

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**ALLSTATE PROPERTY AND CASUALTY
INSURANCE COMPANY**

Northbrook, Illinois

**AS OF
July 19, 2006**

COMMONWEALTH OF PENNSYLVANIA

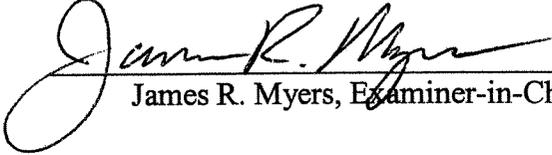


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 6, 2006

VERIFICATION

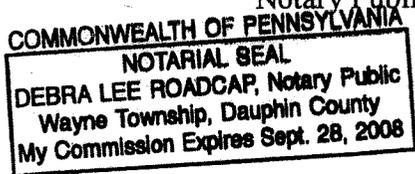
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-in-Charge

Sworn to and Subscribed Before me

This 28th Day of June, 2006

Debra Lee Roadcap
Notary Public



ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY

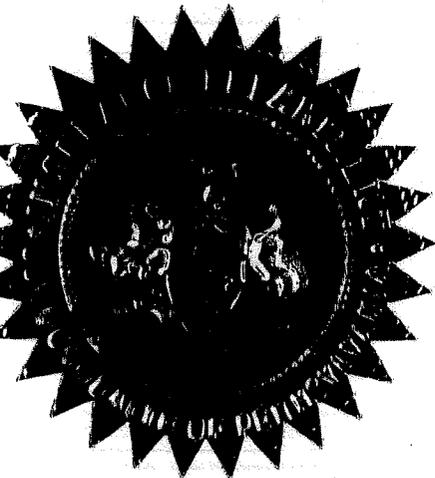
TABLE OF CONTENTS

Order	
I.	Introduction..... 1
II.	Scope of Examination..... 3
III.	Company History/Licensing..... 5
IV.	Underwriting Practices and Procedures..... 6
V.	Underwriting
	A. Private Passenger Automobile..... 7
	B. Assigned Risk..... 11
	C. Property..... 11
VI.	Rating
	A. Private Passenger Automobile..... 14
	B. Assigned Risk..... 24
	C. Tenant Homeowners..... 24
VII.	Claims..... 27
VIII.	Forms..... 34
IX.	Advertising..... 35
X.	Consumer Complaints..... 36
XI.	Licensing..... 38
XII.	Recommendations..... 42
XIII.	Company Response..... 45

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
ALLSTATE PROPERTY AND	:	Sections 641-A and 671-A of Act 147
CASUALTY INSURANCE COMPANY:	:	of 2002 (40 P.S. §§ 310.41 and 310.71)
1200 Atwater Drive	:	
Malvern, PA 19355	:	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) and
	:	(4), 1716, 1731(b)(c), 1734,
	:	1738(c)(d)(1)(2), 1791.1(a) and (b),
	:	1793(b), 1797(b)(1) and 1799.3(d)
	:	(Title 75, Pa.C.S. §§ 1705, 1716, 1731,
	:	1734, 1738, 1791, 1793, 1797 and
	:	1799)
	:	
	:	Sections 4 and 5(a)(4) of the Unfair
	:	Insurance Practices Act, Act of
	:	July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.4 and 1171.5)
	:	
	:	Sections 2003(a)(11) and 2008(b) of
	:	Act 68 of 1998 (40 P.S. §§991.2003
	:	and 991.2008)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	51.61(3), 67.33(b)(1), 69.22(c),
	:	69.52(b), 69.55(a), 146.6 and
	:	146.7(a)(1)
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Section 1161(a) and (b)
	:	
	:	
Respondent.	:	Docket No. MC06-08-021

CONSENT ORDER

AND NOW, this 6th day of *September*, 2006, 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.

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent neither admits nor denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

4. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is Allstate Property and Casualty Insurance Company, and maintains its address at 1200 Atwater Drive, Malvern, Pennsylvania 19355.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.
- (c) On July 19, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on August 17, 2006.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

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

- (vi) Section 1731(b)(c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vii) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (viii) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;
- (ix) 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;

- (x) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

- (xi) 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;

- (xii) Section 1797(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1797, which requires insurers to contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services,

products or accommodations provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary. An insurer's challenge must be made to a PRO within 90 days of the insurer's receipt of the provider's bill for treatment or services or may be made at any time for continuing treatment or services;

(xiii) 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;

(xiv) Section 4 of Act 205 (40 P.S. § 1171.4), which states no person shall engage in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act;

(xv) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as entering

into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance;

- (xvi) Section 2003(a)(11) 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: The refusal of another insurer to write a policy or the cancellation or refusal to renew an existing policy by another insurer;

- (xvii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires 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 Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

- (xviii) Title 31, Pennsylvania Code, Section 51.61(3), which states an advertisement for automobile liability or physical damage shall not invite a prospective insured to apply for a quote of a premium rate which the company would charge for such insurance unless: (1) It is the company's

intent and actual practice to render such quotation to each and every prospective insured who so applies, to honor such quote with an offer of insurance; or (2) If it is the company's intent and actual practice to refuse to render a quote to certain individuals or classes for any reason, the advertisement shall clearly disclose in prominent type, "We reserve the right to refuse to quote any individual a premium rate for the insurance advertised herein," and on the application for such quotation immediately in bold type or contrasting color state, "Do you understand that the company reserves the right to refuse to give you a quotation for automobile insurance; Yes ___ No ___?"; or (3) If it is the company's intent and actual practice to offer a quotation to applicants who meet its underwriting requirements and not to offer a quotation to those who do not appear to meet the company's underwriting requirements, the company shall consider such refusal to render a quote as a refusal to write as defined in the act of June 5, 1968, P.L. 140 (40 P.S. § 1008.1, *et seq.*), and comply with all applicable provisions of the act;

- (xix) Title 31, Pennsylvania Code, Section 67.33(b)(1), which prohibits an insurer from assessing a premium surcharge for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident;

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

- (xxi) 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;

- (xxii) Title 31, Pennsylvania Code, Section 69.55(a), which states a PRO shall apply in writing to the Commissioner for approval to contract with an insurer to provide peer review services in accordance with the act and this chapter;

- (xxiii) 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;

(xxiv) 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;

(xxv) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties”; and

(xxvi) Section 1161(a) and (b) of Title 75, Pa. C.S., which states an insurer who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

CONCLUSIONS OF LAW

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

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

- (b) Respondent's violations of Sections 641-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

- (c) Respondent's violations of Sections 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 Sections 4 and 5(a)(4) 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.
- (e) 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).
- (f) Respondent's violations of Sections 2003 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).
- (g) 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

6. 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 Thirty-Six Thousand Dollars (\$36,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. 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.

7. 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.

8. 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.

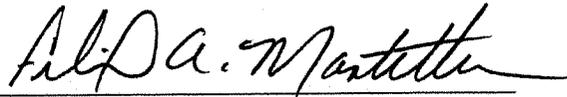
9. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

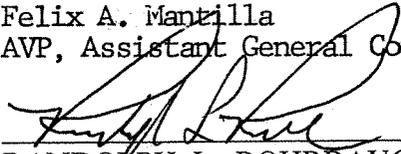
11. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

12. 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: ALLSTATE PROPERTY AND CASUALTY
INSURANCE COMPANY, Respondent



Felix A. Mantilla
AVP, Assistant General Counsel



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Allstate Property and Casualty Insurance Company's office located in Malvern, Pennsylvania, from February 1, 2006, through March 17, 2006. 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%.

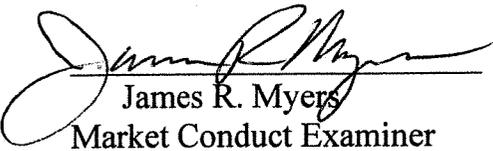
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel 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.

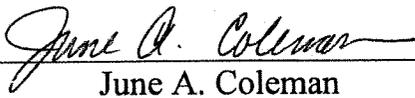
The undersigned participated in this examination and in preparation of this Report.



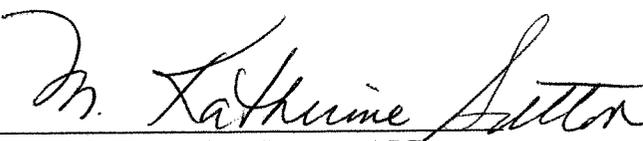
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



M. Katherine Sutton, AIC
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Allstate Property and Casualty Insurance Company, hereinafter referred to as "Company," at their office located in Malvern, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2004, through December 31, 2004, 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. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

3. Claims

4. Forms

5. Advertising

6. Complaints

7. Licensing

III. COMPANY HISTORY AND LICENSING

Allstate Property and Casualty Insurance Company was incorporated under the laws of Illinois on February 14, 1985. The Company commenced operations April 1, 1985. This Company is a wholly owned subsidiary of Allstate Insurance Company, which in turn is owned by The Allstate Corporation, a publicly traded holding company.

LICENSING

Allstate Property and Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in all states except Alabama, Georgia, Hawaii, Maine, Massachusetts, New Hampshire, New Jersey, North Carolina and South Carolina. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$231,119,271. Premium volume related to the areas of this review were: Homeowners multiple peril \$9,805,389; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,627,447; Other Private Passenger Auto Liability \$120,964,268 and Private Passenger Auto Physical Damage \$98,172,476.

IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following finding was made:

1 Violation Act 68, Section 2003(a)(11) [40 P.S. §991.2003(a)(11)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: The refusal of another insurer to write a policy or the cancellation or refusal to renew an existing policy by another insurer. The Company's automobile underwriting guidelines state the following: "Named insured or spouse with a prior Allstate Property and Casualty Insurance Company, Allstate Insurance Company or Allstate Indemnity Company auto policy that has been terminated for cause within the past 12 months are ineligible. Termination for cause includes: Late pay declination, midterm cancellation, new business rejection, nonrenewal, void ab initio.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

From the universe of 417 private passenger automobile files identified as being cancelled in the first 60 days of new business, 75 files were selected for review. All 75 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

1 Violation Act 68, Section 2003(a)(11) [40 P.S. §991.2003(a)(11)]

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: The refusal of another insurer to write a policy or the cancellation or refusal to renew an existing policy by another insurer. The Company cancelled the policy because of prior cancellation of an Allstate policy.

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

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

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 10,248 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

3. Nonrenewals

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

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 1,876 private passenger automobile files identified as nonrenewals by the Company, 150 files were selected for review. All 150 files selected were received and reviewed. No violations were noted.

4. Declinations

A declination is any application that is received by the Company and was declined 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 the universe of 18,615 private passenger automobile files identified as declinations by the Company, 200 files were selected for review. All 200 files requested were received and reviewed. The 96 violations noted were based on 96 files, resulting in an error ratio of 48%.

The following findings were made:

96 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.

AND

Title 31, Pa. Code, Section 51.61(3)

An advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of a premium rate which the company would charge for such insurance unless: (1) It is the company's intent and actual practice to render such quotation to each and every prospective insured who so applies, to honor such quote with an offer of insurance; or (2) If it is the company's intent and actual practice to refuse to render a quote to certain individuals or classes of individuals for any reason, the advertisement shall clearly and conspicuously disclose in prominent type, "We reserve the right to refuse to quote any individual a premium rate for the insurance advertised herein," and on the application for such quotation immediately in bold type or contrasting color state, "Do you understand that the company reserves the right to refuse to give you a quotation for automobile insurance; Yes ___ No?"; or (3) If it is the company's intent and actual practice to offer a quotation to applicants who meet its underwriting requirements and not to offer a quotation to those who do not appear to meet the company's underwriting requirements, the company shall consider such refusal to render a quote as a refusal to write as defined in the act of June 5, 1968, P.L. 140

(40 P.S. §1008.1 et seq.) and comply with all applicable provisions of the act. The Company failed to notify the insured in writing the specific reason for refusal to write in the 96 files noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

C. Property

1. 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.

The universe of 43 tenant homeowner policies cancelled within the first 60 days of new business was selected for review. All 43 files selected were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 1,632 tenant homeowner policies cancelled midterm during the experience period, 200 files were selected for review. All 200 files requested were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 74 tenant homeowner policies nonrenewed during the experience period was selected for review. All 74 files selected were received and reviewed. No violations were noted.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

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

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

Private Passenger Automobile – New Business Without Surcharges

From the universe of 18,220 private passenger automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files requested were received and reviewed. The 54,685 violations noted were based on the universe of 18,220, resulting in an error ratio of 100%.

The following violations were noted:

18,220 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company did not provide the required notice at the time of application.

18,220 Violations Title 75, Pa. C.S §1791.1(b)

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

18,220 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 the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company did not provide the insured with a copy of a surcharge disclosure plan at the time of application.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 24 files noted.

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.

AND

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 insured elected to reject UM/UIIM coverage; however, the Company charged a premium for the coverage. This resulted in an overcharge of \$153.81.

Private Passenger Automobile – New Business With Surcharges

From the universe of 6,847 private passenger automobile policies identified as new business with surcharges by the Company, 100 files were selected for review. All 100 files requested were received and reviewed. The 27,416 violations noted were based on the universe of 6,847, resulting in an error ratio of 100%.

The following violations were noted:

1 Violation Title 31, Pa. Code, Section 67.33(b)(1)

An insurer may not assess a premium surcharge for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident.

AND

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The policy was improperly surcharged for a hit and run accident. This resulted in an overcharge of \$192.91.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option.

AND

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company provided and charged for full tort when the file contained the insured's signed request for

limited tort in the 2 files noted. This resulted in overcharges of \$471.07.

1 Violation Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the 24 files noted.

6,847 Violations 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 Company failed to specify dates of accidents and/or violations with the surcharge statement.

6,847 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company did not provide the required notice at the time of application.

6,847 Violations Title 75, Pa. C.S. §1791.1(b)

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

6,847 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 the

plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company did not provide the insured with a copy of a surcharge disclosure plan at the time of application.

2. Renewals

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

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

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

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

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 62,701 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 62,701 violations noted were based on the universe of 62,701, resulting in an error ratio of 100%.

The following violations were noted:

62,701 Violations Title 75, Pa. C.S. §1791.1(a)

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

premiums for the insured's existing coverages. The Company did not provide the required notice at the time of renewal.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 12,354 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 24,708 violations noted were based on the universe of 12,354, resulting in an error ratio of 100%.

The following violations were noted:

12,354 Violations 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 Company failed to specify dates of accidents and/or violations with the surcharge statement.

12,354 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to

purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company did not provide the required notice at the time of renewal.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement, the Company wrote no assigned risk business during the experience period.

C. Tenant Homeowners

1. New Business

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

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

Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 20,091 tenant homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 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 require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 344 tenant 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.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

A. Automobile Property Damage Claims

From the universe of 15,740 private passenger automobile property damage claims reported during the experience period, 125 files were selected for review. All 125 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 2%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

B. Automobile Comprehensive Claims

From the universe of 9,859 private passenger automobile comprehensive claims reported during the experience period, 100 files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 12,201 private passenger automobile collision claims reported during the experience period, 100 files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 2,772 private passenger automobile total loss claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 3%.

The following findings were made:

2 Violations Title 75, Pa. C.S. §1161(a)&(b) – Certificate of Salvage Required.

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined in Section 1702 (relating to definitions), who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The 2 files noted did not reflect a Pennsylvania certificate of salvage was obtained.

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the claim noted.

E. Automobile First Party Medical Claims

From the universe of 4,916 private passenger automobile first party medical claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 27 violations noted were based on 20 files, resulting in an error ratio of 20%.

The following findings were made:

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

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the 12 claims noted within 30 days.

7 Violations Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In

the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on 7 claims that were not paid within 30 days.

8 Violations Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill. The 8 violations noted were due to the insurer not notifying the insured that the first-party limits were exhausted.

F. Automobile First Party Medical Claims Referred to a PRO

The Company was requested to furnish a list of first party medical claims that were referred to a peer review organization. No claims were reported. The Company was also asked to provide a copy of all peer review contracts in place during the experience period.

The following findings were made:

15 Violations Title 75, Pa. C.S. §1797(b)(1)

Peer review plan for challenges to reasonableness and necessity of treatment. Peer review plan. Insurers shall contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for

the purpose of confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary. An insurer's challenge must be made to a PRO within 90 days of the insurer's receipt of the provider's bill for treatment or services or may be made at any time for continuing treatment or services.

AND

Title 31, Pa. Code, Section 69.55(a)

A PRO shall apply in writing to the Commissioner for approval to contract with an insurer to provide peer review services in accordance with the act and this chapter. The Company contracted with unapproved peer review organizations. The following peer review organizations were not approved by the Commissioner during the experience period:

A.D.C./N.C.C.
Claims Review Associates
Clinical Practice Associates
Consolidated Rehabilitation Co.
I-PRO
I.M.D.C./PRO
Interpose
The Knee Center
Medical Determinations
MEDIQ Review Services
OmniMedicorp Ltd.
Resolve
United Medical Phila.
US Medical Review, Inc.
Vertis-PRO

G. Tenant Homeowner Claims

From the universe of 261 tenant homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 10%.

The following findings were made:

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 5 claim files did not contain a copy of the written denial letter.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following finding was made:

1 Violation Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company failed to provide a fraud statement on the Property Subrogation Report.

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 146 pieces of advertising which included brochures, mail solicitation, promotions, media, print advertising and letters. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 351 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 351 complaints, 50 files were selected for review.

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

The following findings were made:

2 Violations Act 205, Section 4 [40 P.S. §1171.4]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Prohibited. No person shall engage in this State in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act. The Company issued 2 policies when only a quote was requested.

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

• 4	Cancellation/Nonrenewal	8%
• 10	Credit Scoring	20%
• 3	Claims Related	6%
• 5	Premium Related	10%
• 8	Billing	16%
• 20	Service/Producer Related	40%
<hr/> 50		<hr/> 100%

XI. LICENSING

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

The following findings were made:

5 Violations Act 147 of 2002, Section 641.1A [40 P.S. §310.41a]

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

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

Arcana Ent., Inc.
Gary K. Dietz
Grivvi, Inc.

Ronald P. Piersante
Watmuff Agency, Inc.

30 Violations Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer

during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

John Bosserman
Joseph E. Brown
Christine Insurance, Inc.
Jody Davies
Richard C. Gallo
Heinsinger Agency, Inc.
Holva Agency, Inc. (The)
Jerry Kelley & Son Agency, Inc.
Rebecca Maslowski
J. Edward McCaffrey
McGrath Insurance, Inc.
McKeon Agency, Inc.
Mid-Penn Insurance Assoc.
Craig Millison
Timothy J. Murtaugh
R. Greg Nicholas
Jim Overmiller
Gerald M. Penrose
Pine Valley Insurance Agency, Inc.
Pittsburgh North Insurance Agency, Inc.
Michael P. Raimo
Jack Ruane
Thomas A. Stephenson
Therese Lynd Agency, Inc.
Robert J. Timmermans
Joseph R. Tucker

Janice K. Vajda
Victoria Lee Agency, Inc.
Joseph W. Wade
Michael E. Zirolli

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003 and 2008 [40 P.S. §§991.2003 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
3. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.
4. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.

5. The Company must review Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that an itemized invoice listing minimum coverages and tort options is provided at the time of application and every renewal thereafter as noted in the Report.
6. The Company must review Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the rating violations noted in the Report does not occur in the future.
7. The premium overcharges noted in the rating section of this report must be refunded to insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the Report issue date.
8. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.
9. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

10. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained with the claim file.
11. The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that the violation regarding the requirement of a fraud warning on all claim forms, as noted in the Report, does not occur in the future.
12. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
13. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that policies are not cancelled due to requiring supporting coverage, as noted in the Report.
14. The Company must revise and reissue their automobile underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003(a)(11) of Act 68 [40 P.S. §991.2003(a)(11)].

XIII. COMPANY RESPONSE

ALLSTATE INSURANCE COMPANY

LAW AND REGULATION
1200 ATWATER DRIVE, SUITE 200
MALVERN, PENNSYLVANIA 19355
(610) 251-3490
FAX (877) 852-0456

TIMOTHY L. KNAPP
REGIONAL COUNSEL

August 17, 2006

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

Re: Allstate Property and Casualty Insurance Company
Market Conduct Examination

Dear Mr. Derk:

The Allstate Property and Casualty Insurance Company ("Allstate") is in receipt of your letter of July 19, 2006 and the Department's Report of Examination. Please accept this letter as Allstate's response to the Department's Report.

Our response specifically addresses each of the Department's recommendations found on Page 42 of the Report and following. Where appropriate, our response also addresses exceptions noted by the Department that fall outside of the Recommendation section. We believe that the exceptions noted herein fall mostly in the category of human error or in a difference of interpretation of Pennsylvania law. As compliance with Pennsylvania's laws is a top priority for Allstate, we take this Report constructively and will work to address those issues that the Department has identified.

Allstate appreciates the professional courtesy your staff provided throughout the examination process. We also look forward to working with you to reach a mutually agreeable resolution to this Report. Please do not hesitate to contact me with any questions or concerns.

Sincerely,



Timothy L. Knapp
Allstate Insurance Company

Recommendations

Recommendation 1

The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003 and 2008 [40 P.S. Sections 991.2003 and 991.2008], so that the violations noted in the Report do not occur in the future.

Company Response

Allstate has reviewed its internal control procedures regarding cancellation notice requirements under Act 68, Sections 2003 and 2008. We note that in the majority of cancellation situations reviewed by the Department, proper procedures were maintained and exceptions were limited. With respect to the issue of declinations under Act 68, Section 2008(b), we did not view the consumers noted as exceptions in the Report as "applicants" under Pennsylvania law. Going forward, we accept the Department's interpretation of the statute and will take action to clarify the status of applicants for purposes of the Notification requirements found in Section 2008 (b).

Recommendation 2

When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa.C.S. Section 1799.3(d) do not occur in the future.

Company Response

Allstate has reviewed its internal control procedures regarding compliance with Section 1799.3 (d) and we accept the Department's Procedural Recommendation, and will begin making systems changes. We do, however, point out that the manner in which the surcharge was made is specified in the Surcharge Disclosure Statement presented to consumers, which we believed satisfied the requirements of Section 1799.3 (d). The amount of the surcharge is displayed on the Policy Declaration page, both for the policy in aggregate and for the vehicles for which the surcharge applies. We will take action to specify the dates of the accidents and/or violations with the surcharge statement.

Recommendation 3

The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to

ensure that violations noted under Title 75, Pa. C.S. Section 1738(d)(1) and (2) do not occur in the future.

Company Response

Allstate has reviewed its internal control procedures to ensure compliance with Section 1738 (d) (1) and (2) and will take measures to ensure compliance with these sections. We do, however, opine that we do not believe that the statute required notice and an option to waive for single vehicle policies, which were the majority of files noted as exceptions in the Examination Report. The statute states that “Each named insured purchasing uninsured or underinsured motorist coverage *for more than one vehicle under a policy*, shall be provided the opportunity to waive the stacked limits or coverage...” Title 75, Pa. C.S. Section 1738 (emphasis supplied).

Recommendation 4

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

Company Response

Allstate has reviewed its internal control procedures to ensure compliance with Section 1793 (b) of Title 75. We accept the Department’s Recommendation and will revise our procedures to provide a copy of our surcharge disclosure plan at the time of application. Allstate is not unaware of the requirement, however, our past practice was to provide the surcharge disclosure plan when we issued the policy as a way of ensuring that our policyholders received the required disclosure. We will change our procedure to ensure that receipt of the required information occurs at the time of application.

Recommendation 5

The Company must review Title 75, Pa. C.S. Section 1791 (a) and (b) to ensure that an itemized invoice listing minimum coverages and tort options is provided at the time of application and every renewal thereafter as noted in the Report.

Company Response

Allstate has reviewed its internal control procedures to ensure compliance with Section 1791 (a) and (b) of Title 75. We accept the Department’s Recommendation and will revise our procedures to provide a copy of the itemized invoice listing minimum coverages and tort options at the time of application and every renewal thereafter. Allstate is not unaware of these requirements, however, our past practice was to provide the minimum coverage (“Availability of Coverages”) and tort option (“Tort Notice to Named Insured”) notices when we issued the policy as a way of ensuring that our

policyholders received the required disclosure. We will change our procedure to ensure that receipt of the required information occurs at the time of application and at every renewal.

Recommendation 6

The Company must review Act 246, Section 4 [40 P.S. Section 1184] and take appropriate measures to ensure that rating violations noted in the Report do not occur in the future.

Company Response

Allstate accepts the Department's Recommendation and will review its internal processes to ensure compliance with Act 246, Section 4.

Recommendation 7

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

Company Response

Allstate accepts this Recommendation and has issued refunds for the policies listed in the Report. Proof of payment will be provided to the Department within 30 days of the report issue date.

Recommendation 8

The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices, so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.

Company Response

Allstate has reviewed its internal control procedures to ensure compliance with Title 31, Chapter 146. While we take seriously any exception noted by the Department, we take this opportunity to point out that our error ratio in these categories was low. We will, however, take internal measures to remind claims personnel of the requirements of Chapter 146 as they pertain to claim status and denial letters to ensure compliance with its provisions.

Recommendation 9

The Company must review Title 31, Pa. Code, Section 69.52 (b) with its claim staff to ensure that first party benefits are paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits became due as required by Title 75, Pa. C.S. 1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response

Allstate has already begun its internal control procedures to review our requirements under Title 31 to pay first party benefits within 30 days and we accept the Department's recommendation. Several of the files identified as exceptions in the Report have already been paid with interest – we will provide the proof of payment, including interest where appropriate, to all claimants referenced in the Report within 30 days of the Report issue date.

Recommendation 10

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

Company Response

Allstate has reviewed its internal control procedures regarding salvage title certificates under Sections 1161 (a) and (b). During the course of the Examination, the Department found isolated incidents where a Salvage certificate was not found in the claim file. In these files, Allstate interpreted our responsibilities under the laws of the jurisdiction in which the claim occurred, outside of Pennsylvania. We accept the Department's Recommendation and will ensure compliance with Sections 1161 (a) (b).

Recommendation 11

The Company must review Title 18, Pa. C.S. Section 4117 (k)(1) to ensure that the violation regarding the requirement of a fraud warning on all claims forms, as noted in the Report, does not occur in the future.

Company Response

Allstate accepts this Recommendation and will undertake internal control procedures to ensure that Title 18's requirement of a fraud notice on all claim forms will be followed.

Recommendation 12

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

Company Response

Allstate agrees with the Department's Recommendation and we have reviewed our internal controls to ensure compliance with Sections 641.1 (a) and 671-A. In further response, Allstate believes that the exceptions noted by the Department are the result of a systems failure to provide current Allstate agents with an Allstate Property and Casualty appointment when the company began writing business in Pennsylvania. All of the exceptions noted by the Department in the Report had either an Allstate Insurance Company or Allstate Indemnity Company appointment, and were not appointed by the Allstate Property and Casualty Company. This systems error has been corrected and we have taken further internal actions to ensure that the recently licensed Allstate Fire and Casualty Insurance appointments are handled properly.

Recommendation 13

The Company must review Act 205, section 5 (a) (4) [40 P.S. Section 1171.5 (a) (4)] to ensure that policies are not cancelled due to requiring supporting coverage, as noted in the Report.

Company Response

While we accept the Department's Recommendation regarding Act 205, our interpretation of the Act differs from the Department. In our opinion, Act 205 does not prohibit this type of conduct as there is no agreement or concerted action to commit any act of boycott, coercion or intimidation. Rather, Allstate's requirement was designed to offer policies in conjunction with each other as a cost-saving measure and as an accommodation to our policyholders. We will, however, comply with the Department's interpretation.

Recommendation 14

The Company must revise and reissue their automobile underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 (a) (11) of Act 68 [40 P.S. Section 991.2003 (a) (11)].

Company Response

Allstate accepts the Department's Recommendation and will revise its automobile underwriting guidelines to comply Section 2003 (a)(11). As you are aware, Allstate had a different interpretation than the Department regarding "another insurer" for purposes of underwriting new business. Our interpretation of the term did not include members of the Allstate group. We acknowledge the Department's interpretation and will revise our guidelines accordingly.