



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

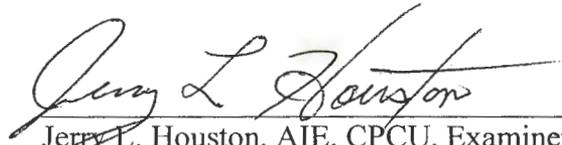
**AMERICAN INDEPENDENT
INSURANCE COMPANY
CONSHOHOCKEN, PA**

**As of: October 31, 2013
Issued: December 13, 2013**

**BUREAU OF MARKET ACTIONS
PROPERTY AND CASUALTY DIVISION**

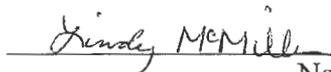
VERIFICATION

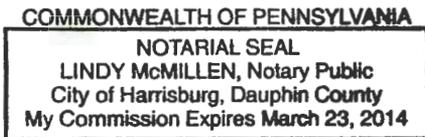
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


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

Sworn to and Subscribed Before me

This 17 Day of June, 2013


Notary Public



AMERICAN INDEPENDENT INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
AMERICAN INDEPENDENT	:	Sections 2002(c)(3), 2004, 2006, 2006(2),
INSURANCE COMPANY	:	2006(3) of Act 68 of 1998 (40 P.S. §§2002,
1000 River Road, Suite 300	:	2004 and 2006)
Conshohocken, PA 19428-2440	:	
	:	Section 671-A of Act 147 of 2002 (40 P.S.
	:	§310.71)
	:	
	:	Section 4 of the Act of June 11, 1947, P.L.
	:	538, No. 246 (40 P.S. §1184)
	:	
	:	Title 31, Pa. Code, Sections 69.52(b),
	:	146.6, and 146.7(a)(1)
	:	
	:	Act 1990-6, Sections 1705(a)(1)&(4),
	:	1716, 1731(b)&(c), 1791.1(c), and
	:	1799.3(a) (Title 75 Pa. C.S. 1705, 1716,
	:	1731, 1791 and 1799)
	:	
	:	
Respondent.	:	Docket No. MC13-10-019

CONSENT ORDER

AND NOW, this 13th day of December, 2013, 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 American Independent Insurance Company and maintains its address at 1000 River Road, Suite 300, Conshohocken, PA 19428-2440.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2010 through June 30, 2011.

(c) On October 31, 2013, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on November 25, 2013.

(e) The Market Conduct Examination of Respondent revealed violations of the following:

(i) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. § 991.2002), which requires that an insurer supply the insured with a written statement of the reason for cancellation;

(ii) 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;

(iii) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2006), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;

- (iv) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which prohibits a cancellation or refusal to renew from being effective unless the insurer delivers or mails a written notice of the cancellation or refusal to renew, which will include the date, not less than 60 days after the date of mailing or delivery, on which the cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for reasons set forth in Sections 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;
- (v) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a cancellation notice and state the specific reason or reasons of the insurer for cancellation;
- (vi) 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;
- (vii) Section 4 of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from

making or issuing a contract or policy with rates other than those approved;

(viii) 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;

(ix) 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;

(x) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer;

(xi) Act 1990-6, Section 8, Title 75, Pa. C.S. § 1705(a)(1)&(4), 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;

- (xii) Section 1716, Title 75, Pa. C.S. § 1716, states 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;
- (xiii) Act 1990-6, Section 9, Title 75, Pa. C.S. § 1731(b)&(c), which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;
- (xiv) Act 1990-6, Section 16, Title 75, Pa. C.S. § 1791.1(c), which requires an insurer to provide an insured a notice stating that discounts are available for drivers who meet the requirements of Sections 1799, 1799.1 and 1799.2;
- (xv) Section 1793(b) of Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge

information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

(xvi) Act 1990-6, Section 19, Title 75, Pa. C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1350 in excess of any self-insured retention or deductible applicable to the named insured;

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 2002(c)(3), 2004, 2006, 2006(2) and 2006(3) 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).

(c) 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.

(d) Respondent's violations of Section 4 of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) is punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
- (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7(a)(1) are punishable 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.

(f) 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).

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 pay Fifty Thousand Dollars (\$50,000.00) which includes reimbursement to the Pennsylvania Insurance Department in settlement of all violations contained in the Report.
- (c) Payment of this matter shall be made by check payable to the Pennsylvania Insurance Department. Payment should be directed to Cherie L. Leese, Administrative Officer, 1311 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.
- (d) 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.

(e) Respondent shall comply with all recommendations contained in the attached Report.

(f) After a period of 18 months from the date of this Order, Respondent shall be re-examined to verify corrective actions have been implemented.

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 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 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.

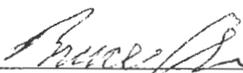
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

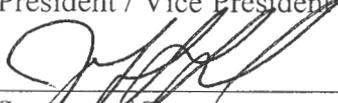
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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.

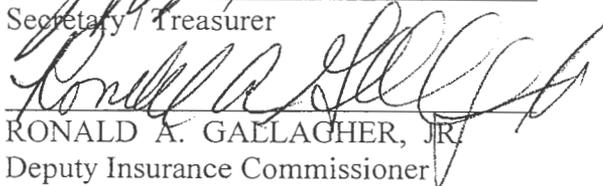
BY: AMERICAN INDEPENDENT INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



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

I. INTRODUCTION

The Market Conduct Examination was conducted at American Independent Insurance Company, hereinafter referred to as “Company”, at its office located in Conshohocken, Pennsylvania, from February 19, 2013 to April 26, 2013. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

The Pennsylvania Market Conduct Examination Report, hereinafter referred to as “Report”, generally notes only those items to which the Department, after review, takes exception. However, the 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 following examiners participated in this examination and in preparation of the Report.

Constance L. Arnold
Market Conduct Division Chief

Jerry L. Houston, AIE, CPCU
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on American Independent Insurance Company's office in Conshohocken, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 [40 P.S. §§323.3 and 323.4] of the Insurance Department Act and covered the experience period of January 1, 2010 through June 30, 2011, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and rescissions.
 - Rating - Proper use of all classification and rating plans and procedures.
2. Assigned Risk Automobile
 - Underwriting – Appropriate and timely notices of midterm cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.
3. Claims
4. Forms
5. Advertising
6. Complaints

7. Licensing

8. Data Integrity

III. COMPANY HISTORY AND LICENSING

American Independent Insurance Company was incorporated under the laws of Pennsylvania, on June 22, 1971, and commenced business on January 3, 1972.

LICENSING

American Independent Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on January 3, 1972. The Company is licensed in Delaware, Florida, Georgia, Illinois, Kentucky, Maryland, Pennsylvania, South Carolina, Tennessee and Virginia. The Company's 2011 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$31,485,965. Premium volume related to the areas of this review was: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$9,027,728; Private Passenger Auto Liability \$18,704,813 and Private Passenger Physical Damage \$3,753,424.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile. 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 16,405 private passenger automobile files identified as being cancelled in the first 60 days of new business, 150 files were selected for review. All 150 files were received and reviewed. The 30 violations noted were based on 30 files, resulting in an error ratio of 20%.

The following findings were made:

29 Violations Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Adjudication: Nguyen/Old Guard, P01-01-019 (2001)

Requires that an insurer supply the insured with a written statement of the reason for cancellation and an insurer may not cancel a policy for nonpayment of premium when the

premium is not yet due. The Company sent notice of nonpayment of premium when the premium was not yet due.

1 Violation Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Adjudications: Tampa v. State Farm (P91-06-01, 1991)

Gorba v. Allstate (P92-02-92, 1993)

Requires that an insurer supply the insured with a written statement of the reason for cancellation. The file noted was cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

2. Midterm Cancellations

From the universe of 20,564 private passenger automobile policies which were cancelled during the experience period, 130 files were selected for review. All 130 files were received and reviewed. The 104 violations noted were based on 100 files, resulting in an error ratio of 77%.

The following findings were made:

3 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 three (3) files noted were cancelled for other than permitted reasons.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company failed to provide 60 days notice of cancellation for the 70 files noted.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the specific reason or reasons of the insurer for cancellation. The Company failed to state the specific reason for cancellation for the file noted.

25 Violations Act 68, Section 2006 [40 P.S. §991.2006]

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The Company failed to send written notice of cancellation for the 25 files noted. Policyholders were sent a reminder of nonpayment of renewal deposit notice, canceling their policy at the end of a six month term. The policies were terminated midterm without a proper cancellation notice being sent.

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company failed to provide 15 days notice of cancellation for the 5 files noted. These policies had a termination date prior to the mailing date.

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.

From the universe of 4,716 private passenger automobile files identified as nonrenewals by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The ten (10) violations noted were based on ten (10) files, resulting in an error ratio of 20%.

The following findings were made:

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

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason on the nonrenewal notice for the 10 files noted.

The following concern was made:

Concern: The Company sends nonpay cancellation notices after sending a nonrenewal notice. The effective date of the nonpay notice is before the nonrenewal date. This can create confusion for the insured who now has a cancellation and a nonrenewal notice which have different dates of termination.

4. Rescissions

A rescission is any policy which was void *ab initio* by the Company.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. The review also determines compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

From the universe of 225 private passenger automobile policies that were identified by the Company as rescissions during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

American Independent Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

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 Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 an 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

The universe of 1 private passenger automobile assigned risk policy cancelled during the experience period was selected for review. The file was received and reviewed. No violations were noted.

The following concern was made:

CONCERN: The file reviewed contained a cancellation notice with a retroactive cancellation date with the reason non-sufficient funds check. The notice used is confusing. The Company had previously sent a proper nonpayment cancellation allowing 15 days notice with the same effective date of cancellation. Since this policy had already been cancelled for nonpay, if the Company wanted to confirm the cancellation as a courtesy to the insured, a letter of confirmation would have been sufficient.

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 the 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 uses an automated system to process and issue personal automobile policies. 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.

Automobile Rating – New Business without Surcharges

From the universe of 51,568 private passenger automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files were received and reviewed. The 51,570 violations were based on the universe of 51,568, resulting in an error ratio of 100%.

The following findings were made:

51,568 Violations Title 75, Pa. C.S. §1793(b)

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

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

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide a signed written rejection form for uninsured and underinsured motorist coverage.

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

Requires every insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy to provide each applicant with the notice required by paragraph (1). A policy may not be issued until the applicant has been provided an opportunity to elect a tort option. The notice shall be a standardized form as adopted by the Commissioner. The Company failed to have a signed written limited tort option selection form in the file.

The following concern was made:

CONCERN: Title 75, Pa. C.S. §1791 requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company must delete additional wording for mandated discounts to comply with statutory wording. A separate disclosure notice for mandated discounts as required by Title 75, Pa. C.S. §1791.1(c) must be provided.

Auto Rating – New Business with Surcharges

From the universe of 483 private passenger automobile policies identified as new business with surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 503 violations noted were based on the universe of 483 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

20 Violations Title 75, Pa. C.S. §1799.3(a)

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,350 in excess of any self insured retention or deductible applicable to the named insured.

AND

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

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

time of issue. The Company surcharged policies for at-fault accidents without confirmation that the claim amount paid exceeded the threshold. Two of the policies were surcharged the wrong number of points. These incidents are contrary to the Company's filed and approved rating plan, which resulted in overcharges of \$5,773.95.

The following concern was made:

CONCERN: Title 75, Pa. C.S. §1791 requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company must delete additional wording for mandated discounts to comply with statutory wording. A separate disclosure notice for mandated discounts as required by Title 75, Pa. C.S. §1791.1(c) must be provided.

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 uses an automated system to process and issue personal automobile policies. 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 24,817 private passenger automobile policies identified as renewals without surcharges by the Company during the experience period, 25 files were selected for review. All 25 policy files requested were received and reviewed. The 24,817 violations were based on the universe of 24,817 files, resulting in an error ratio of 100%.

The following findings were made:

24,817 Violations Title 75, Pa. C.S. §1791.1(c)

Requires an insurer to provide an insured a notice stating that discounts are available for drivers who meet the requirements of Sections 1799, 1799.1 and 1799.2. The Company failed to provide the required notice at renewal.

Private Passenger Automobile – Renewals with Surcharges

From the universe of 1,182 private passenger automobile policies identified as renewals with surcharges, 75 files were selected for review. All 75 policy files requested were received and reviewed. The 1,184 violations were based on the universe of 1,182 files, resulting in an error ratio of 100%.

The following findings were made:

1,182 Violations Title 75, Pa. C.S. §1791.1(c)

Requires an insurer to provide an insured a notice stating that discounts are available for drivers who meet the requirements of Sections 1799, 1799.1 and 1799.2. The Company failed to provide the required notice at renewal.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to rate policies in accordance with the Company's filed and approved rating plan. The two policies were incorrectly surcharged which resulted in overcharges of \$2,870.

B. Private Passenger Automobile – Assigned Risk

American Independent Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

1. New Business

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

The primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business

The Company did not report any new business assigned risk private passenger automobile policies.

Assigned Risk Private Passenger Automobile – Renewals – Clean

The universe of 2 assigned risk private passenger automobile renewal policies written as clean during the experience period was selected for review. Both 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. Assigned Risk Automobile Property Damage 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 7,545 private passenger automobile property damage claims reported during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 8%.

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 a timely status letter for the 8 claims noted.

B. Automobile Comprehensive Claims

From the universe of 289 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted was based on 1 file, resulting in an error ratio of 4%.

The following finding was made:

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to deny the claim in writing.

C. Automobile Collision Claims

From the universe of 1,513 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 572 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 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

E. Automobile First Party Medical Claims

From the universe of 3,875 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 14 violations noted were based on 5 files, resulting in an error ratio of 10%.

The following findings were made:

8 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 failed to pay medical bills within 30 days.

2 Violations 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 2 claims that were not paid within 30 days.

4 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 a timely status letter for the 4 claims noted.

F. Automobile First Party Medical Claims Referred to a PRO

The Company did not report any first party medical claims referred to a peer review organization during the experience period. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The Company provided one contract with an approved peer review organization which was reviewed. No violations were noted.

G. Assigned Risk Automobile Property Damage Liability Claims

The universe of 4 assigned risk private passenger automobile property damage claims was reported during the experience period. All 4 files were 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 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 require all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

No violations were noted.

IX. ADVERTISING

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

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

The Company does not advertise but does have a website at www.aiico.com, which was 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 91 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 91 complaints reported, 50 complaints were requested, received and reviewed.

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

The following findings were made:

2 Violations Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Adjudication: Nguyen/Old Guard, P01-01-019 (2001)

Requires that an insurer supply the insured with a written statement of the reason for cancellation and an insurer may not cancel a policy for nonpayment of premium when the premium is not yet due. The Company sent notice of nonpayment of premium when the premium was not yet due.

The following synopsis reflects the nature of the 50 complaints that were reviewed.

• 25	Cancellation/Nonrenewal/Rating	50%
• 25	Claims	50%
<hr/>		<hr/>
50		100%

XI. LICENSING

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

The following finding was made:

*1 Violation 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 producer was found to be writing policies but was 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.

H&M Insurance Agency

XII. DATA INTEGRITY

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act, Section 904(b) [40 P.S. §904(b)] .

No violations were noted.

XIII. 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 2002, 2004 and 2006 [40 P.S. §991.2002, 2004 and 2006], so that the violations noted in the Report do not occur in the future.
2. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
3. The Company must review Title 75, Pa. C.S. §1791.1(c) to ensure that violations regarding the requirement to provide notice to insureds stating that discounts are available for drivers, as noted in the Report, do not occur in the future.
4. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.

5. The Company must review Title 75, Pa. C.S. §1799.3(a) to ensure that a policy is not surcharged where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,350 in excess of any self-insured retention or deductible applicable to the named insured.
6. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.
7. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.
8. 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 the violation noted under Title 75, Pa. C.S. §1705(a)(1)(4) does not occur in the future.
9. 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, claim acceptance and denials as noted in the Report do not occur in the future.

10. 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.
11. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% per 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.
12. 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.

XIV. COMPANY RESPONSE

November 22, 2013



AMERICAN INDEPENDENT INSURANCE COMPANY

Constance Arnold
Property & Casualty Division Chief
Pennsylvania Insurance Department
Bureau of Market Actions
1227 Strawberry Square
Harrisburg, PA 17120

RE: American Independent Insurance Company
Market Conduct Examination
Warrant Number: 11-M19-045

Dear Ms. Arnold:

American Independent Insurance Company (the "Company") is in receipt of your letter dated October 31, 2013 and the Department's Report of Examination covering the period of January 1, 2010 through June 30, 2011 (the "Report"). Kindly accept this letter as the Company's response to the Report.

As you know, the Company serves the unique segment of the market, namely, the non-standard automobile insurance market, in which most of its customers are interested in purchasing just the minimum level of statutory coverage. We value the opportunity to fill this significant market need and strive to maintain this coverage at affordable levels and in a very consumer friendly environment.

Our response below addresses each of the Department's recommendations starting on 34 of the report. Although we believe the exceptions noted in the Report relate mostly to categories of either human error (which we believe are statistically insignificant) or the differing interpretations of Pennsylvania law, we accept the Report constructively in an effort to improve proving procedures, and the Company is implementing the recommendations of the Department to further strengthen our compliance. To the extent the Department views certain matters to be a violation of Pennsylvania law, given the circumstances, the Company respectfully submits that none of such actions should be viewed as an intentional violation of the law or any general pattern or practice of noncompliance.

The Company appreciates the professional courtesy of your staff through the examination process. We look forward to working with you to reach a mutually agreeable resolution in the Report. If you have any questions in connection with the letter or you require any further information, please do not hesitate to call me.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Bruce Arneson". The signature is fluid and cursive, written over a horizontal line.

Bruce Arneson
President
American Independent Insurance Company

1000 River Road, Suite 300
Conshohocken, PA 19428-2440
Phone: 610-832-4940 Fax: 610-832-1147

PA Market Conduct Company Response American Independent Insurance Company

The Company response will parallel the order of the findings as noted in XIII-RECOMMENDATIONS of the Report of the Market Conduct Examination for American Independent Insurance Company.

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2002, 2004 and 2006 [40 P.S. 8991.2002, 2004 and 2006], so that the violations noted in the Report do not occur in the future.

Company Response:

The Company has reviewed our internal control procedures as recommended by the Department. We corrected our programming to only non-renew at the annual anniversary on 5/11/2011. We have revised our process for nonrenewal due to agency termination. The insured will be offered coverage on a direct basis or referred to one or more new agents when their agent has been terminated. Automated Letters have been programmed to mail to the insured with an electronic copy stored in the policy system for on-line. The Company has reviewed our cancellation procedures for non-payment at a non-anniversary renewal when the policy term is less than annual. We are currently programming the policy system to send a proper non-pay cancellation notice for policyholders who do not pay the renewal deposit for a non-anniversary renewal. We have ceased writing 6 month and 3 month policy terms for new business effective 11/14/2013. The Company has reviewed our reasons for cancellation that are stated on our cancellation and non-renewal notices. Our policy writing system has automation in place that allows for data entry for a "Key Reason" for action followed by a more detailed comment on the legal notification to be mailed to the policyholder. The Company has communicated with all applicable staff, to review the procedure and remind all involved that both steps should be completed as part of the underwriting cancellation and non-renewal process. Supervisory staff will continue to randomly and periodically monitor for compliance.

The Company has reviewed procedures regarding customers who have moved out of state. We have revised the programming to ensure that these cancellations provide 60 days notification to the customer.

The Company has reviewed our procedures of cancellations for non-payment of an installment payment which is later notified that the payment was not honored for Non-Sufficient Funds. On the policies referenced, the Company did send a legal notice of cancellation giving the proper 15 days notice to the customer. The customer paid on or before the cancellation date, thus the policy did not cancel on the cancellation date. Several days after the payment, we were notified of the "bounced" payment and at that time processed the cancellation back to the cancellation date on the previous notice, sending a new notification with the reason "Bounced Payment to Agent – Policy Cancelled for Non-Sufficient Funds Check." We are presently researching and reviewing our options for making this second notification clearer to the customer and to meet state requirements. This includes sending a new NSF Notice to the insured.

The company has reviewed our procedures for sending non-payment cancellations with regards to payment due dates. The Economy Pay Plan which sent the Intent to Cancel Notice prior to the payment due date was discontinued on 9/20/2012.

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

Company Response:

The Company has reviewed Title 75, Pa. C.S. §1793(b). The Surcharge Disclosure Plan has been added to the application documents on 5/2/2013.

3. The Company must review Title 75, Pa. C.S. §1791.1(c) to ensure that violations regarding the requirement to provide notice to insureds stating that discounts are available for drivers, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed Title 75, Pa. C.S. §1791.1(c). The additional wording for mandated discounts was added to the application documents and the renewal on 9/5/2013.

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

Company Response:

The company has reviewed the underwriting procedures and Title 75, Pa. C.S. §1731(b) & (c). We have revised our procedures to request all applicable documentation from terminated Agents who have active policies with us. The Company is reviewing its options for future enhancements that could be utilized with electronic signatures in the Agents' office.

5. The Company must review Title 75, Pa. C.S. §1799.3(a) to ensure that a policy is not surcharged where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,350 in excess of any self insured retention or deductible applicable to the named insured.

Company Response:

The Company has reviewed Title 75, Pa. C.S. §1799.3(a) and our internal procedures regarding surcharges for At-Fault Accident that exceed the threshold. Premium differences were calculated and refunds sent to the insureds. We plan to introduce our Point of Sale and MVR/CLUE Reconciliation processes that we utilize in our PA Omni Insurance Company program as quickly as possible. This will capture the details regarding violations and accidents needed to validate surcharges.

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

Company Response:

The Company has reviewed Act 246, Section 4(a) and (h) [40 P.S. §1184] and our internal procedures regarding surcharges for At-Fault Accident that exceed the threshold. We plan to introduce our Point of Sale and MVR/CLUE Reconciliation processes that we utilize in our PA Omni Insurance Company program as quickly as possible. This will capture the details regarding violations and accidents needed to validate surcharges.

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

Company Response:

The Company has calculated the premium differences and sent refunds to the insureds. Copies of the checks are provided under separate cover.

8. 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 the violation noted under Title 75, Pa. C.S. §1705(a)(1)(4) does not occur in the future.

Company Response:

The company has reviewed the underwriting procedures and Title 75, Pa. C.S. §1705(a)(1)(4). We have revised our procedures to request all applicable documentation from terminated Agents who have active policies with us. The Company is reviewing its options for future enhancements that could be utilized with electronic signatures in the Agents' office.

9. 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, claim acceptance and denials as noted in the Report do not occur in the future.

Company Response:

The Company has completed a review of the violations of Chapter 146 and determined that they were due to isolated cases in which there was a deviation from the American Independent. The Company is adjusting the timing of status letters so that they are calculated from the date of the loss notice rather than from the date that individual coverages / exposures are opened. To improve compliance with the statute, the company has provided additional training to the appropriate personnel.

10. 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.

Company Response:

The Company has reviewed Title 31, Pa. Code, Section 69.52(b) with the No Fault representatives and supervisors to reinforce the understanding that first party medical bills are to be paid within thirty days of receiving sufficient documentation to process the bill. The Company now uses ImageRight workflow software that has improved overall workflow within our PIP claims area and allows for closer management oversight of bill paying timeliness.

11. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% per 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.

Company Response:

The Company has reviewed the isolated first party claims identified to include interest that were paid past thirty days. The Company issued the interest payments that were owed. Copies of the checks are provided under separate cover. Additional training was provided to remind the appropriate staff of the requirement to pay interest on payments not processed within thirty days.

12. 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.

Company Response:

The Company has reviewed our appointment procedures. All producers are appointed and will continue to be appointed in accordance with Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147. We have provided additional training to our staff to ensure compliance. The licensing and appointment process involves regular contacts with Agency personnel to ensure that all individual and business licensed professionals are properly appointed with the company to handle insurance transactions. An annual review of company appointments and frequent phone and personal contact with agencies assists in the accurate count of appointments. Unnecessary company appointments are eliminated as they can cause a conflict of interest for the licensed professional in the industry. We will continue to monitor these activities on an ongoing basis to ensure compliance in the future.