



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

CAPITOL INSURANCE COMPANY
North Wales, PA

As of: March 26, 2012
Issued: May 10, 2012

**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 Day of , 2012~~

Notary Public

Please See Attached

Jurat

State of California

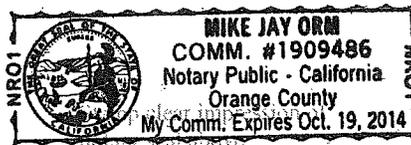
County of Orange

Subscribed and sworn to (or affirmed) before me Mike Jay Orm, Notary Public
Name of commissioned notary

on this 8th of March 2012 by Jerry L. Houston
Day Month Name of affiant

proved to me on the basis of satisfactory evidence to be the person who appeared before me.

WITNESS my hand and official seal.



[Signature]
Notary's Signature

OPTIONAL INFORMATION

DESCRIPTION OF THE ATTACHED

Title of Document

Number of Pages

Document Date

Other Information

[Revised to comply with changes in the law enacted by CA AB 886, AB 454; Effective 01-01-2008]

CAPITOL INSURANCE COMPANY
TABLE OF CONTENTS

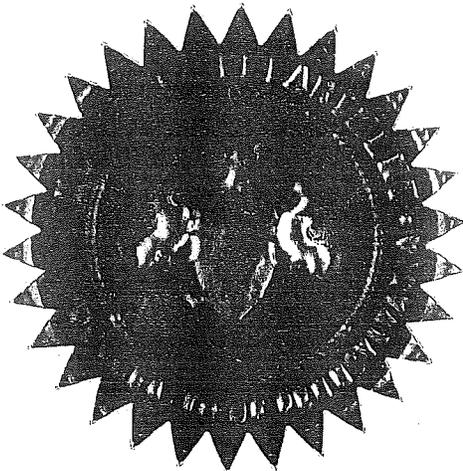
Order

I.	Introduction	1
II.	Scope of Examination	3
III.	Company History/Licensing	4
IV.	Underwriting Practices and Procedures	5
V.	Underwriting	
	A. Private Passenger Automobile	6
VI.	Data Integrity	14
VII.	Recommendations	17
VIII.	Company Response	18

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 27th day of April, 2011, 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.




Michael F. Consedine
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
CAPITOL INSURANCE COMPANY : Section 904(b) of the Insurance Department
1180 Welsh Road, Suite 100 : Act (40 P.S. §323.4)
North Wales, PA 19454 : :
: Act 1990-6, Section 1799.3(a) (75 Pa.C.S.
: §1799.3(a)
: :
: Act 68 of 1998, Sections 2002(c)(3), 2003,
: 2003(a)(1), 2003(b), 2004 and 2006(2)
: (40 P.S. §991.2002, 991.2003, 991.2004
: and 991.2006)
: :
Respondent. : Docket No. MC12-03-028

CONSENT ORDER

AND NOW, this *10th* day of *May*, 2012, 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 Capitol Insurance Company, and maintains its address at 1180 Welsh Road, Suite 100, North Wales, PA 19454.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience periods from January 1, 2009 through December 31, 2010.

(c) On March 26, 2012, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on April 23, 2012.

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

- (i) Section 904(b) of the Insurance Department Act (40 P.S. § 323.4), which requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined;

- (ii) Section 1799.3(a) of Act 1990-6, Title 75, Pa.C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1350 in excess of any self-insured retention or deductible applicable to the named insured;

- (iii) 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;

- (iv) Section 2003 of Act 68 of 1998 (40 P.S. §991.2003), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of discrimination;

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

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 Section 2002, 2003, 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

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) 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.

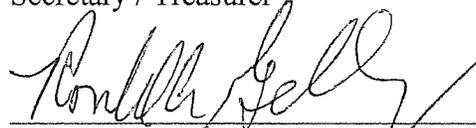
BY: CAPITOL INSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



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

I. INTRODUCTION

The Market Conduct Examination was conducted at Capitol Insurance Company, hereinafter referred to as “Company”, office located in North Wales, Pennsylvania, from September 12, 2011 to October 13, 2011. 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

June A. Coleman
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Capitol Insurance Company at their office in North Wales, 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, 2009 through December 31, 2010, 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.

2. Data Integrity

III. COMPANY HISTORY AND LICENSING

Capitol Guaranty Holding Corporation (“Capitol Guaranty”) was incorporated in the State of Florida on April 1, 1988. Capitol Guaranty purchased Capitol Insurance Company (“Capitol Insurance”) a Pennsylvania based private passenger automobile insurance company. Capitol Insurance Company was incorporated on January 9, 1968, under the laws of the Commonwealth of Pennsylvania and commenced business on November 15, 1968. Capitol Insurance Company focused its business in Philadelphia and the surrounding counties. Since Capitol Guaranty’s purchase of Capitol Insurance it was successful in expanding the insurance company’s premium base throughout the Commonwealth of Pennsylvania. Capitol Insurance currently writes private passenger personal automobile and motorcycle insurance through a network of approximately 200 independent local neighborhood agents throughout the Commonwealth of Pennsylvania. Capitol Insurance has focused its efforts exclusively on servicing the market created by the \$15,000/\$30,000 minimum insurance policy limits required by state law throughout Pennsylvania.

LICENSING

Capitol Insurance Company’s Certificate of Authority to write business in the Commonwealth was issued on November 15, 1968. The Company is licensed in the Commonwealth of Pennsylvania. The Company’s 2010 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$8,416,481. Premium volume related to the areas of this review was: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Automobile Liability \$5,282,374 and Private Passenger Auto Physical Damage \$3,134,107.

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.

The following findings were made:

4 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 four (4) files noted were the results of the Company stating in its policy that it may cancel for other than permitted reasons.

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

States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of discrimination. The file noted was the result of the Company's policy stating "we" may cancel the policy for any reason within the first fifty-nine days of the initial policy period.

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 1,703 private passenger automobile files identified as being cancelled in the first 60 days of new business, 100 files were selected for review. All 100 files selected were received and reviewed. Of the 100 60-day cancellation files reviewed, 95 files were identified as 60-day cancellations and five (5) files were identified as rescissions. The eight (7) violations noted were based on eight (7) files, resulting in an error ratio of eight percent (7%).

The following findings were made:

5 Violations Insurance Department Act, Section 904(b) [40 P.S. §323.4]

Requires every company or person from whom information is sought must provide to the examiners timely, convenient

and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The five (5) violations resulted in failure to keep and organize records to allow accurate retrieval of specific data needed to readily determine compliance.

2 Violations 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 two (2) files noted were policies cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

2. Mid-term Cancellations

A mid-term 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 6,569 private passenger automobile policies which were cancelled during the experience period, 300 files were selected for review. All 300 files requested were received and reviewed. Of the 300 files reviewed, 191 files were identified as midterm cancellations, 65 files were identified as 60-day cancellations and 44 files were identified as nonrenewals. The 27 violations noted were based on 27 files, resulting in an error ratio of nine percent (9%).

The following findings were made:

1 Violation 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 nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The violation noted resulted in a cancellation notice that did not provide the required notice of 60 days from the date of mailing.

19 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 19 files noted were cancelled for other than permitted reasons.

4 Violations Act 68, Section 2003(a)(1)&(12)

[40 P.S. §§991.2003(a)(1)&(12)]

Adjudications: Erie/Stevens (P83-5-17, 1986)

States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of age and illness or permanent or temporary disability where the insured can medically document that such illness or disability will not impair his ability to operate a motor vehicle. The four (4) files noted were the result of a nonrenewal or a cancellation notice being issued based on not submitting a physician's note due to age only.

3 Violations Act 68, Section 2003(b)) [40 P.S. §§991.2003(b)]

Title 75, Pa. C.S. §1799.3(a)

*Adjudications: Todhunter/State Farm, P99-01-031 (2000);
Betha/Travelers, PH02-11-003 (2003); Shugart/USAA,
PH02-12-010 (2003)*

States that an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy. 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. The three (3) files noted were the result of a nonrenewal on the basis of one accident.

The following concerns were made:

CONCERN: The Company used the term “claims history” as the reason for nonrenewal and included the dates of the chargeable accidents on the nonrenewal notice. The term “claims history” in itself is not an acceptable reason for nonrenewal. The Company should remove the term “claims history” on the nonrenewal notice.

CONCERN: The Company used the terms “claims history” and “frequency of claims” as the reasons for nonrenewal and included the dates of all accidents within the 36 month period on the nonrenewal notice. None of the accidents listed on the notice were chargeable for nonrenewal purposes. The terms “claims history” or “frequency of claims” are not acceptable reasons for nonrenewal when none of the accidents listed on the notice may be used for nonrenewal purposes. The Company must discontinue using the terms “claims history” and “frequency of claims” on the nonrenewal notice.

CONCERN: The Company included on the midterm cancellation notice information about a driver on the policy. The driver information was noted within the cancellation reason section of the cancellation notice. The Company should state within

the midterm cancellation reason section information pertaining to the named insured and not a household resident or one who customarily operates the automobile insured under the policy.

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

The following finding was made:

1 Violation Act 68, Section 2003(a)(1)&(12)

[40 P.S. §§991.2003(a)(1)&(12)]

Adjudications: Erie/Stevens (P83-06-5-17, 1986)

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for the reason of age or illness or permanent or temporary disability will not impair his ability to operate a motor vehicle. Failure to provide such

documentation shall be proper reason for the insurer to amend the policy of the named insured to exclude such disabled insured from coverage under the policy while operating a motor vehicle after the effective date of such policy amendment but shall not be proper reason to cancel or refuse to write or renew the policy. The file noted was the result of a nonrenewal notice being issued based on not submitting a physician's note due to age only.

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 135 private passenger automobile policies that were identified by the Company as rescissions during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. Of the 50 rescission files reviewed, 34 files were identified as rescissions and 16 files were identified as 60-day cancellations. The 39 violations noted were based 39 files, resulting in an error ratio of 78 percent (78%).

The following findings were made:

23 Violations Insurance Department Act, Section 904(b) [40 P.S. §323.4]

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The 23 violations resulted in failure to keep and organize records to allow accurate retrieval of specific data needed to readily determine compliance.

16 Violations 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 16 files noted were policies cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

VI. DATA INTEGRITY

Before the on-site portion of the examination commenced, the Company was asked to provide the universe list of all private passenger automobile policies in force during the experience period, as part of the underwriting review. Subsequently, the Department's examiners discovered during the on-site review of underwriting files and material that the Company had provided the Department with a substantially inaccurate and incomplete universe for midterm cancellations. This prompted the Department's examiners to have the Company re-run the universe list for midterm cancellations. At that time, the examiners also decided to validate the Company's 2010 MCAS data submission to determine accuracy and thus, the Company was asked to provide data supporting its 2010 MCAS submission. The examiners proceeded to review the midterm cancellations and 2010 MCAS data received from the company so as to validate its accuracy, or inaccuracy.

The inaccuracy of each area of review is identified below.

Midterm Cancellations

During the Department's on-site review, the Company initially identified a universe of 6,569 Pennsylvania private passenger automobile policies that were midterm cancelled during 2009 and 2010. From this universe, the examiners randomly selected 300 files for review. Of these, 63% (i.e., 191 files) were correctly identified as midterm cancellations, while 37% (i.e., the remaining 109 files) were incorrectly identified as midterm cancellations and were actually either 60-day cancellations or nonrenewals. Thus, the examiners informed the company of the data integrity issue and instructed the Company to run a second universe list of midterm cancellations. This time, the Company identified a universe of 4,974

Pennsylvania private passenger automobile policies that were midterm cancelled during 2009 and 2010. From this new universe, the examiners randomly selected 305 files for review and found that 35 files were still misidentified as midterm cancellations and that, instead, they were 60 day cancellations. These files involved policies with a restart date. A restart date is a new anniversary date established for insureds that were previously insured with the Company but had been cancelled. The insureds become clients but keep the same policy number. With 35 policies being incorrectly identified as midterm cancellations from a sample of 305, the error ratio is 11.5%.

60-Day Cancellations

Of the 100 60-day cancellation files reviewed, 95 files were identified as 60-day cancellations and five (5) files were identified as rescissions.

Rescissions

Of the 50 rescission files reviewed, 34 files were identified as rescissions and 16 files were identified as 60-day cancellations.

MCAS 2010

During the examination, the Company's 2010 MCAS data was reviewed to determine its accuracy. The result of the verification of the MCAS data was that the lists were accurate with the exception of one file which was identified in MCAS as a nonrenewal but actually was a midterm cancellation. The underwriter coded the file incorrectly.

The following finding was made:

General Violation: Insurance Department Act, Section 904(b) [40 P.S. §323.4]

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The violation resulted in the failure to exercise sufficient due diligence to ensure compliance with Insurance Department Act.

VII. 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, 2003, 2004 and 2006 [40 P.S. §§991.2002, 2003, 2004 and 2006] and Title 75, Pa. C.S. §1799.3(a), so that the violations noted in the Report do not occur in the future.
2. The Company must revise its underwriting procedures to ensure that that violations noted under Act 68, Sections 2003 and 2004 [40 P.S. §§991.2003 and 2004] do not occur in the future.
3. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 904(b) [40 P.S. §323.4], so that violations noted in the Report do not occur in the future.

VIII. COMPANY RESPONSE

Capitol Insurance Company

1180 Welsh Road, Suite 100
North Wales, PA 19454
PHONE - 215-956-9399 - FAX - 215-956-0613

April 21, 2012

Constance Arnold, Division Chief
Bureau of Market Conduct
Property Casualty Division
1227 Strawberry Square
Harrisburg, PA 17120

Re: Examination Warrant Number: 11-M19-005

Dear Ms. Arnold:

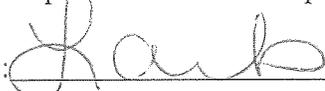
Please accept this correspondence as Capitol Insurance Company's response to the Department's Market Conduct Division's Report of Examination, dated March 26, 2012. Capitol Insurance Company appreciates the Market Conduct Division's work and is in the process of implementing the remedial recommendation that your staff made during the entire market conduct examination.

Capitol Insurance would like to reiterate that it at not time intend to refuse to renew or cancel a policy of automobile insurance solely on the basis that an insured is 70 years or older. In addition, Capitol Insurance Company has not refused to renew a policy of automobile insurance on the basis of discrimination. Capitol Insurance is in the process of making the necessary amendments to its policy language and procedures to remedy the Department's findings during this examination.

In regards to Capitol Insurance's data integrity, Capitol Insurance will work more closely with its technical staff to interpret the directives issued for compiling the necessary data. It was always Capitol Insurance's intent to provide the examiners timely, convenient and free access to all books, records, accounts, papers documents and all computer documents relating to the property, assets, documents and affairs of Capitol Insurance Company. Capitol Insurance Company at not time refused to submit to the Department's examination or refused to comply with the Department's reasonable requests.

You and your staff were both professional and courtesy during your examination of Capitol Insurance's practices and procedures. The staff and mangement of Capitol Insuarncce Company would like to take this oppotunuty to thank you and your staff for its constant professionalism.

Capitol Insurance Company

By: 
Lambros Z. Economides