practices in connection with Title 75, C.S. 1161. Based upon the Company's review, the Company continues to disagree with the Department about the six alleged violations. It is the Company's position that Section 1161(a)&(b) does not apply to any of these six claims since salvage certificates were issued to the owner of the vehicle by a state or jurisdiction other than Pennsylvania. As such, Section 1161(d) should apply to all of these claims. Section 1161 specifically states that: "The owner of a salvage vehicle possessing a valid certificate of salvage from a state or jurisdiction other than this Commonwealth does not need to apply for a certificate under subsection a."

In three of the six claims, the total loss vehicle was involved in an out-of-state accident. Instead of incurring the expense associated with moving the total loss vehicle back to Pennsylvania to a Pennsylvania salvage yard, the vehicles were salvaged in the states where the accident actually occurred. Salvage certificates were obtained for each of these three vehicles from the accident state. In the remaining three claims, the accidents occurred in close proximity to the New Jersey border. The salvage vendor that the Company uses had a facility in New Jersey that was closer than the vendor's salvage yard in Pennsylvania. As a result, in order to save time and expense, the total loss vehicles were moved to the closer New Jersey salvage yard. Because these total loss vehicles were salvaged in states other than Pennsylvania, the salvage yards, complying with the titling requirements of their own domiciliary states, obtained the proper salvage certificate necessary to dispose of the totaled vehicle in the domiciliary state.

It is important to note that there were no owner retained vehicles included in this group of six claims.

While the Company recognizes the fact that the Pennsylvania Department of Motor Vehicles has an interest in knowing the change in status of these total loss vehicles so that the Pennsylvania data base can be updated to reflect the change, the Company does not believe that it is logical to require the Company to incur the additional expense of going through obtaining a Pennsylvania salvage certificate. To do so would be duplicative. In the future, when a total loss vehicle is salvaged outside Pennsylvania, the Company would agree to provide a notification letter to the Pennsylvania Department of Motor Vehicles along with a copy of the out of state salvage certificate. This notification should enable the Pennsylvania Department of Motor Vehicles to update its database. The Company welcomes the opportunity to discuss this issue with the Department further.

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

The Company accepts the Department's Recommendation that it ensure that all claim forms contain the required fraud warning notice. It is important to note that the one violation noted in the Examination Report involved a situation where the claim handler used a nonstandard letter that he drafted himself instead of using the form letters that had been drafted by the Company using Pennsylvania specific wording.

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

The Company accepts the Department's Recommendation for the ten instances where Company files did not reflect an actual appointment. The Company has made all necessary corrections to our appointment records. The Company has reviewed our internal procedures to ensure compliance with 40 P.S. §310.71. Furthermore, the Company has introduced a process improvement that calls for an annual review to ensure that all producers are properly appointed in the appropriate writing companies. In addition, there is an ongoing license validation process where select policies are reviewed to validate agent licensure and appointment.

12. 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)].


The Company accepts the Department's Recommendation to develop Pennsylvania specific renewal underwriting guidelines; however, the Company

reiterates that existing countrywide underwriting guidelines do not run afoul of Pennsylvania law.

With respect to the findings noted in the underwriting section of the Report that address the Company's Inforce Base Underwriting Guidelines, Edition 3/1/04 (auto) and Inforce Property Underwriting Guidelines, Edition 3/1/04, we respectfully disagree that these instances violate 40 P.S. § 991.2003 (a)(1), and (e) and 40 P.S. § 1171.5 (a) (4), (7) (iii), and (9). The Company offers the following by way of further background: During the initial stage of this exam, the examiners requested renewal underwriting guidelines. Because there were no Pennsylvania specific renewal underwriting guidelines available, the examiners were provided with the country-wide renewal guidelines. These countrywide guidelines are used to review a policy for possible underwriting action, e.g., issuance of a non-renewal notice. It is important to underscore that use of these countrywide guidelines is subject to any state-specific exceptions that may impact the issuance of a non-renewal notice. The countrywide guidelines specifically refer to the fact that state specific requirements or restrictions override the basic underwriting philosophy that is set forth in the countrywide guidelines.

We appreciate the courtesy extended by your staff throughout the examination process. We trust you will find our response satisfactory and look forward to working with you to conclude this examination. Please do not hesitate to contact me with any questions.

Sincerely,



Kathleen Querfeld