REPORT OF
MARKET CONDUCT EXAMINATION
OF

CIVIC PROPERTY AND CASUALTY COMPANY
Los Angeles, California

AS OF
August 31, 2004

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: October 19, 2004

Civic Property and Casualty Company

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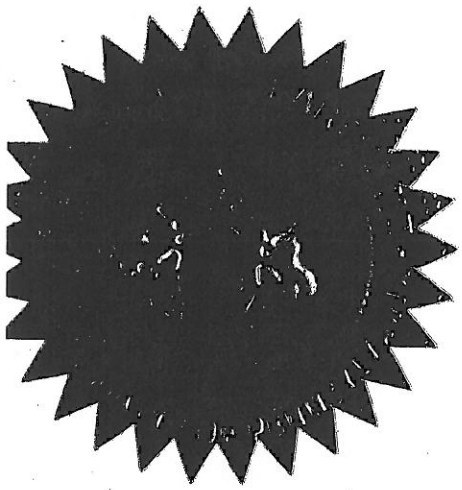
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, 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 Randolph L. Rohrbaugh, 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.



M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
CIVIC PROPERTY AND CASUALTY COMPANY 4680 Wilshire Boulevard Los Angeles, CA 90010	:	Sections 605 and 623 of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. §§ 235 and 253)
	:	
	:	Sections 4(a) and 4(h) of the Act of June 11, 1947, P.L. 538, No. 246 (40 P.S. § 1184)
	:	
	:	Act 1990-6, Sections 1705(a)(1) & (4), 1731(b) and (c), 1738(c)(d)(1) and (2), 1791.1(a), 1792(b)(1), 1793(b), and 1799.3(d) (Title 75, Pa.C.S. §§ 1705, 1731, 1738, 1791, 1792, 1793 and 1799)
	:	
	:	Sections 2, 3(a)(2), 3(a)(3)(ii), 3(a)(6) and 7(c) of the Act of July 3, 1986, P.L. 396, No. 86 (40 P.S. §§ 3402, 3403 and 3407)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iv) and 5(a)(9)(v) of the Unfair Insurance Practices Act, Act of July 22, 1974, P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Sections 2003(a)(1), 2003(a)(13), 2003(a)(14), 2004, 2006(3), 2006(4) and 2008(b) of Act 68 of 1998 (40 P.S. § §991.2003, 991.2004, 991.2006 and 991.2008)
	:	
	:	Title 31, Pennsylvania Code, Sections 59.9(b), 61.13, 61.5(7)(ii), 69.52(b), 146.6 and 146.7(a)(1)
	:	
Respondent.	:	Docket No. MC04-09-012

CONSENT ORDER

AND NOW, this 19th day of October, 2004, this Order is hereby issued by the Deputy Insurance Commissioner 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 Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

(a) Respondent is Civic Property and Casualty Company and maintains its address at 4680 Wilshire Boulevard, Los Angeles, California 90010.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2002 through June 30, 2003.

(c) On August 31, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on September 30, 2004.

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

(i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Department, certify to the Department the names of all agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;

(ii) Section 623 of the Insurance Department Act (40 P.S. § 253), which prohibits doing business with unlicensed brokers;

(iii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

(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 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;

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

(vii) 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;

(viii) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of $500 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;

(ix) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

(x) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

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

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

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

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

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

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

(6) The insured has requested cancellation.

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

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

(xii) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination;

(xiii) Section 3(a)(3)(ii) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination;

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

(xv) Section 7(c) of Act 86 (40 P.S. § 3403), which requires that an insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

(xvi) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;

(xvii) 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;

(xviii) Section 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which 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;

(xix) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer;

(xx) Section 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968, the Pennsylvania Fair Plan Act;

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

(xxii) Section 2003(a)(13) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from cancelling or refusing to write or renew a policy of automobile insurance for: (13) any accident which occurred under the

following circumstances: (iv) Operator of the other automobile involved in the accident was convicted of a moving traffic violation and the applicant or resident operator was not convicted of a moving traffic violation in connection with the accident. The personal automobile insurance underwriting guide excluded applicants from eligibility for two not at-fault accidents in the past 36 months;

(xxiii) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: (14) Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured;

(xxiv) 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;

(xxv) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;

(xxvi) Section 2006(4) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice advise the insured of his right to request in writing within 30 days of receipt of the notice of cancellation that the Insurance Commissioner review the action of the insurer;

(xxvii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which states any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by an insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

(xxviii) Title 31, Pennsylvania Code, Section 59.9(b), which provides an insurer may cancel a policy in the first 60 days but must provide a notice of cancellation to the insured;

(xxix) Title 31, Pennsylvania Code, Section 61.13, which requires each insurer to maintain records of the number of cancellations and refusals to write or

renew policies and the reasons therefore, and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the six-month period ending on these dates;

(xxx) Title 31, Pennsylvania Code, Section 61.5(7)(ii), which states the form of a nonrenewal notice shall include advice that the insured has a right to request review of the insurer's action within 30 days of receipt of the reasons for cancellation or nonrenewal. In so doing, the notice shall include the addresses of the regional offices of the Insurance Department;

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

(xxxii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

(xxxiii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

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

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

(b) Violations of Sections 605 and 623 of the Insurance Department Act (40 P.S. §§ 235 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

(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) issue an order to cease and desist.

(iv) impose such other conditions as the department may deem appropriate.

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

(i) imposition of a civil penalty not to exceed $50 for each violation or not more than $500 for each such wilful violation;

(ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(d) Respondent's violations of Section 2, 3(a)(2), 3(a)(3)(ii), 3(a)(6) and 7(c) of Act 86 (40 P.S. §§ 3403), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

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

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

(e) Respondent's violations of Sections 5(a)(4) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

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

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars ($5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars ($1,000.00).

(g) Respondent's violations of Sections 2003, 2004, 2006 and 2008 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).

(h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner 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 Seventy-Two Thousand, Five Hundred Dollars ($72,500.00) 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. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner 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 Deputy Insurance Commissioner 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 Deputy Insurance Commissioner 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 Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner 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 Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner 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 Deputy Insurance Commissioner.

BY: CIVIC PROPERTY AND CASUALTY COMPANY, Respondent

President / Vice President

Secretary / Treasurer

RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Civic Property and Casualty Company, at their offices located in Pleasanton, California and Chino, California, from March 15, 2004, through April 22, 2004. 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

Constance L. Arnold
Market Conduct Examiner

Metro Orange
Market Conduct Examiner

Jerry L. Houston, CPCU
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Civic Property and Casualty Company, hereinafter referred to as "Company," at their offices located in Pleasanton, California and Chino, California. 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, 2002 through June 30, 2003, 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 declinations.
   - Rating - Proper use of all classification and rating plans and procedures.

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

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

4. Claims

5. Forms

6. Advertising

7. Consumer Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Civic Property and Casualty Company was incorporated under the laws of California February 17, 1995, and commenced business September 1, 1995. The Company is part of the Farmers Insurance Group which is a subsidiary of the Zurich Financial Services Group, Los Angeles, California. The Company first received its authority to write business in the Commonwealth on November 20, 1997.

LICENSING

Civic Property and Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in all 50 states plus DC and Guam. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as $8,623,113. Premium volume related to the areas of this review were: Homeowners' Multiple Peril $4,518,403; Fire $744,702; Allied Lines $281,935; Other Private Passenger Automobile Liability $1,667,999; Private Passenger Auto Physical Damage $1,223,345.

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

The following findings were made:

1 Violation *Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]* Prohibits unreasonable restraint of the business of insurance by coercion or intimidation. The personal automobile underwriting guidelines require youthful drivers with less than 5 years driving experience to reside with parents and parents must be written with the Company for the risk to be acceptable. This requirement is an unreasonable restraint and not in accordance with the Act.

1 Violation *Act 68, Section 2003(a)(1) [40 P.S. §991.2003(a)(1)]* Prohibits an insurer from refusing to write or renew a policy of automobile insurance for any of the following reasons: (1) Age. The personal automobile underwriting guideline eliminates eligibility in the standard tier for drivers with less than 5 years driving experience. This requirement is prohibited by the Act.

1 Violation *Act 68, Section 2003(a)(13) [40 P.S. §991.2003(a)(13)]* (a) Prohibits an insurer from canceling or refusing to write or renew a policy of

automobile insurance for any of the following reasons: (13) Any accident which occurred under the following circumstances:

(I) Automobile lawfully parked (if the parked vehicle rolls from the parked position, then any such accident is charged to the person who parked the automobile);

(II) The applicant, owner or other resident operator is reimbursed by, or on behalf of, a person who is responsible for the accident or has judgment against such person;

(III) Automobile is struck in the rear by another vehicle and the applicant or other resident operator has not been convicted of a moving traffic violation in connection with this accident;

(IV) Operator of the other automobile involved in the accident was convicted of a moving traffic violation and the applicant or resident operator was not convicted of a moving traffic violation in connection with the accident;

(V) Automobile operated by the applicant or any resident operator is struck by a "hit and run" vehicle, if the accident is reported to the proper authority within twenty-four (24) hours by the applicant or resident operator;

(VI) Accident involving damage by contact with animals or fowl;

(VII) Accident involving physical damage, limited to and caused by flying gravel, missiles, or falling objects;

(VIII) Accident occurring when using automobile in response to any emergency if the operator of the automobile at the time of the accident was a paid or volunteer member of any police or fire department, first-aid squad, or any law enforcement agency. This exception does not include an accident occurring after the automobile ceases to be used in response to such emergency; or

(IX) Accidents which occurred more than thirty-six (36) months prior to the later of the inception of the insurance policy or the upcoming anniversary date of the policy.

The personal automobile insurance underwriting guide excluded applicants from eligibility for two not at-fault accidents in the past 36 months. This requirement is prohibited by the Act.

1 Violation *Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]* An insurer is prohibited from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: (14) Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The personal automobile underwriting guide makes an applicant ineligible for the Standard Tier for two comprehensive claims in the past 36 months. This requirement is prohibited by the Act.

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 a of 94 private passenger automobile policies identified by the Company as cancelled in the first 60 days of new business, 25 files were selected for review. All 25 files selected 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 408 private passenger automobile policies identified by the Company as midterm cancellations, 75 files were selected for review. All 75 files selected were received and reviewed. The files consisted of private passenger auto, motor home and travel trailer policies. The 3 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

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

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the specific reason or reasons of the insurer for cancellation. The violation noted resulted in a

cancellation notice being issued without stating a specific reason.

1 Violation *Act 68, Section 2006(4) [40 P.S. §991.2006(4)]*

Requires that a cancellation notice advise the insured of his right to request in writing within 30 days of receipt of the notice of cancellation that the Insurance Commissioner review the action of the insurer. The violation resulted from a cancellation notice which stated the insured had 10 days to request in writing a review by the Insurance Commissioner.

1 Violation *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 violation noted was for canceling a policy of automobile insurance for other than permitted reasons.

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 that must be met regarding the form and conditions of the cancellation notice.

From the universe of 68 private passenger automobile files identified as nonrenewals by the Company, 25 files were selected for review. All 25 files selected were received and reviewed. The 204 violations noted were based on 68 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The violations noted resulted in cancellation notices being issued without a specific reason for cancellation.

68 Violations Act 68, Section 2006(4) [40 P.S. §991.2006(4)]

Requires that a nonrenewal notice advise the insured of his right to request in writing that the Insurance Commissioner review the action of the insurer. The violations noted resulted from cancellation notices which did not advise the insured of his right to request in writing a review by the Insurance Commissioner.

68 Violations Title 31, Section 61.5(7)(ii)

The form of a nonrenewal notice shall include advice that the insured has a right to request review of the insurer's action

within 30 days of receipt of the reasons for cancellation or nonrenewal. In so doing, the notice shall include the addresses of the four regional offices of the Insurance Department. The violations noted failed to include the addresses for the four regional offices.

4. Declinations

A declination is any application that is received by the Company that was declined or refused to be written.

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.

From a universe of 163 private passenger automobile policies reported by the Company as declinations, 75 files were selected for review. All 75 files selected were received and reviewed. The 163 violations noted were based on 163 files, resulting in an error ratio of 100%.

The following findings were made:

163 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in

refusing to write a policy for the applicant. The violations cited are for failure to provide specific refusal reason and failure to provide right of review information.

5. Report of Cancellations, Nonrenewals and Refusals to write

The purpose of the review is to determine compliance with the provisions of Title 31, Pa Code, Section 61.13 regarding records and reports to the Insurance Department of cancellations, nonrenewals and refusals to write.

The Company was requested to provide copies of reports to the Insurance Department of Private Passenger Automobile polices which had been cancelled, nonrenewed or refused to be written within the experience period.

The following findings were made:

2 Violations Title 31, Pa Code, Section 61.13

Each insurer shall maintain records of the number of cancellations and refusals to write or renew policies and the reasons therefor, and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month period ending on these dates. The Company did not provide the reports as required.

B. Private Passenger Automobile – Assigned Risk

1. The Company indicated they did not receive any assignments from the Assigned Risk Plan.

C. Personal Lines 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 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.

From the universe of 305 personal lines property policies, which were identified as being cancelled within the first 60 days of new business, 41 files were selected for review. All 41 files selected were received and reviewed. The property policies consisted of homeowners and tenant homeowners. The 31 violations noted were based on 31 files, resulting in an error ratio of 76%.

The following findings were made:

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

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

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 1,316 personal lines property policies, which were cancelled midterm during the experience period, 174 files were selected for review. The property policies reviewed consisted of homeowners and dwelling fire. All 174 files requested were received and reviewed. The 94 violations were based on 41 files, which resulted in an error ratio of 24%.

The following findings were made:

32 Violations 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 violations noted were due to cancellation notices which failed to provide 30 days notice.

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the

Insurance Commissioner review the action of the insurer. The violations noted were the result of cancellation notices being issued without the required information.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The Pennsylvania Fair Plan Act". The violations noted were the result of cancellation notices being issued without the required information.

1 Violation *Title 31, Pa. Code, Section 59.9(b)*

Requires an insurer to give at least 30 days notice of termination provided it gives notice no later than the 60th day. This policy was reported as a midterm cancellation, but was cancelled in the first 60 days. The Company failed to give the required 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.

From the universe of 191 personal lines property policies, which were nonrenewed during the experience period, 31 were selected for review. The property policies consisted of Homeowners, Dwelling Fire and Mobile Homeowners. All 31 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 13%.

The following findings were made:

4 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 violations resulted as the file did not evidence an increase in hazard, which was the stated reason for nonrenewal.

4. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

From the universe of 898 personal lines property policies reported as declinations, 100 files were selected for review. Although reported as declinations, upon review the 8 violations noted were for midterm cancellations and based on 8 files, resulting in an error ratio of 8%.

The following findings were made:

8 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 violations resulted as the file did not evidence an increase in hazard, which was the stated reason for cancellation.

D. Commercial Lines

1. 60-Day Cancellations

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

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

From the universe of 56 commercial lines policies, which were cancelled within the first 60 days, 25 were selected for review. The policies consisted of tenant occupied dwelling fire. All 25 files selected were received and reviewed. The 12 violations noted were based on 12 files, resulting in an error ratio of 48%.

The following findings were made:

12 Violations Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The violations noted were the result of failure to provide 30 days notice of cancellation.

2. Midterm Cancellations

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

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

From the universe of 422 commercial lines policies, consisting of tenant occupied dwelling fire policies, which were cancelled during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 15 violations noted were based on 8 files, resulting in an error ratio of 16%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The cancelled policies were absent any evidence of compliance with this requirement.

7 Violations *Act 86, Section 3(a)(3)(ii) [40 P.S. §3403(a)(3)(ii)]*

Requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least

60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The 7 violations noted were the result of the cancellation notice not providing the required 15 days notice for nonpayment of premium.

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

From the universe of 49 commercial lines policies identified as nonrenewals by the Company, and consisting tenant occupied dwelling fire policies, 25 files were selected for review. All 25 files selected were received and reviewed. The 50 violations were based on 49 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The violations noted were for nonrenewal notices that failed to offer loss information.

1 Violation *Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]*

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The violation noted resulted in a nonrenewal notice that failed to provide the required 60 days notice.

4. Renewals

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

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

From the universe of 1,108 commercial lines policies consisting of tenant occupied dwelling fire policies, which were renewed during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

5. Declinations

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

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

From the universe of 357 commercial lines files identified as declinations, and consisting of tenant occupied dwelling fire, 50 files were selected for review. All 50 files selected were received and reviewed. Although reported as a declination, the 1 violation noted was a midterm cancellation, and was based on 1 file, resulting in an error ratio of 2%.

1 Violation *Act 86, Section 2 [40 P.S. §3402] – Grounds for cancellation.* Cancelling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following:

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

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

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

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

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

(6) The insured has requested cancellation.

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

(8) Other reasons that the Insurance Commissioner may approve. The violation was due to cancelling a policy midterm for a reason not permitted.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

Private Passenger Automobile – New Business Without Surcharges

From the universe of 1,868 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 3,748 violations were based on the universe of 1,868 files, resulting in an error ratio of 100%.

The following findings were made:

1,868 Violations Act 1990-6, Section 17, 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 violations involve the universe of files which failed to meet this requirement at the time of application.

1,868 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The violations involve the universe of files and were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

7 Violations Act 1990-6, Section 8, 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 violations noted were the result of a policies issued with limited tort and no evidence of a signed limited tort selection form in file.

4 Violations *Act 1990-6, Section 12, 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 violations noted were for files which failed to contain the signed rejection forms.

1 Violation *Act 1990-6, Section 9, Title 75, Pa. C.S. §1731(b) & (c)*
The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The violation noted resulted as the file failed to contain the required signed rejection forms.

Private Passenger Automobile – New Business With Surcharges

From the universe of 42 private passenger automobile policies identified by the Company as new business with surcharges 42 files were selected for review. All 42 files selected were received and reviewed. The 146 violations noted were based on the universe of 42 files, resulting in an error ratio of 100%.

The following findings were made:

42 *Violations Act 1990-6, Section 17, 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 violations involve the universe of files which failed to meet this requirement at the time of application.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The violations involve the universe of files and were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

42 *Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)*

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the

manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The violations noted were for files that failed to list dates of accidents and violations and amount of surcharge.

13 Violations Act 1990-6, Section 8, 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 violations noted were the result of a policies issued with limited tort and no evidence of a signed limited tort selection form in file.

4 Violations Act 1990-6, Section 12, 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 violations noted were for files which failed to contain the signed rejection forms.

2 Violations Act 1990-6, Section 9, Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The violations noted resulted as the files failed to contain the required signed rejection forms.

1 Violation *Act 1990-6, Section 18,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 violation noted was the result of not having the required signed statement from the insured.

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.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 235 private passenger automobile policies renewed during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 470 violations noted were based on the universe of 235 files, resulting in an error ratio of 100%.

The following findings were made:

235 *Violations Act 1990-6, Section 17, 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 violations involve the universe of files which failed to meet this requirement at the time of renewal.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The violations involve the universe of files and were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 5 private passenger automobile policies reported as renewed with surcharges, all 5 files were selected for review. The 5 files selected were received and reviewed. The 15 violations noted were based on the universe of 5 files, resulting in an error ratio of 100%.

The following findings were made:

5 *Violations Act 1990-6, Section 17, 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 violations involve the universe of files which failed to meet this requirement at the time of renewal.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The violations involve the universe of files and were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of renewal.

5 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of

the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The violations noted were for files that failed to list dates of accidents and violations and amount of surcharge.

B. Private Passenger Automobile – Assigned Risk

The Company had not received any assignments from the Assigned Risk Plan.

C. Personal Lines Property - 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.

Homeowner – New Business Without Surcharges

From the universe of 2,737 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Homeowner – New Business With Surcharges

From the universe of 49 homeowner policies reported as new business with surcharges, 49 files were selected for review. All 49 files selected were received and reviewed. The 1 violation noted was based on 1 file, resulting in an error ratio of 2%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The violation was the result of an incorrect surcharge. The Company charged for 3 claims when the file revealed only 2 claims had occurred.

2. Renewal

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

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

a contract or policy except in accordance with filings or rates which are in effect at the time.

Homeowner – Renewal Without Surcharges

From the universe of 4,895 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Homeowner – Renewal With Surcharges

From the universe of 8 homeowner policies reported as renewed with surcharges, 8 files were selected for review. All 8 files selected were received and reviewed. No violations were noted.

D. Personal Lines Property - Dwelling Fire

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 1,078 dwelling fire policies written as new business during the experience period, 50 files were selected for review. All 50 files selected 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 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.

From the universe of 1,337 dwelling fire policies renewed during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

A. Automobile Property Damage Claims
B. Automobile Comprehensive Claims
C. Automobile Collision Claims
D. Automobile Total Loss Claims
E. Automobile First Party Benefits Claims
F. Personal Property Claims – Homeowner and Dwelling Fire

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

A. Automobile Property Damage Liability Claims

From the universe of 68 private passenger automobile property damage liability claims reported during the experience period, 25 claim files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

From the universe of 14 private passenger automobile comprehensive claims reported during the experience period, 14 claim files were selected for review. All 14 files requested were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 123 private passenger automobile collision claims reported during the experience period, 75 claim files were selected for review. All 75 files requested were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 21 private passenger automobile total loss claims reported during the experience period, 21claim files were selected for review. All 21 files requested were received and reviewed. No violations were noted.

E. Automobile First Party Benefits Claims

From the universe of 83 private passenger automobile first part benefits claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

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

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

the insurer receives sufficient documentation supporting the bill. The violations noted were the result of provider bills not paid within 30 days.

F. Personal Property

Homeowner Claims

From the universe of 447 homeowner and claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following findings were made:

7 Violations *Title 31, Pa. Code, Section 146.6*

Requires every insurer to complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violations noted were for failure to include the 30-day status letter in the file.

Dwelling Fire Claims

From the universe of 61 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 9 violations noted were based on 7 files, resulting in an error ratio of 28%.

The following findings were made:

6 Violations *Title 31, Pa. Code, Section 146.6*

Requires every insurer to complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violations noted were for failure to include the 30-day status letter in the file.

3 Violations *Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

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 Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted.

IX. ADVERTISING

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

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

The Company provided 5 advertising brochures, which were reviewed along with the internet site. 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 23 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 23 complaints reported, were selected and reviewed.

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

The following findings were made:

4 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 violations noted were for failure to provide proper reason for cancellation or nonrenewal.

The following synopsis reflects the nature of the 23 consumer complaints received:

Number of Complaints	Nature of Complaints	Percentage
• 20	Cancellation/Nonrenewal	87%
• 1	Premium Increase	4%
• 2	Claims Handling	9%
23		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following findings were made:

1 Violation *Insurance Department Act, Section 605 (40 P.S. §235) Appointment.*

(a) No agent shall do business on behalf of any entity without a written appointment from that entity.

(b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.

(c) Insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.

(d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The Insurance Department records did not indicate at appointment for the following agency:

Broughton, Samuel N.

1 Violation *The Insurance Department Act, Section 623 (40 P.S. §253)*
Doing Business With Unlicensed Brokers

Any entity or the appointed agent of an entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The Insurance Department records did not indicate proper licensing for the following agency.

Broughton, Samuel N.

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 revise underwriting procedures and guidelines to ensure future compliance with Act 68, § 2003 [40 P.S. §991.2003] and Act 205, § 5[40 P.S. §1171.5], which were referenced in the Underwriting Practices and Procedures section of the Report.

2. The Company must review and implement changes to address violations noted for Title 75, Pa. C.S. §1791.1(a), § 1799.3(d), and 1793(b) relative to providing the required minimum coverage invoice, proper surcharge disclosures, and amount of surcharge. These violations are cited in the private passenger automobile rating section of the Report.

3. The Company must review Title 75, Pa. C.S., Section 1705 (a)(1) and (4), Title 75, Pa. C.S., Section 1731(b) and (c), Title 75, Pa. C.S., Section 1738(d)(1) and (2) as cited in the rating section of the report, and implement procedures to ensure the required forms are signed by the insureds and maintained with the file in the future.

4. The premium overcharge noted in the homeowners rating section of this report must be refunded to the insured. Proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.

5. The Company must review Title 31, Pa. Code, Section 61.13 and implement procedures to ensure the report of cancellations, nonrenewals and refusals to write for private passenger automobile insurance is submitted to the Insurance Department as required.

6. The Company must review Act 205, Section 5(a)(9), and Title 31, Pa. Code, Section 59.9(b) and implement procedures to eliminate termination violations of the type listed in the personal property underwriting section of the report.

7. The Company must review Act 86, Section 2, Sections 3(a)(2), 3(a)(6) and 3(a)(3)(ii), plus Act 86, Section 7(c), and implement procedures to see these type violations as listed in the Commercial Lines Underwriting section of the report do not occur in the furure.

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

9. The Company must review Title 31, Pa. Code, Sections 146.6 and 146.7 as cited in the personal property claims portion of the report and implement procedures which will ensure future compliance.

XIII. COMPANY RESPONSE

FARMERS

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September 29, 2004

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

RE: Market Conduct Exam – Civic Property and Casualty Company
Warrant Number: 03-M19-023

Dear Mr. Derk:

We have received the Market Conduct Examination Report of Civic Property and Casualty Company. The following response includes our findings, comments, and concerns contained in this report. First, however, we wish to thank you and your exam team for their cooperation and courtesies shown to us during the examination process.

Before we address particular areas of the report, we wish to point out that the Companies and Exchanges of the Farmers Insurance Group of Companies® seriously consider all insurance department examinations and the recommendations of the examiners. Therefore, we have thoroughly reviewed each of the findings and comments.

Our response includes those areas where procedures have been, or will be amended or where we respectfully dispute the findings of the examiners. Unless otherwise noted, the response tracks with the order and sequence of the findings in the report.

Please note that neither these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Department or any other party as constituting any admissions. Additionally, further note that we are providing these comments and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connection with the information provided.

We would like to comment on and clarify some of the information contained in the Department's report regarding Civic Property and Casualty. First, Civic Property and Casualty Company commenced business on September 1, 1995, not in 1965 as stated in the report. Secondly, we would like to add that the scope of this examination took place during the introduction of our auto products in the Commonwealth of Pennsylvania. Civic Property and Casualty did not start writing automobile insurance until March of 2002. As you know, the timeframe for this examination was from June of 2002 through July of 2003. We acknowledge that there were some areas of concern during the first year of writing our products. However, the majority of violations and issues noted in the

examination were previously detected by our company and completely rectified prior to the examination process from the Commonwealth. We have strong internal auditing controls in place to ensure that our practices and procedures are in compliance with all of the Commonwealth's regulations. We believe that we have been proactive in identifying and correcting any areas of concern noted in the examination.

IV. UNDERWRITING PRACTICES AND PROCEDURES

Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)] – Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

1 Violation: Requires youthful driver with less than 5 years driving experience to reside with parents and parents must be written with the Company.

Company Position – We agree with this criticism. We have amended our guidelines to no longer include this prerequisite for youthful drivers. We previously provided the updated manual pages effective February 1, 2004, which no longer show this requirement for youthful operators. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

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: (1) Age.

1 Violation: Standard tier requires 5 years driving experience to be eligible.

Company Position – We agree with this criticism. We have amended our guidelines to no longer include five years driving experience as criteria for eligibility in the Standard Tier. We previously provided the updated manual pages effective February 1, 2004, which no longer reflect the years driving experience as a guideline. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Act 68, Section 2003(a)(13) [40 P.S. §991.2003(a)(13)] – 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: (13) Any accident which occurred under the following circumstances:

(I) Automobile lawfully parked (if the parked vehicle rolls from the parked position, then any such accident is charged to the person who parked the automobile);

(II) The applicant, owner or other resident operator is reimbursed by, or on behalf of, a person who is responsible for the accident or has judgment against such person;
(III) Automobile is struck in the rear by another vehicle and the applicant or other resident operator has not been convicted of a moving traffic violation in connection with this accident;
(IV) Operator of the other automobile involved in the accident was convicted of a moving traffic violation and the applicant or resident operator was not convicted of a moving traffic violation in connection with the accident;
(V) Automobile operated by the applicant or any resident operator is struck by a "hit and run" vehicle, if the accident is reported to the proper authority within twenty-four (24) hours by the applicant or resident operator;
(VI) Accident involving damage by contact with animals or fowl;
(VII) Accident involving physical damage, limited to and caused by flying gravel, missiles, or falling objects;
(VIII) Accident occurring when using automobile in response to any emergency if the operator of the automobile at the time of the accident was a paid or volunteer member of any police or fire department, first-aid squad, or any law enforcement agency. This exception does not include an accident occurring after the automobile ceases to be used in response to such emergency; or
(IX) Accidents which occurred more than thirty-sis (36) months prior to the later of the inception of the insurance policy or the upcoming anniversary date of the policy.

1 Violation: Two not at-fault Accidents in the past 36 months for Standard Tier makes applicant ineligible.

Company Position – We agree with this criticism. We have amended our guidelines to no longer include a threshold for not at-fault accidents within the past 36 months for eligibility in the Standard Tier. We previously provided the updated manual pages effective February 1, 2004, which no longer reflect the not at-fault accident threshold as a guideline. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)] – Discrimination Prohibited. (a) Any insurer may not cancel or refuse to write a policy of automobile insurance for any of the following reasons: (14) Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured.

1 Violation: Two comprehensive claims in the past 36 months for Standard Tier makes applicant ineligible.

Company Position – We agree with this criticism. We have amended our guidelines to no longer include a threshold for comprehensive claims within the past 36 months for

eligibility in the Standard Tier. We previously provided the updated manual pages effective February 1, 2004, which no longer reflect the comprehensive claim threshold as a guideline. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

V. UNDERWRITING

1. 60 Day Cancellations – no violations noted.

2. Midterm Cancellations

Act 68, Section 2006(3) [40 P.S. §991.2006(3)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (3) State the specific reason or reasons of the insurer for cancellation or refusal to renew.

1 Violation: Failure to provide a specific reason for cancellation.

Company Position – We agree with this criticism. It is important to note that we have rectified this issue. Shortly after the experience period expired, we discovered a flaw in our processing of non-renewals. When this was discovered, we began to manually produce a supplemental notice that describes the reason for the action to non renew/cancel and includes the right of review to the customer. Additionally, we have since modified our Auto Policy Processing System to automatically generate the supplemental notice and the right to review notice. We implemented this enhancement effective January 1, 2004 for new business and February 1, 2004 for renewals. We previously provided our internal Procedure Bulletin as well as an example of a cancellation and right to review notice that is currently produced. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Act 68, Section 2006(4) [40 P.S. §991.2006(4)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (4) Advise the insured of his right to request in writing, within thirty (30) days of the receipt of the notice of cancellation or intention not to renew and of the receipt of the reason or reasons for the cancellation or refusal to renew as stated in the notice of cancellation or of intention not to renew, that the insurance commissioner review the action of the insurer.

1 Violation: Failure to provide the right of review.

Company Position – We agree with this criticism. It is important to note that we have rectified this issue. Shortly after the experience period expired, we discovered a flaw in our processing of non-renewals. When this was discovered, we began to manually produce a supplemental notice that describes the reason for the action to non renew/cancel and includes the right of review to the customer. Additionally, we have since modified our Auto Policy Processing System to automatically generate the supplemental notice and the right to review notice. We implemented this enhancement effective January 1, 2004 for new business and February 1, 2004 for renewals. We previously provided our internal Procedure Bulletin as well as an example of a cancellation and right to review notice that is currently produced. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

3. Nonrenewals

Act 68, Section 2006(4) [40 P.S. §991.2006(4)] Requires that a nonrenewal notice advise the insured of his right to request in writing that the Insurance Commissioner review the action of the insurer. The violations noted resulted from cancellation notices which did not advise the insured of his right to request in writing a review by the Insurance Commissioner.

68 Violations: Failure to include the four regional offices of the Insurance Department on the notice, and failure to advise the insured of the right of review.

Company Position – We agree with this criticism. It is important to note that we have rectified this issue. Shortly after the experience period expired, we discovered a flaw in our processing of non-renewals. When this was discovered, we began to manually produce a supplemental notice that describes the reason for the action to non renew/cancel and includes the right of review to the customer. Additionally, we have since modified our Auto Policy Processing System to automatically generate the supplemental notice and the right to review notice. We implemented this enhancement effective January 1, 2004 for new business and February 1, 2004 for renewals. We previously provided a sample of this enhancement for your reference along with our internal Procedure Bulletin that outlines these enhancements. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Act 68, Section 2006(3) [40 P.S. §991.2006(3)] Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The reason "does not conform with our present rules" is not sufficiently specific.

68 Violations: Failure to provide specific reason(s) for nonrenewal.

Company Position – We agree with this criticism. It is important to note that we have rectified this issue. Shortly after the experience period expired, we discovered a flaw in our processing of non-renewals. When this was discovered, we began to manually produce a supplemental notice that describes the reason for the action to non renew/cancel and includes the right of review to the customer. Additionally, we have since modified our Auto Policy Processing System to automatically generate the supplemental notice and the right to review notice. We implemented this enhancement effective January 1, 2004 for new business and February 1, 2004 for renewals. We previously provided a sample of this enhancement for your reference along with our internal Procedure Bulletin that outlines these enhancements. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

4. Declinations

Act 68, Section 2008(b) [40 P.S. 991.2008(b)] Any applicant for a policy who is refused such policy by an insurer shall be given written notice of the refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer for refusing to write a policy for the applicant.

163 Violations: Failure to provide reason for cancellation

Company Position – We agree with this criticism. It is important to note that we have rectified this issue. Shortly after the experience period expired, we discovered a flaw in our processing of non-renewals. When this was discovered, we began to manually produce a supplemental notice that describes the reason for the action to non renew/cancel and includes the right of review to the customer. Additionally, we have since modified our Auto Policy Processing System to automatically generate the supplemental notice and the right to review notice. We implemented this enhancement effective January 1, 2004 for new business and February 1, 2004 for renewals. We previously provided a sample of this enhancement for your reference along with our internal Procedure Bulletin that outlines these enhancements. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

5. Report of Cancellations, Non Renewals and refusals to write

Company Response - We would like to clarify that there was a mis-understanding regarding the reporting of these required records. It was our belief that the method of reporting these records electronically through our system to the PennDOT would fulfill this requirement. We now realize through our correspondence with the Department of Insurance that this was an incorrect interpretation of the aforementioned statute. We are

taking the necessary steps to rectify this issue and are actively setting up the proper resources to compile and submit this report on the specified dates.

B. Private Passenger Automobile – Assigned Risk – no violations noted.

C. Personal Lines Property

1. 60 Day Cancellations

Title 31, Chapter 59.9(b)- Nonapplicability of the Acts. The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act.

31 Violations: Failure to provide 30 days notice of cancellation.

Company Position – We agree with this criticism, as the proper days notice was not provided in these instances. We are currently working to have the programming in our policy processing system corrected so that the proper legal notice is provided to our customers.

2. Midterm Cancellations

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.

32 Violations: Failure to provide 30 days notice.

Company Position – We agree with this criticism, as the proper days notice was not provided in these instances. We are currently working to have the programming in our policy processing system corrected so that the proper legal notice is provided to our customers.

Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] – Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. (9) 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 either at the address shown in the policy or at a forwarding address. Such notice shall: Advise the insured of his right to request, in writing, within ten days of receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer.

23 Violations: Failure to provide the right of review by the Commissioner

Company Position – We agree with this criticism. We are in the process of working to amend the programming of our policy processing system to automatically generate the right to appeal notices on our cancellations.

Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)] – Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. (9) 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 either at the address shown in the policy or at a forwarding address. Such notice shall: (v) Advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The Pennsylvania Fair Plan Act", or the Pennsylvania Assigned Risk Plan.

38 Violations: Failure to provide the Fair Plan notice

Company Position – We agree with this criticism. We are in the process of working to amend the programming of our policy processing system to automatically generate the Pennsylvania Fair Plan notice on our cancellations.

Title 31, Chapter 59.9(b)- Nonapplicability of the Acts. The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act.

1 Violation: Failure to provide 30 days notice of cancellation.

Company Position – We agree with this criticism, as the proper days notice was not provided in this instance. We are currently working to have the programming in our policy processing system corrected so that the proper legal notice is provided to our customers.

3. Nonrenewals

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

4 Violations: Improper reason used to nonrenew the policy.

Company Position – We agree with this criticism. We have reviewed our guidelines to ensure that we meet this statutory obligation. Additionally, we have audits in place for detecting these types of errors to further demonstrate that we are proactive in monitoring our procedures and practices. We are aware of this statute as evidenced by the fact that only four errors were uncovered for this section.

4. Declinations

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

4 Violations: Improper reason used to cancel the policy.

Company Position – We agree with this criticism. We have reviewed our guidelines to ensure that we meet this statutory obligation. Additionally, we have audits in place for detecting these types of errors to further demonstrate that we are proactive in monitoring our procedures and practices. We are aware of this statute as evidenced by the fact that only four errors were uncovered for this section.

D. Commercial Lines

1.60 Day Cancellations

Act 86, Section 7(c) [40 P.S. §3407(c)] - This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of

the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification.

12 Violations: Failure to provide 30 days notice of cancellation.

Company Position – We agree with this criticism, as the proper days notice was not provided in these instances. We are currently working to have the programming for our policy processing system corrected so that the proper legal notice is provided to our customers.

2. Midterm Cancellations

Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)] - Notice Requirements for Midterm Cancellations and Nonrenewals. - Notices of midterm cancellation and nonrenewals shall meet the following requirements: (6) A midterm cancellation or nonrenewal notice shall state that, at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less.

8 Violations: Notices failed to provide the offer of loss information.

Company Position – We agree with this criticism. We are in the process of incorporating the statement regarding the customer's right to obtain loss information in our supplemental notifications to our insureds.

7 Violations: Failure to provide the required 15 days notice for non payment of premium.

Act 86, Section 3(a)(3)(ii) [40 P.S. §3403(a)(3)(ii)] – Notice Requirements for Midterm Cancellations and Nonrenewals. Notices of midterm cancellation and nonrenewal shall meet the following requirements: (3) Written notice of cancellation in the manner prescribed in this section must be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: (ii) The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination.

Company Position – We disagree with this criticism as our records reflect that we provided 15 days notice in each instance below. We detail the dates utilized for each policy and previously included screen prints from our invoice listing in order to support our position.

> **919334139** – The Avoid Cancellation Notice was sent to the customer on July 16, 2002 and indicated that the policy would cancel on August 20, 2002.

920475834 – The Avoid Cancellation Notice was sent to the customer on August 5, 2002 and indicated that the policy would cancel on August 20, 2002.

920483228 – The Avoid Cancellation Notice was sent to the customer on November 4, 2002 and indicated that the policy would cancel on November 19, 2002.

921790566 – The Avoid Cancellation Notice was sent to the customer on August 12, 2002 and indicated that the policy would cancel on August 27, 2002.

922737040 – The Avoid Cancellation Notice was sent to the customer on January 11, 2003 and indicated that the policy would cancel on January 26, 2003.

924455388 – The Avoid Cancellation Notice was sent to the customer on January 9, 2003 and indicated that the policy would cancel on January 24, 2003.

924459910 – The Avoid Cancellation Notice was sent to the customer on December 27, 2002 and indicated that the policy would cancel on January 11, 2003.

3. Non Renewals

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

49 Violations: Non renewal notices failed to offer the loss information.

Company Position – We agree with this criticism. We are in the process of incorporating the statement regarding the customer's right to obtain loss information in our supplemental notifications to our insureds.

Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)] - Written notice of nonrenewal in the manner prescribed in this section must be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination.

1 Violation: Failure to provide the required 60 days notice.

Company Position – We agree with this criticism. We have reviewed our guidelines to ensure that we meet this statutory obligation. Additionally, we have audits in place for detecting these types of errors to further demonstrate that we are proactive in monitoring our procedures and practices. We are aware of this statute as evidenced by the fact that only one error was uncovered for this section.

4. Renewals – no violations noted.

5. Declinations

Act 86, Section 2 [40 P.S. §3402] – Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following:

(1) A condition, factor or loss experience material to insurability has changed substantially or a substantial condition, factor or loss experience material to insurability has become known during the policy term.
(2) Loss of reinsurance or a substantial decrease in reinsurance has occurred, which loss or decrease shall, at the time of cancellation, be certified to the Insurance Commissioner as directly affecting in-force policies.
(3) The insured has made a material misrepresentation which affects the insurability of the risk.
(4) The policy was obtained through fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company.
(5) The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit.
(6) The insured has requested cancellation.
(7) Material failure to comply with policy terms, conditions or contractual duties.
(8) Other reasons that the Insurance Commissioner may approve.

1 Violation: Improper reason used to cancel the policy.

Company Position – We agree with this criticism as the 60 day discovery period expired and there was no change in the risk from the time of new business. We recognize this aspect of Act 86 and will address our internal procedures to eliminate future occurrences of this nature. We audit internally on a regular basis and believe that we have the necessary parameters in place to monitor this regulation.

VI. RATING

A. Private Passenger Automobile

1. New Business

Private Passenger Automobile - New Business Without Surcharges

Act 6, Section 17, §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages.

1,868 Violations: Failure to provide insured copy of invoice at the time of application.

Company Response – We agree with this criticism. We are making the necessary revisions to our forms so that the itemized invoice is correctly provided to each of our customers at the time of application. To further support this, we will re-emphasize this requirement at the time of application with our agency force and strengthen our procedures/guidelines regarding this matter.

Title 75, Section 1793(b) Surcharge Disclosure Plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

(1) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder.
(2) The number of years any surcharge will be in effect.

The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage.

1,868 Violations: Failure to provide insured copy of surcharge disclosure plan at the time of application.

Company Position – We agree with this criticism. We have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice on our renewal offers as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. We will re-emphasize this requirement at the time of application with our agency force. Furthermore, we will strengthen our procedures/guidelines regarding this matter.

Act 6, Section 8. §1705(a)(1) & (4) – Financial responsibility requirements.
(3) Each insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall 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.

7 Violations: Failure to provide signed tort selection form in file.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March of 2004, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Act 1990-6, Section 12. §1738(d)(1) & (2)

(1) The named insured shall be informed that he may exercise the waiver of the stacked limits of uninsured motorist coverage by signing the written rejection form.
(2) The named insured shall be informed that he may exercise the waiver of the stacked limits of underinsured motorist coverage by signing the written rejection form.

4 Violations: Failure to provide signed rejection forms.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March of 2004, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Act 1990-6, Section 9 §1731 (b) and (c) - Uninsured and underinsured motorist coverage. Uninsured and underinsured motorist coverage shall provide protection for persons who suffer injury arising out of the maintenance or use of a motor vehicle and are legally entitled to recover damages therefore from owners or operators of uninsured or underinsured motor vehicles. The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form.

1 Violation: Failure to provide signed rejection form.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March of 2004, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Private Passenger Automobile – New Business With Surcharges

Act 6, Section 17, §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages.

42 Violations: Failure to provide copy of invoice at the time of application.

Company Response – We agree with this criticism. We are making the necessary revisions to our forms so that the itemized invoice is correctly provided to each of our customers at the time of application. To further support this, we will re-emphasize this requirement at the time of application with our agency force and strengthen our procedures/guidelines regarding this matter.

Title 75, Section 1793(b) Surcharge Disclosure Plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

(4) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder.
(5) The number of years any surcharge will be in effect.

The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage.
42 Violations: Failure to provide insured copy of surcharge disclosure plan at the time of application.

Company Position – We agree with this criticism. We have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice on our renewal offers as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. We will re-emphasize this requirement at the time of application with our agency force. Furthermore, we will strengthen our procedures/guidelines regarding this matter.

Act 6, Section 19, §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect.

42 Violations: Failure to list dates of accidents and violations and amount of surcharge on the notice.

Company Position – We agree with this criticism. We have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice on our renewal offers as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. We will re-emphasize this requirement at the time of application with our agency force. Furthermore, we will strengthen our procedures/guidelines regarding this matter.

Act 6, Section 8. §1705(a)(1) & (4) – Financial responsibility requirements.
(4) Each insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall 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.

13 Violations: Policies issued with limited tort and no evidence of a signed limited tort selection form in file.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We have implemented an electronic format for obtaining these required documents, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Act 1990-6, Section 12. §1738(d)(1) & (2)
(3) The named insured shall be informed that he may exercise the waiver of the stacked limits of uninsured motorist coverage by signing the written rejection form.
The named insured shall be informed that he may exercise the waiver of the stacked limits of underinsured motorist coverage by signing the written rejection form.

4 Violations: Failure to provide signed rejection forms.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March 2004, which will solidify our document

retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Act 1990-6, Section 9 §1731 (b) and (c) - Uninsured and underinsured motorist coverage. Uninsured and underinsured motorist coverage shall provide protection for persons who suffer injury arising out of the maintenance or use of a motor vehicle and are legally entitled to recover damages therefore from owners or operators of uninsured or underinsured motor vehicles. The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form.

2 Violations: Failure to provide signed rejection forms.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March 2004, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

Act 1990-6, Section 18. §1792(b)(1) - Mandatory deductibles. Every private passenger automobile insurance policy providing collision coverage issued or renewed on and after the effective date of this subsection shall provide a deductible in an amount of $500 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.

1 Violation: Failure to provide signed statement from the insured.

Company Position – We agree with this criticism. We have established internal parameters to improve our document retention. We implemented an electronic format for obtaining these required documents in March 2004, which will solidify our document retention procedures. Furthermore, we generate bi-weekly listings of all new business auto policies in order to take the necessary action on policies that do not have the appropriate documents.

2. Renewals

Private Passenger Automobile – Renewals Without Surcharge

Act 1990-6, Section 17. §1791.1.(a) Disclosure of premium charges
Invoice. – 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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.

235 Violations: Failure to provide insured a copy of the invoice at renewal.

Company Position – We agree with this criticism. We have identified the problem and, effective February 2004, these forms have been corrected to comply with state regulations. The premium amounts are now reflected on the disclosure notice. We previously provided examples in order to demonstrate that the corrected forms are now being sent out to our customers. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Title 75, Section 1793(b) Surcharge Disclosure Plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

(6) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder.
(7) The number of years any surcharge will be in effect.

The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage.

235 Violations: Failure to provide copy of surcharge disclosure plan at the renewal.

Company Position – We agree with this criticism. We have identified the problem and, effective February 2004, these forms have been corrected to comply with state regulations. The premium amounts are now reflected on the disclosure notice. We previously provided examples in order to demonstrate that the corrected forms are now being sent out to our customers. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

<u>Private Passenger Automobile – Renewals With Surcharges</u>

Act 6, Section 17, §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages.

5 Violations: Failure to provide insured a copy of the invoice at renewal.

Company Position – We agree with this criticism. We have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Title 75, Section 1793(b) Surcharge Disclosure Plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

(8) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder.
(9) The number of years any surcharge will be in effect.

The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage.
5 Violations: Failure to provide the insured a copy of the surcharge disclosure plan at renewal.

Company Position – We agree with this criticism. As was noted with the previous response, we have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

Act 6, Section 19, §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify

the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect.

5 Violations: Failure to list dates of accidents and violations and amount of surcharge.

Company Position – We agree with this criticism. As was noted with the previous response, we have corrected the programming in our processing system to correctly generate the surcharge disclosure plan notice as required by law. We previously provided copies for your reference to validate that this change occurred effective February 2004. Please note that this issue was detected and corrected by the company, prior to the commencement of the examination process by the Commonwealth of Pennsylvania.

B. Private Passenger Automobile – Assigned Risk – no violations noted.

C. Personal Lines Property - Homeowners

1. New Business

Homeowner – New Business Without Surcharges - no violations noted.

Homeowner – New Business With Surcharges

Act 246, Section 4 [40 P.S. § 1184] Rate Filings.
(a) Every insurer shall file with the Commissioner every manual of classification, rules and rates, every rating plan and every modification of any of the forgoing which it proposes to use.

(h) Beginning ninety (90) days after the effective date of this Act, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect for said insurer as provided in this Act or in accordance with subsection (f) or (g) of this section.

1 Violation: Improper surcharge applied to policy.

Company Position – We agree with this criticism. We have re-rated this policy and refunded the customer $10.13, including interest. This amount was figured based upon the fact that the customer remitted $65.61 at the time the new business application was issued.

2. Renewal

Homeowner – Renewal Without Surcharges – no violations noted.

Homeowner – Renewal With Surcharges – no violations noted.

D. Personal Lines Property - Dwelling Fire

1. New Business – no violations noted.

2. Renewals – no violations noted.

VII. CLAIMS

E. Automobile First Party Benefits Claims

From the universe of 83 private passenger automobile fist party benefits claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:;

3 Violations: Title 31, Pa. Code, Section 69.52(b) Requires a insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer received sufficient documentation supporting the bill. The violations noted were the result of provider bills not paid within 30 days.

Company Position: We agree with this criticism. The office standard is to pay within 30 days, as outlined by Title 31, Pa. Code, Section 69.52 (b). This requirement will be reinforced with the applicable claim handlers and a copy of the code will be re-distributed.

F. Personal Property

Homeowner Claims

From the universe of 447 Homeowners claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following violations were noted.

7 Violations: Title 31, Chapter 146.6 – Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected.

Company Position: We agree with this criticism. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

Dwelling Fire Claims

From the universe of 61 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 9 violations noted were based on 7 files, resulting in an error ratio of 28%.

The following findings were made:

6 Violations: Title 31, Chapter 146.6 – Requires every insurer to complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected.

Company Position: We agree with this criticism. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

3 Violations: Title 31, Section 146.7(a)(1) - Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

Company Position: We agree with this criticism. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

VIII. Forms

No violations noted.

IX. Advertising

No violations noted.

X. Consumer Complaints

Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] - 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 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. 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 either at the address shown in the policy or at a forwarding address.

4 Violations: Improper reasons for canceling policies.

Company Response – We agree with these criticisms. We reviewed our guidelines to ensure that we meet this statutory obligation. As previously mentioned, we have controls in place through our auditing process that monitor and regulate our compliance.

XI. Licensing

Act 605 (40 P.S. 235) – Appointments.

(a) No agent shall do business on behalf of any entity without a written appointment from that entity.
(b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.
(c) Insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
(d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

1 violation: No agency appointment on record.

Company position - We agree with this criticism and have taken action to correct the situation.

In conclusion, we have attempted to address the concerns, comments and recommendations outlined in the Market Conduct Examination Report in an expeditious and responsible manner. We ask that these comments be considered, when determining any further action. If action is found to be necessary, we do not waive our right to invoke any other administrative remedies.

Once again, we wish to thank you and your exam team for your professionalism throughout the examination of our market conduct practices. Please feel free to contact Mary Rountree of my staff at (323) 932-3965, or me, should you need anything further.

Sincerely,

Bennett L. Katz
Assistant Vice President
Regulatory Affairs