

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

AMEX ASSURANCE COMPANY

Chicago, Illinois

**AS OF
September 12, 2007**

COMMONWEALTH OF PENNSYLVANIA

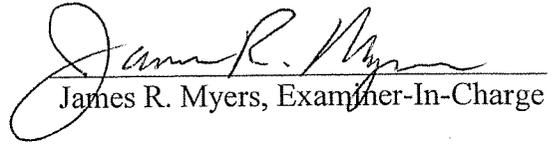


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 30, 2007

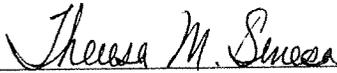
VERIFICATION

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 22 Day of August, 2007



Notary Public
COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

AMEX ASSURANCE COMPANY

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CONSENT ORDER

AND NOW, this 30th day of October, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra. or other applicable law. Respondent neither admits nor contests the Findings of Fact and Conclusions of Law herein.

FINDINGS OF FACT

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

- (a) Respondent is Amex Assurance Company, and maintains its address at 3500 Packerland Drive, De Pere, Wisconsin 54115.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 through December 31, 2005.
- (c) On September 12, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on October 12, 2007.
- (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 1705(a)(1) & (2) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, not less than 45 days prior to the first renewal of a private passenger automobile policy on and after July 1, 1990, shall notify

in writing each named insured of the availability of two alternatives of full tort insurance and limited tort insurance. This notice shall be a standard form adopted by the Commissioner. Insurers shall print the notice containing both options on one sheet in prominent type and place in a prominent location;

- (iv) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;
- (v) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (vi) Section 1738(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;
- (vii) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available

under this chapter provided the notice is given to the insured at time of application;

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

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

- (x) Section 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;

- (xi) 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;

- (xii) 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;

- (xiii) Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits discrimination with regard to underwriting standards and practices or eligibility requirements by reason of marital status;
- (xiv) 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;

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

- (xvi) 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;

- (xvii) 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;

- (xviii) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;

- (xix) 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;
- (xx) Title 18, Pennsylvania Consolidated Statutes, Section 6310.4(d), states an insurer shall not increase premiums, impose any surcharge or rate penalty, or make any driver point assignment for automobile insurance, nor shall an insurer cancel or refuse to renew an automobile policy on account of a suspension under this section;
- (xxi) Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer to give at least 30 days notice of termination and provided it give notice no later than the 60th day;
- (xxii) Title 31, Pennsylvania Code, Section 62.3(e)(1), which requires the replacement value of a motor vehicle be calculated using the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method;

- (xxiii) Title 31, Pennsylvania Code, Section 62.3(e)(4), which requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value;
- (xxiv) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within five working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within five days after its completion;
- (xxv) 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;
- (xxvi) Title 31, Pennsylvania Code, Section 146.5(a), requires every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time;

(xxvii) 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; and

(xxviii) 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

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

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

(b) Respondent's violations of Sections 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

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

(c) Respondent's violations of Sections 5(a)(4), 5(a)(7) 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.

(d) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Department may, under Sections 10 and 11 of the Unfair

Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of 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.

- (f) Respondent's violations of Sections 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).
- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 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 Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Thirty-Five Thousand Dollars (\$35,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Office Manager, 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 Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or it may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

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

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

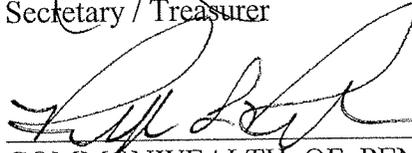
BY: AMEX ASSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at AMEX Assurance Company's office located in De Pere, Wisconsin, from April 3, 2007, through May 17, 2007. 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%.

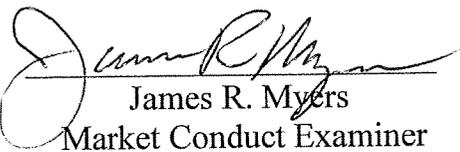
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

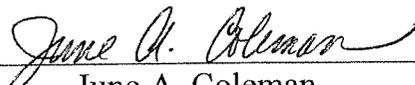
The undersigned participated in this examination and in preparation of this Report.



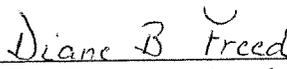
Chester A. Derk, Jr., AÆ, HIA
Market Conduct Division Chief



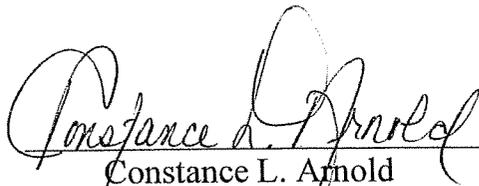
James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on AMEX Assurance Company, hereinafter referred to as “Company,” at their office located in De Pere, Wisconsin. 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, 2005, through December 31, 2005, 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, 60-day cancellations and declinations.
 - 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

AMEX Assurance Company was incorporated as Chubb Insurance Company of Illinois on January 30, 1973, under the laws of Illinois. It began business on February 5, 1973. The name was changed to American Automobile Insurance Company of Illinois on August 15, 1979. The current title was adopted in 1986.

LICENSING

AMEX Assurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2007. The Company is licensed in all states, District of Columbia and Puerto Rico. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$17,240,052. Premium volume related to the areas of this review were: Homeowners Multiple Peril \$915,536; Inland Marine \$4,162,304; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$787,468; Other Private Passenger Auto Liability \$2,881,236 and Private Passenger Auto Physical Damage \$2,561,002.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and Pennsylvania automobile product guides were furnished for private passenger automobile and personal lines property. 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:

2 Violations 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's Pennsylvania Auto Insurance Guidelines for Motor Homes state: "Stand Alone" policy – unacceptable. We must have supporting business". The Company's property underwriting guidelines indicate 2 separate instances of requiring supporting business under secondary home requirements and favorable profiles.

1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. "Unfair Methods of Competition" and "Unfair or Deceptive Practices" in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair

discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company’s property underwriting guidelines discriminate against marital status. The Co-Hab Guidelines state: “Clients must have wedding date set. Needs to be documented in comments. Wedding must be within 12 months.”

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 Company’s property underwriting guidelines

had 4 separate instances of improper reasons for nonrenewal, which were credit history, loss history and dog breeds.

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.

The universe of 10 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 10 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 542 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 37 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 37 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

1 Violation Title 18, Pa. C.S. §6310.4(d)

An insurer shall not increase premiums, impose any surcharge or rate penalty, or make any driver point assignment for automobile insurance, nor shall an insurer cancel or refuse to renew an automobile policy on account of a suspension under this section. The Company nonrenewed the policy as a result of a suspension for underage alcohol offense.

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 99 private passenger automobile files identified as being refused by the Company during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 42 violations noted were based on 42 files, resulting in an error ratio of 84%.

The following findings were made:

42 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 Company failed to issue a written notice of refusal to write to inform the applicant of the specific reason or reason for the refusal and the right of review by the Insurance Commissioner.

Concern: The Company used “no prior insurance” as a reason for declining coverage in 3 instances. The Department has a concern that use of “no prior insurance” could be used to deny coverage to a first time youthful driver. The Company should revise their “no prior insurance” criteria such that it could not be used to deny coverage to first time youthful drivers.

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.

From the universe of 230 property policies which were cancelled within the first 60 days of new business, 58 files were selected for review. The policies consisted of homeowner, tenant homeowner, baggage protection, travel delay, global travel shield and identity protection. All 58 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

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

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

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 9,867 property policies which were cancelled midterm during the experience period, 138 files were selected for review. The property policies consisted of homeowners, tenant homeowners, baggage protection, travel delay, global travel shield and identity protection. All 138 files were received and reviewed. The 2 violations noted were based

on 2 files, resulting in an error ratio of 1%.

The following findings were made:

2 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 Company failed to provide the 30 days notice of cancellation.

3. Nonrenewals

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

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

The universe of 3 homeowner policies which were nonrenewed during the experience period was selected for review. All 3 files were received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 100%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company nonrenewed the policy for an improper reason. Notes in underwriting file indicated claims frequency.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase

in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner.

AND

Adjudication: Fitch/Boyertown, PH97-06-006 (1998)

Mere notice to the insured that a homeowners policy is being cancelled due to a failure to comply with company recommendations does not specify the change or increased hazard relied upon by the insurer for its termination of the policy, and does not comply with the requirements of Act 205. The Company failed to provide the insured with a fix-it letter before issuing a notice of nonrenewal.

3 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 Company failed to advise the insured of his right to request the Insurance Commissioner review the action of the insurer within the required 10 days of receipt of the nonrenewal notice.

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.

The universe of 62 personal property files which were identified as declinations by the Company during the experience period was selected for review. The files consisted of homeowners, tenant homeowners and identity protection. 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 547 private passenger automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 2,738 violations noted were based on the universe of 547, resulting in an error ratio of 100%.

The following findings were made:

547 Violations Title 75, Pa. C.S. §1791

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

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

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

request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

547 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 at the time of application.

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

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

2 Violations Title 75, Pa. C.S. §1738(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 2 files noted.

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.

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

Each insurer, not less than 45 days prior to the first renewal of a private passenger automobile policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort insurance and limited tort insurance. This notice shall be a standard form adopted by the Commissioner. Insurers shall print the notice containing both options on one sheet in prominent type and place in a prominent location. The Company failed to provide the proper notice of election of tort options.

Private Passenger Automobile - New Business With Surcharges

From the universe of 116 private passenger automobile policies identified as new business with surcharges by the Company, 50 files were selected for

review. All 50 files were received and reviewed. The 603 violations noted were based on the universe of 116, resulting in an error ratio of 100%.

The following findings were made:

116 Violations Title 75, Pa. C.S. §1791

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

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

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

premiums for the insured's existing coverages. The Company failed to provide the insured with the itemized invoice listing the minimum vehicle insurance coverage levels and the premium charge for the insured to purchase the minimum mandated coverages at the time of application.

116 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 at the time of application.

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

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

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

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

opportunity to elect a tort option. Of the 3 files noted, 2 files did not have any evidence of a signed limited tort selection form. The remaining file had a signed limited tort form, but the Company failed to issue the policy with limited tort rates, resulting in an overcharge of \$109.

3 Violations Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. Of the 3 files noted, two files did not have a written request for lower limits of uninsured and underinsured coverage. For the remaining file, the Company failed to provide lower uninsured and underinsured limits when a written request was made, resulting in an overcharge of \$112.

4 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 4 files noted.

13 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 provide the insured with a surcharge disclosure statement with the premium notice when the rate penalty was in effect for the 13 files noted.

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

Each insurer, not less than 45 days prior to the first renewal of a private passenger automobile policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort insurance and limited tort insurance. This notice shall be a standard form adopted by the Commissioner. Insurers shall print the notice containing both options on one sheet in prominent type and place in a prominent location. The Company failed to provide the proper notice of election of tort options.

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 3,716 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 3,716 violations noted were based on the universe of 3,716 files, resulting in an error ratio of 100%.

The following findings were made:

3,716 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 does provide a notice of

tort options, but the wording for limited tort has been amended and is not verbatim.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 687 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 687 violations noted were based on the universe of 687 files, resulting in an error ratio of 100%.

The following findings were made:

687 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 does provide a notice of tort options, but the wording for limited tort has been amended and is not verbatim.

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. 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 Rating – New Business Without Surcharges

From the universe of 438 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

2. Renewals

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

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

effect at the time.

Homeowner Rating – Renewals Without Surcharges

From the universe of 1,244 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

D. Tenant Homeowners

1. New Business

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

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

Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 82 tenant homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 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 138 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

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 Company failed to rate the policy according their filed and approved rating rules which resulted in an overcharge of \$221.

E. Identity Protection

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 3,788 identity protection certificates written as new business by the Company, 25 files were selected for review. All 25 were received and reviewed. No violations were noted.

F. Baggage Protection

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 5,971 baggage protection policies identified as new business by the Company, 25 files were selected for review. All 25 were received and reviewed. No violations were noted.

G. Travel Delay

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 6,059 travel delay policies identified as new business by the Company, 25 files were selected for review. All 25 were received and reviewed. No violations were noted.

H. Global Travel Shield

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 608 global travel shield policies identified as new business by the Company, 25 files were selected for review. All 25 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. Homeowner Claims
- H. 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 275 private passenger automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

From the universe of 228 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

From the universe of 770 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 175 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 6%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 62.3(e)(1)

Requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company did not calculate the replacement value by using one of the 3 approved methods, which resulted in an overpayment to the claimant.

2 Violations Title 31, Pa. Code, Section 62.3(e)(4)

Requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value. The Company failed to pay the appropriate sales tax. This resulted in an overpayment of \$53.14 and an underpayment of \$148.56.

1 Violation Title 31, Pa. Code, Section 62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy of within 5 days after its completion. The Company did not provide a copy of the total loss evaluation to the insured within 5 working days.

1 Violation 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 Company did not maintain a Pennsylvania certificate of salvage in the file.

E. Automobile First Party Medical Claims

From the universe of 223 private passenger automobile first party medical claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following findings were made:

1 Violation 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 claim within 30 days.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of three automobile first party medical claims that were referred to a Peer Review Organization by the Company was selected for review. The three files were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the experience period. The contracts were received and reviewed. No violations were noted.

G. Homeowner Claims

From the universe of 123 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

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

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

H. Tenant Homeowner Claims

The universe of 6 tenant homeowner claims reported during the experience period was selected for review. All 6 files were received and reviewed. The violation noted resulted in an error ratio of 17%.

The following finding was made:

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

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide a written denial letter within 15 working days of receiving the proof of loss.

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.

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 358 pieces of advertising which included brochures, mail solicitation, email messages, statement messages and newsletters. The Company's website 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 11 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 11 complaints were requested, received and reviewed.

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

The following finding was made:

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

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The file noted did not contain any evidence that a cancellation notice was sent to the insured.

The following synopsis reflects the nature of the 11 complaints that were reviewed.

• 10	Cancellations	91%
• 1	Claim Related	9%
<hr/>		<hr/>
11		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:

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

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

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

Kay Young

*2 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.

Mariah Pizzo
Christa Steeber

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 and refusal to write requirements of Act 68, Sections 2006 and 2008 [40 P.S. §§991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. The Company must review Title 31, Pa. Code, Section 59.9(b) and Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
3. 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.
4. The Company must review Title 75, Pa. C.S. §1791.1(a) violations to ensure that an itemized invoice listing minimum coverages is provided at the time of application, as noted in the Report, and does not occur in the future.

5. 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 is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
6. The Company must review Title 75, Pa. C.S. §1791 to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
7. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.
8. The Company must review Title 75, Pa. C.S. §1791.1(b) violations to ensure that correct notice of tort options is provided at the time of application and every renewal thereafter, as noted in the Report, and does not occur in the future.
9. The Company must review Title 75, Pa. C.S. 1705(a)(1) & (2) to ensure that correct notice of the availability of two alternatives of full tort insurance and limited tort insurance is provided to the insured, as noted in the Report.
10. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.

11. 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.
12. 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 acknowledgement of claims and denials do not occur in the future.
13. 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.
14. The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company must recalculate the claim files noted in the Report and provide claimants with any additional payments due. Proof of the recalculation and any additional payments to claimants must be provided to the Insurance Department within 30 days of the Report issue date.
15. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor vehicle. The Company must review all claims where sales tax was not included in the replacement value of a motor vehicle.

The sales tax 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.

16. The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.
17. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
18. 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.
19. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].
20. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting coverage.

October 11, 2007

Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
Market Conduct Division
C/O Mr. Chester A. Derk
Market Conduct Division Chief
1227 Strawberry Square
Harrisburg PA 17120

3500 Packerland Drive
De Pere, WI 54115-9070

Ameriprise
Insurance Company
IDS Property Casualty
Insurance Company

**RE: Market Conduct Examination
AMEX Assurance Company Warrant Number 05-M17-090
Experience Period: January 1, 2005-December 31, 2005**

Dear Mr. Derk:

We acknowledge receipt of the final report, dated September 12, 2007, and respectfully submit our response to those findings. Our organization recognizes the importance of the Market Conduct Examination process in protecting the interests of consumers. We wish to thank you and your staff for the courtesy and professionalism extended during this examination. We appreciate the opportunity to respond to the Department's analysis and recommendations. We have organized our response in relation to the recommendations set forth in the Report beginning on page 46.

If you have any questions as you review our response and the materials contained herein, please contact us at the number listed below. Thank you for your time and consideration.

Sincerely,

Lisa Chaudoir

Lisa Chaudoir
Legislative Specialist
Ameriprise Insurance Company
IDS Property Casualty Insurance Company
lisa.a.chaudoir@ampf.com
920.330.5670

Recommendation 1 and Findings Within Sections V.A.3, V.A.4, and X of the Report

The Company must review and revise internal control procedures to ensure compliance with cancellation and refusal to write requirements of Act 68, Sections 2006 and 2008 [40 P.S. §991.2006 and §991.2008], so that the violations noted in the Report do not occur in the future.

Title 18, Pa. C.S. §6310.4(d). It is this organization's practice to comply with all cancellation and nonrenewal requirements. We acknowledge that this policy was inadvertently non-renewed due to an underage alcohol related driver's license suspension. We believe this to be an isolated error. However, we have reinforced the appropriate procedures for nonrenewal of policies with our underwriting area in an effort to prevent future occurrences.

Act 68, Section 2008(b) [40 P.S. §991.2008(b)]. We acknowledge that written notices of refusal were not sent in all cases where a verbal application was made. However, we did mail notices of refusals to consumers that made written requests for quotes or made application through our internet website. In 2005, the experience period under examination, written requests for quotes were received and processed by the Sales Support Team. Upon receipt, the Sales Support Team would enter the information contained in the request for quote into the system. The system would underwrite based upon the information initially provided and would automatically generate a notice of refusal to write if the consumer did not satisfy our underwriting guidelines. Therefore, notices of refusal to write would have been sent to these consumers that made a written application. Due to system constraints, however, we are not able to reproduce the letters from 2005.

Similarly, a consumer could obtain a quotation on our internet website. The system would underwrite based upon the information initially provided by the consumer and would decline if the consumer did not satisfy our underwriting guidelines. Overnight, the system would automatically generate the notice of refusal to write and the notice would be mailed to the consumer the next business day. Again, due to system constraints we are unable to reproduce the letters from 2005. We previously submitted to the examiners during the course of the examination a sample of the refusal to write letter that was mailed to those consumers in 2005.

We have changed our retention of these notices since 2005. After the notice is mailed to the consumer, we now microfilm both the notice of refusal to write and the written request for quote. Additionally, we have reviewed the state regulations with our sales department in an effort to prevent future occurrences.

Concern: We do not use age as an underwriting criteria or otherwise discriminate in violation of 40 P.S. §991.2003(a)(1). It is not our current practice to require proof of insurance in the application process. We will modify our guidelines to better represent our practices and intentions.

Act, No. 68, Section 2006 [40 P.S. §991.2006]. This criticism does not relate to the manner in which we maintain our complaint records or our complaint handling procedures, but rather our document retention process. It is this organization's practice to send all nonrenewal/cancellation notices to our policyholders proof of mail. We, however, were unable to locate the non-renewal notice sent to this particular policyholder. Consequently, we offered to renew the policy with no lapse in coverage and did so, pursuant to the policyholder's request. We acted appropriately by reinstating the policy when

we were unable to locate the nonrenewal notice. In lieu of the actual notice, we previously provided the examiners during the course of the examination policy documentation that specifically indicates the reason for nonrenewal.

Recommendation 2 and Findings Within Sections V.C.1, V.C.2, and V.C.3 of the Report

The Company must review Title 31, Pa. Code, Section 59.9(b) and Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.

Title 31, Chapter 59.9(b). It is this organization's practice to comply with the cancellation and nonrenewal requirements of Title 31 and Act 205. We acknowledge that we inadvertently did not provide the required thirty-day cancellation notice.

We have reinforced the statutory thirty-day cancellation requirement with our underwriting department to prevent future occurrences.

Act 205 Section 5(a)(9) [40 P.S. §1171.5 (a)(9)]. This organization does not use credit history, loss history, and ownership of vicious dogs or other dangerous animals as grounds for nonrenewal. A policy may be referred to underwriting for review if certain conditions exist, however, these factors are not used as grounds for non-renewal, rather as occasional opportunities to review other factors. With respect to the ownership of vicious dogs or other dangerous animals we do not underwrite based on the dog breed itself but rather the bite history of the dog, regardless of the breed.

We will modify our guidelines to better represent our practices and intentions.

Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]. We acknowledge that we inadvertently did not provide the required thirty-day cancellation notice.

We have reinforced the statutory thirty-day cancellation requirement with our underwriting department to prevent future occurrences.

Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]. It is this organization's practice to comply with the cancellation and nonrenewal requirements of Act 205. We have reinforced the requirements with our underwriting department to prevent future occurrences.

Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]. We acknowledge that a typographical error gave our policyholders a thirty-day appeal period, rather than the ten day period provided by Pennsylvania law.

We have corrected the typographical error in the Notice of Cancellation or Nonrenewal Form.

Recommendation 3 and Findings Within Section VI.A.1 of the Report

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.

Title 75, Pa. C.S. §1793(b). The issue germane to this discussion is that this law *allows more than one option* to comply with Pennsylvania legally mandated coverage offerings. We do not believe the law requires the execution of a signed selection/rejection form at the time we bind coverage. We believe that our process does comply with Pennsylvania law and section 1793 as it does constitute the “time of application for original coverage.” This organization’s new business application procedures comply with this requirement since the “time of application” set forth in the statute reasonably contemplates a period commencing upon our first contact with the applicant and extending until the application process is completed, as described below.

As a direct writer, our company receives some inquiries over the telephone. During the telephone inquiry a representative discusses with the consumer in great detail their coverage options including mandated state offerings. Oftentimes a quotation is produced. Although we do not require consumers to bind coverage over the telephone, occasionally the consumer will choose to bind coverage at that time. If the consumer so chooses, we will honor this request. The policy is issued based upon the information obtained during the telephone inquiry and is made pending the successful completion of an application and mandatory disclosure forms. The company representative explains to the consumer how to complete the remainder of the application process. This includes reviewing the contents of the new business package with the consumer and the specific forms that must be signed and returned to us. Upon issuance, the new business package is system generated and mailed to the consumer the next business day. The new business package contains the application and the required written disclosure forms, including the notice of available benefits and limits, the itemized invoice listing minimum coverages, notice of tort options, surcharge disclosure plan, and uninsured and underinsured motorist information. In the event the consumer wishes to choose another option or coverage limit upon reviewing the new business package we will honor the change retroactively.

The consumer also has the opportunity to obtain a quote and/or bind coverage on our internet website. In these cases, the consumer has the ability to select their own coverage and limits. All required disclosure forms are provided to the consumer online. Those forms that require a signature are displayed for the consumer and the consumer provides an electronic signature. We provide a link to other required notice forms and provide information regarding insurance fraud. Using the website the consumer has the ability to review the required disclosure forms in depth and print them out for their own records.

This organization has acted in the good faith belief that these actions were compliant with the text and intent of Pennsylvania law. The consumer is promptly provided with all the necessary written information and the consumer has sufficient time to make an informed decision. The consumer is not harmed by receiving these forms by mail as we will honor any coverage modifications the consumer requests.

We were unaware of the Department's interpretation of the application process. Given the Department's interpretation, we may consider procedure modifications that would satisfy the statutory requirements yet meet the needs of our clients.

Recommendation 4 and Findings Within Section VI.A.1 of the Report

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

Title 75, Pa. C.S. §1791.1(a). As stated above, the primary issue is what constitutes the "time of application for original coverage." We acted in the good faith belief that our actions were compliant with the text and intent of Pennsylvania law. An itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the consumer to purchase the minimum mandated coverages, was provided to every consumer during the application period, when it was mailed to the consumer in the new business application packet. A detailed explanation of our application process is outlined above.

Given the Department's interpretation, we may consider procedure modifications that would satisfy the statutory requirements yet meet the needs of our clients.

Recommendation 5 and Findings Within Section VI.A.1 of the Report

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 is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.

Title 75, Pa. C.S. §1799.3(d). In 2003, we implemented and filed with the Department a Surcharge Disclosure Statement. It is our practice to send this statement along with a notice informing the policyholder of the specific amount and reasons for the policy being surcharged. These forms will be mailed to the policyholder for each term that the surcharge is in effect. However, in each of these thirteen policies cited herein there was initially no surcharge to the policy. A subsequent MVR/Clue report revealed activity that was not previously disclosed to us. This activity resulted in a surcharge being added to the policy after issuance. The statement, however, did not produce in this specific situation where a surcharge was added to the policy after issuance.

We have corrected this system issue. Furthermore, since the experience period under examination we have developed online MVR/Clue reporting. We now receive the MVR/Clue results earlier in the process, which should eliminate situations where surcharges are added to the policy after issuance.

Recommendation 6 and Findings Within Section VI.A.1 of the Report

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

Title 75, Pa. C.S. §1791. As previously stated, the primary issue is what constitutes the “time of application for original coverage.” We acted in the good faith belief that our actions were compliant with the text and intent of Pennsylvania law. A notice of available benefits and limits was provided to every consumer during the application period when it was mailed to the consumer in the new business application packet. A detailed explanation of our application process was previously outlined.

Given the Department’s interpretation, we may consider procedure modifications that would satisfy the statutory requirements yet meet the needs of our clients.

Recommendation 7 and Findings VI.A.1 of the Report

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

Title 75, Pa. C.S. §1734. Pursuant to our new business application procedures, the required UM and UIM forms are system generated and mailed to the policyholder in the new business package. Follow-up is made on each policy where the form is not returned. In the event the uninsured and underinsured motorist forms are not returned by the policyholder, our standard procedure is to endorse the uninsured and underinsured motorist coverage to the same limits as the bodily injury liability coverage if the limits are lower. Similarly, if the signed waiver of stacked limits of uninsured and underinsured motorist coverage is not received from the policyholder, follow-up is made on each policy. In the event the insured fails to return the forms, our standard procedure is to endorse the policy to stacked limits for both uninsured and underinsured motorist coverage if they are at non-stacked limit levels.

Pursuant to our new business application procedures, the required UM and UIM forms were system generated and mailed to the policyholder in the new business package. The signed forms were not completed nor were they returned to us by the policyholder. We set the new business policy to cancel within the first 60 days of coverage due to driving history that was subsequently identified. Due to the pending cancellation, we did not increase the uninsured and underinsured coverage to match the bodily injury liability nor did we endorse the policy to stacked limits, which would have increased the policyholder’s premium.

We have reinforced the requirements of Title 75 §1734 with our underwriting area to prevent future occurrences.

Recommendation 8 and Findings Within Section VI.A.1 of the Report

The Company must review Title 75, Pa. C.S. §1791.1(b) violations to ensure that correct notice of tort options is provided at the time of application and every renewal thereafter, as noted in the Report, and does not occur in the future.

Title 75, Pa. C.S. §1791.1(b). As previously stated, the primary issue is what constitutes the “time of application for original coverage.” We acted in the good faith belief that our actions were compliant

with the text and intent of Pennsylvania law. A notice of the availability of two alternatives of full tort insurance and limited tort insurance was provided to every consumer during the application period when it was mailed to the consumer in the new business application packet. A detailed explanation of our application process is outlined in the previous section.

Given the Department's interpretation, we may consider procedure modifications that would satisfy the statutory requirements yet meet the needs of our clients.

Recommendation 9 and Findings Within Section VI.A.2 of the Report

The Company must review Title 75, Pa. C.S. §1705(a)(1)&(2) to ensure that correct notice of the availability of two alternatives of full tort insurance and limited tort insurance is provided to the insured, as noted in the Report.

Title 75, Pa. C.S. §1705(a)(1) & (2). During the experience period in question, we supplemented the Selection of Tort Option form with a second form called the Notice of Tort Options. This form notified the policyholder of the availability of both alternatives of full or limited tort options. Therefore, the intent of the statute was being satisfied as the policyholders were being provided with all the information necessary to make an informed decision. The policyholders were not harmed as they still received notice of both tort options available to them.

Since the 2005 experience period but before this examination, a new form was created and filed with the Department. A copy of our new form filing and the Department's approval was previously provided to the examiners during the course of the examination. This form also contains both tort options.

Recommendation 10 and Findings Within Section VI.A.1 of the Report

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

Title 75, Pa. C.S. §1705(a)(1) & (4). In December 1999, our Compliance Department sought the advice of the Pennsylvania Insurance Department in interpreting the record keeping requirements of 40 P.S. 323.3. We were advised by Dan Wolf and Roger Alese at the Department that we had to send the Pennsylvania Important Notice form (Act 6 form) to the insured with the application and in the event the form was not returned we should endorse the Partial Tort policy to a Full Tort policy. Our practice includes follow-up contact with the insured to obtain the return of each application and signed form prior to endorsing the policy to Full Tort.

We acknowledge that two of the policies cited herein should have been endorsed to Full Tort as we did not receive the signed forms from the policyholders. The third policy should have been reduced to

limited tort, pursuant to the policyholder's request. Upon learning of this oversight, we endorsed this policy back to its inception date and reimbursed the policyholder for their current and previous terms. Supporting documentation was previously submitted to the examiners during the course of the examination.

We have reinforced the requirements of Title 75 with the underwriting area to prevent future occurrences.

Recommendation 11 and Findings Within Section VI.A.1 of the Report

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)&(2) do not occur in the future.

Title 75, Pa. C.S. §1738(d)(1) & (2). Pursuant to our new business application procedures, the required UM and UIM forms are system generated and mailed to the policyholder in the new business package. Follow-up is made on each policy where the form is not returned. In the event the uninsured and underinsured motorist forms are not returned by the policyholder, our standard procedure is to endorse the uninsured and underinsured motorist coverage to the same limits as the bodily injury liability coverage if the limits are lower, pursuant to the default procedures described in Section 1738. Similarly, if the signed waiver of stacked limits of uninsured and underinsured motorist coverage is not received from the policyholder, follow-up is made on each policy. In the event the insured fails to return the forms, our standard procedure is to endorse the policy to stacked limits for both uninsured and underinsured motorist coverage if they are at non-stacked limit levels, pursuant to the default procedures implied in Section 1738.

With respect to the policies cited herein, the required UM and UIM forms were system generated and mailed to the policyholder in the new business package pursuant to our new business application procedures. The signed forms were not completed nor were they returned to us by the policyholder. In two of the policies, we set the new business policy to cancel due to driving history that was subsequently revealed. Due to the pending cancellation, we did not process an increase for the uninsured and underinsured coverage to match the bodily injury liability nor did we endorse the policy to stacked limits, which would have increased the policyholder's premium.

In the remaining policies, we acknowledge that the coverages should have remained stacked as the signed forms were not received.

We have reinforced the requirements of Title 75 with our underwriting area to prevent future occurrences.

Recommendation 12 and Findings Within Sections VII.G and VII.H of the Report

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 acknowledgement of claims and denials do not occur in the future.

Title 31, Pa. Code, Section 146.5(a). We acknowledge that the claim representative did not acknowledge the claim within ten working days. However, this was an isolated error, committed by an individual who is no longer employed in this capacity.

Title 31, Pa. Code, Section 146.7(a)(1). We acknowledge that the denial letter was not sent in this case. However, this was an isolated error, committed by an individual who no longer acts in this capacity.

Title 31, Pa. Code, Section 146.7(a)(1). We acknowledge that the claim representative did not provide a denial letter to the insured within fifteen days of receiving proof of loss. Although the representative did follow up the verbal discussion with a written denial, it was not provided within fifteen working days of receiving proof of loss.

A review of our claims procedures has been completed and a communication distributed to all claims leaders to reiterate the requirements of Title 31. Additional total loss compliance training is being completed. Claims leadership conducts monthly file reviews which focus on compliance and serve to provide leadership with examples for training adjusters on state compliance. Leadership will continue to stress the importance of these issues in their monthly file reviews.

Recommendation 13 and Findings Within Section VII.E of the Report

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.

Title 31, Pa. C.S. §69.52(b). We acknowledge that we failed to pay one medical bill within thirty days. However, we did recognize this oversight and paid interest on this bill promptly.

This was an isolated error, and the issue has been addressed directly with the individual involved. Furthermore, a review of our claims procedures has been completed and a communication distributed to all claims leaders to reiterate the requirements of Title 31.

Recommendation 14 and Findings Within Section VII.D of the Report

The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company must recalculate the claim files noted in the Report and provide claimants with any additional payments due. Proof of the recalculation and any additional payments to claimants must be provided to the Insurance Department within 30 days of the Report issue date.

Title 31, Pa. C.S. §62.3(e)(1). We acknowledge that the total loss calculation was inadvertently based upon the local market value in L.A. Basin and the state of California rather than Pennsylvania. Upon further investigation, we determined that the vehicle owner benefited from this oversight and nothing further was owed to the vehicle owner. Supporting documentation was previously provided the examiners during the course of the examination.

This was an isolated error, and the issue has been addressed directly with the individual involved. Furthermore, a review of our claims procedures has been completed and a communication distributed to all claims leaders to reiterate the requirements of Title 31. Additional total loss compliance training is being completed.

Recommendation 15 and Findings Within Section VII.D of the Report

The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor vehicle. The Company must review all claims where sales tax was not included in the replacement value of a motor vehicle. The sales tax must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issued date.

Title 31, Pa. C.S. §62.3(e)(4). It is this organization's practice to include sales tax in the settlement of total loss claims. Sales tax was included with the claim payments, however, the incorrect percent of sales tax was paid in two out of the fifty claims reviewed in this examination. As a result, one policyholder benefited from this oversight, and we reimbursed the remaining policyholder a total of \$148.56. Supporting documentation was previously provided to the examiners during the course of the examination.

A review of our claims procedures has been completed and a communication distributed to all claims leaders to reiterate the requirements of Title 31. Additional total loss compliance training is being completed. Furthermore, a total loss calculator has been implemented which pulls in the correct sales tax owed based upon the zip code.

Recommendation 16 and Findings Within Section VII.D of the Report

The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.

Title 31, Pa. C.S. §62.3(e)(7). We acknowledge that the total loss evaluation was not sent timely. A copy of the evaluation was sent to the vehicle owner but it was not delivered within the required five working days.

This was an isolated error, and the issue has been addressed directly with the individual involved. Furthermore, a review of our claims procedures has been completed and a communication distributed

to all claim leaders to reiterate the requirements of Title 31. Additional total loss compliance training is being completed.

Recommendation 17 and Findings Within Section VII.D of the Report

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

Title 75, Pa. C.S. §1161(a)(b). The salvage dealer applied for and obtained the salvage title on our behalf. However, this dealer is no longer in business and we do not have access to their records. To date we have been unable to obtain this documentation. We continue to pursue other avenues for obtaining this documentation from this particular salvage dealer.

This was an isolated error. A review of our claims procedures has been completed and a communication distributed to all claims leaders to reiterate the requirements of Title 75. Additional total loss compliance training is being completed.

Recommendation 18 and Findings Within Section XI of the Report

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.

Act, No. 147, Section 641.1-A [40 P.S. §310.41a]. This organization has safeguards in place to ensure that all producers are properly licensed and appointed. Since the experience period of this examination, this producer has been properly licensed and appointed.

Act, No. 147, Section 671-A [40 P.S. §310.71a]. Both appointments were properly submitted and both producers were properly licensed prior to this examination.

Recommendation 19 and Findings Within Section IV of the Report

The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

Act 205 Section 5(a)(7)(iii) [40 P.S. §1171.5 (a)(7)(iii)]. We do not use marital status as an underwriting criteria or otherwise discriminate in violation of 40 P.S. §1171.5(a)(7)(iii). The co-hab guideline currently being enforced in Pennsylvania is contained in the underwriting guidelines edition date 06/10/04. Those guidelines were previously provided to the examiners during the course of this examination.

Recommendation 20 and Findings Within Section IV of the Report

The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting coverage.

Act 205 Section 5(a)(4) [40 P.S. §1171.5 (a)(4)]. We acknowledge the criticism regarding the Motor Home "Stand Alone" policy contained within our 11/15/02 Auto Insurance Guidelines. We have modified this guideline.

However, there is no reference to a supporting business requirement for secondary residences in the Pennsylvania guidelines edition date 06/10/04. The guideline currently being enforced in Pennsylvania is contained in the underwriting guidelines edition date 06/10/04. Those guidelines were previously provided to the examiners during the course of this examination.

Other Finding Within Section VI.D.2 of the Report

Act 246, Section 4(h) [40 P.S. 1184]. We acknowledge that when the insured called in to report an address change we did not update the territory. As a result of this oversight, we concluded our policyholder was overcharged a total of \$221.00. To correct this issue, we updated the current policy term with the correct address and territory information. The change was backdated to the beginning of the policy term and the policyholder's remaining payments will be reduced to reflect the accurate premium. To account for the overpayment during the prior terms, we requested a manual check to be issued to our policyholder in the amount of \$221. Supporting documentation was previously provided to the examiners during the course of the examination.