

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**AMERICAN MODERN HOME INSURANCE
COMPANY**
Amelia, Ohio

**AS OF
July 14, 2010**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 7, 2010

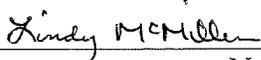
VERIFICATION

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

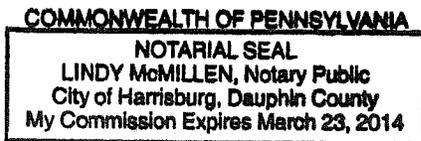

Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 18th Day of June, 2010



Notary Public



AMERICAN MODERN HOME INSURANCE COMPANY

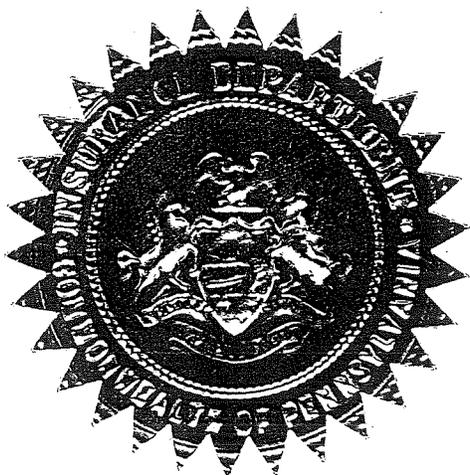
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 30th day of August, 2010, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Robert L. Pratter
Acting Insurance Commissioner

CONSENT ORDER

AND NOW, this 7th day of September, 2010, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is American Modern Home Insurance Company, and maintains its address at 7000 Midland Boulevard, Amelia, Ohio 45102.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2008 through June 30, 2009.
- (c) On July 14, 2010, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on August 12, 2010.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required

in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

- (iv) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;
- (v) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (vi) Section 1738(c)(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise the named insured that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;
- (vii) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available under this chapter provided the notice is given to the insured at time of application;

- (viii) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages;
- (ix) 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;
- (x) Section 1791.1(c) of Act 1990-6, Title 75, Pa.C.S. § 1791, 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;

- (xi) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792(b)(1), which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;
- (xii) 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;

- (xiii) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (xiv) Section 4(a) of Act 86 (40 P.S. § 3404), which requires that unearned premium must be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer;
- (xv) Section 4(b) of Act 86 (40 P.S. § 3404), which requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured;
- (xvi) Section 2003(a)(1) of Act 68 of 1998 (40 P.S. §991.2003(a)(1)), which states an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of age;

- (xvii) Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day; and
- (xviii) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of

2002 (40 P.S. § 310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 5(a)(9) and 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5), and Title 31, Pennsylvania Code, Section 146.6, are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(d) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Act 86, Sections 4(a) and 4(b) (40 P.S. §§ 3404) 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.
- (f) Respondent's violations of Section 2003(a)(1) 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).

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 Fifteen Thousand Dollars (\$15,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of

Market Actions, 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.

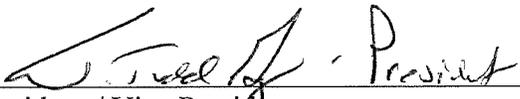
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

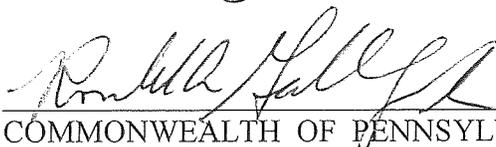
BY: AMERICAN MODERN HOME INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at American Modern Home Insurance Company's office located in Amelia, Ohio, from March 8, 2010, through April 9, 2010. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

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

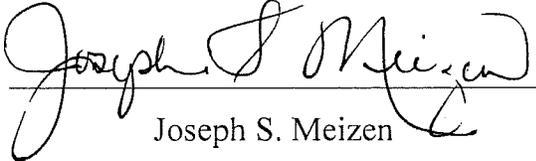
The undersigned participated in this examination and in preparation of this Report.



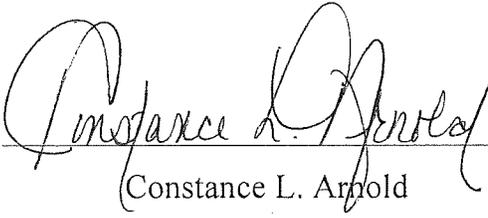
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Jerry L. Houston, AIE, CPCU
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on American Modern Home Insurance Company, hereinafter referred to as “Company,” at their office located in Amelia, Ohio. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2008, through June 30, 2009, 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. Highway Vehicles

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

2. Off-Road Vehicles

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

3. Property

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

4. Commercial Property

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

5. Commercial Automobile

- Underwriting – Appropriate and timely notices of renewals.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

American Modern Home Insurance Company was incorporated January 25, 1965, under the laws of Ohio, and began business September 1, 1965.

The Company is a wholly owned subsidiary of American Modern Insurance Group, Inc., Cincinnati, Ohio, an intermediate holding company of the Midland Company, also of Cincinnati, a diversified holding company with principal interests in river transportation as well as insurance. The insurance operation consists of eight property and casualty and two credit life companies.

LICENSING

American Modern Home Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2010. The Company is licensed in all states, the District of Columbia and Guam. The Company's 2009 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$12,380,964. Premium volume related to the areas of this review were: Fire \$3,762,611; Homeowners Multiple Peril \$1,325,154; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$83,175; Other Private Passenger Auto Liability \$1,194,975 and Private Passenger Auto Physical Damage \$2,086,492; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$5,862; Other Commercial Auto Liability \$85,155 and Commercial Auto Physical Damage \$177,863.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and underwriting guides were furnished for collector cars, dwelling fire, homeowners, motor home, motorcycle and watercraft. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following finding was made:

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

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Age. The Company's elite collector car underwriting guide makes operators with less than 10 years driving experience ineligible, which is not acceptable.

V. UNDERWRITING

A. Highway Vehicles

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was canceled 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 283 highway vehicles canceled in 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 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 1,452 highway vehicles canceled midterm during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy 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 24 highway vehicles nonrenewed during the experience was selected, received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

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

B. Off-Road Vehicles

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

The universe of 17 off-road vehicles canceled in the first 60 days of new business was selected for review. All 17 files were received and reviewed. The 10 violations noted were based on 10 files, resulting in an error ratio of 59%.

The following findings were made:

10 Violations Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day. The Company did not provide the required 30 days notice of cancellation for the 10 files noted.

2. Midterm Cancellations

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

The primary purpose of the review was to determine 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 1,013 off-road vehicles canceled midterm during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal 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 nonrenewal notice.

The universe of 2 off-road vehicle policies nonrenewed during the experience period was selected for review. Both files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 100%.

The following findings were made:

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 nonrenewed the 2 files noted for an improper reason, which included: “No response from insured” and “Agency no longer represents the company”.

C. Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

The universe of 2 property policies which were canceled within the first 60 days of new business was selected for review. The policies consisted of homeowner and tenant homeowner. Both files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 263 personal property policies which were cancelled midterm during the experience period, 63 files were selected for review. The property policies consisted of homeowners and owner occupied dwelling fire. All 63 files were received and reviewed. The violation resulted in an error ratio of 2%.

The following finding was made:

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective.

The Company failed to provide 30 days notice of cancellation.

3. Nonrenewals

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

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

The universe of 3 homeowner policies nonrenewed during the experience period was selected for review. All 3 files were received and reviewed. The violation resulted in an error ratio of 33%.

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. 60-Day Cancellations

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

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

The universe of 2 commercial property policies cancelled within the first 60 days was selected for review. Both files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

The universe of 4 commercial property policies cancelled midterm during the experience period was selected for review. All 4 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

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

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

3. Renewals

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

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

From the universe of 23 commercial property policies renewed during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

E. Commercial 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 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 41 commercial automobile policies renewed during the experience period, 20 files were selected for review. All 20 files were received and reviewed. No violations were noted.

VI. RATING

A. Highway Vehicles

1. New Business

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

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

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

From the universe of 1,829 highway vehicle policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 5,681 violations noted were based on 1,133 files out of the universe of 1,829 files, resulting in an error ratio of 62%.

The following findings were made:

1,128 Violations Title 75, Pa. C.S. §1791.1(a)

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

1,128 Violations Title 75, Pa. C.S §1791.1(b)

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

1,128 Violations 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 provide the election of tort options to the applicant prior to policy issuance.

1,128 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required notice of available benefits and limits at the time of application.

1,128 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 notice of premium discounts at the time of application.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to provide the signed limited tort selection form for the 3 files noted.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 12 files noted.

8 Violations Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The Company failed to provide a written request for lower uninsured and underinsured motorist coverage limits for the 8 files noted.

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

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named

insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The Company failed to provide a signed statement from the insured requesting a deductible of less than \$500 for the 18 files noted.

2. Renewals

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

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

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory

assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

From the universe of 6,999 highway vehicle policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Off-Road Vehicles

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

From the universe of 275 off-road vehicle policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

2. Renewals

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

The purpose of the review was to 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.

From the universe of 2,882 off-road vehicle policies identified as renewals without surcharges, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Homeowners

1. New Business

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

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

From the universe of 35 homeowner policies written as new business without surcharges during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

2. Renewals

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

The purpose of the review was to 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.

From the universe of 1,600 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

D. Tenant Homeowners

1. New Business

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

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

The universe of 1 tenant homeowner policy written as new business during the experience period was selected for review. The file was received and reviewed. No violations were noted.

2. Renewals

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

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

The universe of 1 tenant homeowner policy renewed during the experience period was selected for review. The file was received and reviewed. No violations were noted.

E. Dwelling Fire

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.

From the universe of 113 dwelling fire policies renewed during the experience period, 15 files were selected for review. All 15 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. Highway Vehicle Collision Claims
- B. Off-Road Vehicle Collision Claims
- C. Highway Vehicle Property Damage Claims
- D. Off-Road Vehicle Property Damage Claims
- E. Highway Vehicle Comprehensive Claims
- F. Off-Road Vehicle Comprehensive Claims
- G. Highway Vehicle Total Loss Claims
- H. Off-Road Vehicle Total Loss Claims
- I. Highway Vehicle First Party Medical Claims
- J. Off-Road Vehicle First Party Medical Claims
- K. Homeowner Claims
- L. Dwelling Fire 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. Highway Vehicle Collision Claims

From the universe of 72 highway vehicle collision claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

B. Off-Road Vehicle Collision Claims

From the universe of 35 off-road vehicle collision claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

C. Highway Vehicle Property Damage Claims

From the universe of 32 highway vehicle property damage claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

D. Off-Road Vehicle Property Damage Claims

The universe of 7 off-road vehicle property damage claims reported during the experience period was selected for review. All 7 files were received and reviewed. No violations were noted.

E. Highway Vehicle Comprehensive Claims

From the universe of 52 highway vehicle comprehensive claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

F. Off-Road Vehicle Comprehensive Claims

From the universe of 28 off-road vehicle comprehensive claims reported during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No violations were noted.

G. Highway Vehicle Total Loss Claims

The universe of 18 highway vehicle total loss claims reported during the experience period was selected for review. All 18 files were received and reviewed. No violations were noted.

H. Off-Road Vehicle Total Loss Claims

The universe of 9 off-road vehicle total loss claims reported during the experience period was selected for review. All 9 files were received and reviewed. No violations were noted.

I. Highway Vehicle First Party Medical Claims

From the universe of 89 highway vehicle property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

J. Off-Road Vehicle First Party Medical Claims

The universe of 11 off-road vehicle first party medical claims reported during the experience period was selected for review. All 11 files were received and reviewed. No violations were noted.

K. Homeowner Claims

From the universe of 179 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

L. Dwelling Fire Claims

The universe of 13 dwelling fire claims reported during the experience period was selected for review. All 13 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 and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following findings were made:

Highway Vehicle Rating – New Business

1,128 Violations Title 75, Pa. C.S. §1822

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

IX. ADVERTISING

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

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

The Company provided 30 pieces of advertising in use during the experience period. The advertising materials provided included: brochures, agent's kits, mail solicitation and a newsletter. 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 8 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 8 complaint files reported were selected, received and reviewed.

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

The following finding was made:

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

Discrimination Prohibited. An insurer may not cancel or refuse to write or renew a policy of automobile insurance for age. The Company canceled the policy for an improper reason. Driving experience was referenced which is equivalent to age.

The following synopsis reflects the nature of the 8 complaints that were reviewed.

• 6	Cancellation/Nonrenewal	75%
• 2	Claims Related	25%
<hr/>		<hr/>
8		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:

*5 Violations Insurance Department Act, No. 147, Section 641.1A
[40 P.S. §310.41a]*

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

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

The Beyrent Agency, Inc.
First Financial Insurance Consultants, Inc.

T. P. McGinnis, Inc.
Tom Raper, Inc.
Richard I. Keith

18 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.

J. E. Balicki & Associates, Inc.
The Bert Company
Dubler Insurance Services
Dunkard Valley Insurance Agency, Inc.
Corwin C. Erdman
Fredericktown Real Estate Company
Graham Insurance Group, Inc.
Kressler, Wolff & Miller, Inc.
Murray Insurance LLC
Myers Insurance LLC
George E. Ross Insurance Agency, Inc.
Royal Underwriters, Inc.
B. Titus Rutt Agency, Inc.
Strausser Insurance Agency, Inc.
Stuber Insurance Agency
Walter Stump Insurance Agency, Inc.
Williamson Agency, Inc.
The Winfield Group, Inc.

XII. RECOMMENDATIONS

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

1. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.
2. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
3. The Company must review Title 31, Pa. Code, Section 59.9(b) to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation requirements of Act 86, Section 4 [40 P.S. §§3404], so that the violations noted in the Report do not occur in the future.
5. The Company must review Title 75, Pa. C.S. §1791 violations to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.

6. 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.
7. The Company must review Title 75, Pa. C.S. §1791.1(a) violations to ensure that an itemized invoice listing minimum coverages and premiums are provided at the time of application as noted in the Report and do not occur in the future.
8. The Company must review Title 75, Pa. C.S. §1791.1(b) violations to ensure that tort options are provided at the time of application as noted in the Report and do not occur in the future.
9. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
10. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(c)(d)(1) and (2) do not occur in the future.

11. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in the file as noted in the Report.
12. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage. This is to ensure that the violation noted under Title 75, Pa. C.S. §1792(b)(1) does not occur in the future.
13. The Company must ensure that all applications contain the required fraud warning notice.
14. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
15. The Company must 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 Section 2003 of Act 68 [40 P.S. §991.2003].

XIII. COMPANY RESPONSE



**AMERICAN MODERN HOME
INSURANCE COMPANY**

August 11, 2010

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

RE: American Modern Home Insurance Company
Examination Warrant Number: 09-M19-032

Dear Mr. Derk,

On behalf of American Modern Home Insurance Company ("American Modern" or "We"), please allow this letter to serve as our response to the Report of the Market Conduct Examination Warrant Number 09-M19-032 (the "Report"), that was received with your cover letter dated July 14, 2010. We have reviewed the Report and respectfully submit this response.

This response will address the Recommendation section at the conclusion of the Report. The recommendations made in the Report identify measures that the Department believes are necessary as a result of the number or the nature of the alleged violations noted in the Report. With respect to the other exceptions covered in the Report, but not addressed in the recommendations or within this response, American Modern wishes to note that the remaining areas typically involve a single or statistically insignificant number of unique errors and not a trend. Those exceptions are a reflection of human error or deviation from our established procedures and practices and do not require material institutional corrective actions. We have nonetheless taken steps to minimize the recurrence of these issues in the future.

We have organized our response in relation to the recommendations set forth in the Report as follows:

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

Company Response: While only a single violation was noted, we nonetheless accept this recommendation and will reinforce our existing internal controls to ensure that records and documents are maintained in accordance with Department requirements.

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

Company Response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with respect to cancellation and nonrenewal of personal property policies. All of our underwriters will be apprised of the Department's findings and of any necessary corrective measures.

3. The Company must review Title 31, Pa. Code, Section 59.9 (b) to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, and do not occur in the future.

Company Response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with respect to the timing of cancellation and nonrenewal notices. All of our underwriters will be apprised of the Department's findings and of any necessary corrective action.

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

Company Response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with Pennsylvania requirements regarding the waiver of stacked limits.

The following recommendations 5-9 are related and are therefore addressed in a combined response below.

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

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

7. The Company must review Title 75, Pa. C.S. § 1791.1 (a) violations to ensure that an itemized invoice listing minimum coverages and premiums are provided at the time of application as noted in the Report and do not occur in the future.

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

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

Company Response: We accept these recommendations. As noted during our examination, all of these exceptions arose in connection with the conversion of blocks of collector vehicle insurance policies from a separate insurance company into similarly structured American Modern-issued policies. Because of the conversion nature of these policies, policyholders were not required to complete new applications. As part of the conversion process, however, American Modern provided policyholders with required Act 6 forms. Accordingly, policyholders were given notice of their rights and options under Act 6. Going forward, we intend to fashion a compliance solution for conversion business that satisfies the "at time of application" requirements of Act 6.

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

Company response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with Pennsylvania requirements regarding the waiver of stacked limits.

11. The Company must review Title 75, Pa. C.S. § 1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in the file as noted in the report.

Company response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with Pennsylvania requirements related to providing a written request for lower uninsured and underinsured motorist coverage limits.

12. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage. This is to ensure that the violation noted under Title 75, Pa. C.S. § 1792 (b) (1) does not occur in the future.

Company response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance with Pennsylvania requirements regarding the availability of lower deductibles.

13. The Company must ensure that all applications contain the required fraud warning notice.

Company response: We accept this recommendation and we have revised our existing practices and procedures to ensure that a proper fraud notice is provided at time of application. Again, we intend to fashion a compliance solution for providing fraud notices in the context of conversion policies.

14. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

Company response: We have already acted upon this recommendation. The producers that are currently writing in the state of Pennsylvania have all been appointed and licensed.

15. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applications from being eligible to obtain insurance for reason established in Section 2003 of Act 68 [40P.S. § 991.2003]

Company response: We accept this recommendation and we will review and, as necessary, modify our existing practices and procedures to ensure compliance. All of our underwriters will be apprised of the Department's findings and of any necessary corrective measures.

Thank you for your consideration on this matter and for providing us with an opportunity to respond to the Report. We wish to offer our sincere gratitude to the Department and each individual examiner for the courtesies granted to us throughout the course of this very professionally conducted examination.

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve Mackie".

Steve Mackie
Assistant Vice President