

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

AMICA MUTUAL INSURANCE COMPANY
Lincoln, Rhode Island

**AS OF
May 5, 2005**

COMMONWEALTH OF PENNSYLVANIA

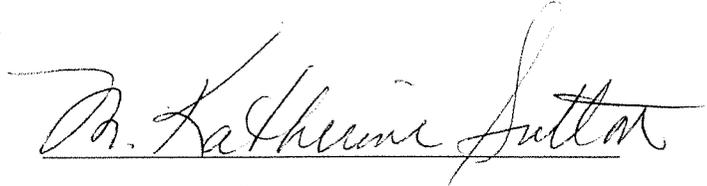


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 30, 2005

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).

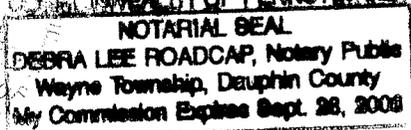


M. Katherine Sutton

Sworn to and Subscribed Before me
This 18th Day of February, 2005

Debra Lee Roadcap

Notary Public



AMICA Mutual Insurance Company

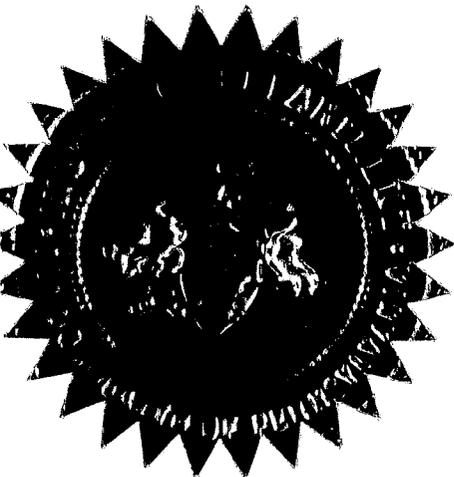
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
M. Diane Koken
Insurance Commissioner

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Amica Mutual Insurance Company, and maintains its address at 100 Amica Way, Lincoln, Rhode Island 02865.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2003 through December 31, 2003.

- (c) On May 5, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on June 6, 2005.
- (e) The Examination Report notes violations of the following:
- (i) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;
 - (ii) Section 1716 of Act 1990-6, Title 75, Pa.C.S. §1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

- (iii) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;
- (iv) Section 1738(c)(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;
- (v) 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 the time of application;
- (vi) 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;

(vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires, in addition to the invoice required under subsection (a), an insured must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the following notice of the availability of two alternatives of full tort insurance and limited tort insurance;

(viii) Section 1793(b)(1)(2) 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 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;

- (ix) 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;
- (x) 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;
- (xi) Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires a company to maintain a complete record of all the complaints which it has received during the preceding four years. This record shall indicate the total number of complaints, their classifications by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint;
- (xii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2006), which requires that no insurer shall cancel a policy of automobile insurance except for

nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;

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

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

(xv) Title 31, Pennsylvania Code, Section 62.3(e), which requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value;

- (xvi) 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;
- (xvii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;
- (xviii) Title 75, Pennsylvania Consolidated Statutes, Section 1161(a) and (b), which states:
- (a) Except as provided in sections 1162 and 1163, a person who owns or possesses or transfers a vehicle located or registered in this Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle, and
- (b) 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. If an owner retains possession of a vehicle which is damaged to the extent that it qualifies for vehicle replacement payment, the owner shall apply for a certificate of salvage immediately. In this case, an insurer shall not pay vehicle replacement value until the owner produces evidence to the insurer that the certificate of salvage has been issued; and

- (xix) Title 75, Pa. C.S. § 1822, which requires, not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

CONCLUSIONS OF LAW

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

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

- (b) Violations of Section 623 of the Insurance Department Act (40 P.S. § 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
 - (iii) issue an order to cease and desist.
 - (iv) impose such other conditions as the department may deem appropriate.

- (c) Respondent's violations of Sections 5(a)(9)(iv) and 5(a)(11) 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 Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Sections 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (f) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay 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. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square,

Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

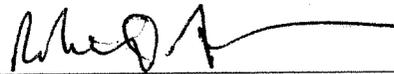
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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

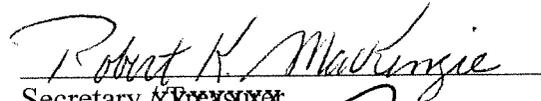
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

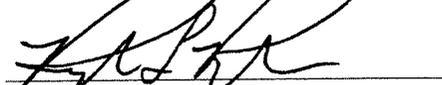
BY: AMICA MUTUAL INSURANCE
COMPANY, Respondent



President / ~~XXXXXX~~
Robert A. DiMuccio



Secretary / ~~XXXXXX~~
Robert K. MacKenzie


RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct examination was conducted on AMICA Mutual Insurance Company, at their offices in Blue Bell, Pennsylvania, from May 12, 2004, through June 17, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

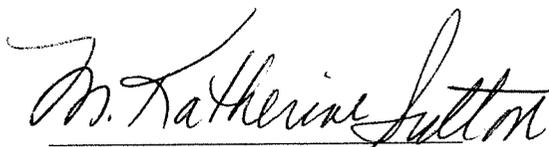
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

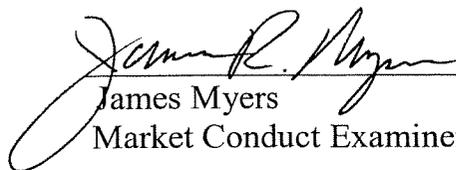
The undersigned participated in this examination and in preparation of this Report.



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



M. Katherine Sutton A.I.C.
Examiner in Charge



James Myers
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct examination was conducted on AMICA Mutual Insurance Company, hereinafter referred to as “Company”, at their offices located at Blue Bell, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. § 323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2003, through December 31, 2003, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Automobile

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

2. Personal Lines Property

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

3. Claims

- Standards for prompt, fair and equitable settlements.
- Use of proper Peer Review procedures.

4. Forms

5. Advertising

6. Consumer Complaints

7. Licensing

III. HISTORY AND LICENSING

The Automobile Mutual Insurance Company of America was incorporated in 1907, under the laws of Rhode Island. AMICA Mutual Insurance Company represents the consolidation of the former Automobile Mutual Insurance Company of America and the Factory Mutual Liability Insurance Company of America, both of Providence, Rhode Island. The two carriers were consolidated under the title of Amica Mutual Insurance Company effective December 31, 1972.

LICENSING

AMICA Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in the District of Columbia and all states except Hawaii. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$41,436,810. Premium volume related to the areas of this review were: Fire & Allied Lines \$120,280; Homeowners' Multi Peril \$8,490,518; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Automobile No-fault \$2,239,952; Private Passenger Auto Liability \$17,041,067 and Private Passenger Auto Physical Damage \$12,064,685.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, dwelling fire and private passenger automobile. 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.

No violations were noted.

V. UNDERWRITING

A. Private Passenger Automobile

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. 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.

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days after initial issue.

The Company reported 2 private passenger automobile policies cancelled within the first 60 days after being issued as new business. Both files were selected, received and reviewed.

No violations were noted.

2. Mid-term Cancellations

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

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

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

The Company reported 10 private passenger automobile policies cancelled mid-term. All 10 were selected, received and reviewed. One violation was noted, resulting in an error ratio of 10%.

1 Violation Act 68, Section 2004 [40 P.S. §991.2004 (1)(2)(3)] Valid Reasons to Cancel Policy. An insurer may not cancel a policy except for one or more of the following specified reasons:

- (1) Nonpayment of premium;
- (2) The driver's license or motor vehicle registration of the named insured has been under suspension or revocation during the policy period; the applicability of this reason to one who either is a resident in the same household or who customarily operates an automobile insured under the policy shall be proper reason for the insurer thereafter excluding such individual from coverage under the policy, but not for cancelling the policy.
- (3) A determination that the insured has concealed a material fact, or has made a material allegation contrary to fact, or has made a misrepresentation of a material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The violation noted was due to the suspension of the drivers license not being within the policy period of the cancellation date.

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 42 private passenger automobile policies reported as nonrenewed by the company during the experience period, was selected, received and reviewed. Of the 42 files received for review, 1 file was identified as a mid-term cancellation. The 2 violations noted were based on 2 files, resulting in an error ratio of 5%.

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

The file noted contained a reason for cancellation that was not specific.

1 Violation Act 68, Section 2004 [40 P.S. §991.2004] - Valid reasons to cancel policy. An insurer may not cancel a policy except for one or more of the following specified reasons:

(1) Nonpayment of premium.

(2) The driver's license or motor vehicle registration of the named insured has been under suspension or revocation during the policy period; the applicability of this reason to one who either is a resident in the same household or who customarily operates an automobile insured under the policy shall be proper reason for the insurer thereafter excluding such individual from coverage under the policy, but not for cancelling the policy.

(3) A determination that the insured has concealed a material fact, or has made a material allegation contrary to fact, or has made a misrepresentation of a material fact and that

(4) such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer.

The file noted was cancelled at mid-term for an improper reason.

4. Refusal to Write

A refusal to write is any application that is received by the Company and declined or refused and no policy was issued.

The Company reported no refusals to write during the experience period.

B. Personal Property

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, Section 5(a)(9) which establishes conditions under which action by the insurer is prohibited and the requirements which must be met regarding the form and conditions of the cancellation notice as well as Title 31, Pa. 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.

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 Company identified one policy which was cancelled within the first 60 days of new business during the experience period. The file was requested, received and reviewed. One violation was noted, resulting in an error ratio of 100%.

1 Violation Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. Such notice shall: Advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The violation resulted from failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.

2. Mid-term Cancellations

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

The Company identified 7 homeowner policies, which were cancelled mid-term during the experience period, was selected for review. All 7 files requested were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 100%.

7 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. Such notice shall: Advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The violations resulted from failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.

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 Company identified 5 homeowner policies, which were nonrenewed during the experience period. All 5 files were requested, received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 100%.

5 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. Such notice shall: Advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The violations resulted from failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.

VI. RATING

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.

A. Private Passenger Automobile

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.

1. New Business - Without Surcharges

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

From the universe of 1,789 private passenger automobile policies reported by the Company as new business without surcharges, 75 policies were selected. The 8,945

violations noted were based on the universe of 1,789 files, resulting in an error ratio of 100%.

1,789 Violations Title 75, Pa. C. S. §1791. Notice of available benefits and limits. It shall be presumed that the insured has been advised of the benefits and limits available under this chapter provided the following notice in bold print of at least ten point type is given to the applicant at the time of application for original coverages, and no other notice or rejection shall be required. (refer to statute for specific language of IMPORTANT NOTICE) The violations resulted from failure to provide the notice at the time of application as required.

1,789 Violations Title 75, Pa. C. S. §1791.1(a) Disclosure of premium charges. Invoice. – At the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type:
The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages. The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The violations resulted from failure to provide the Minimum Limits Invoice at the time of application as required.

1,789 Violations Title 75, Pa. C.S. §1791.1(b) Disclosure of tort options. Notice of tort options. In addition to the invoice required under subsection (a), an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the notice of the availability of two alternatives of full tort and limited tort insurance. The violations resulted from failure to provide the disclosure of tort options at the time of application as required.

1,789 Violations Title 75, Pa. C.S. §1793(b)(1)(2) – Surcharge disclosure plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

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

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

1,789 Violations Title 75, Pa. C.S. §1738 (c)(d)(1)(2) Forms.

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

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

There was no evidence the Company was in compliance with this requirement.

2. New Business - With Surcharges

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

From the universe of 146 personal automobile policies identified as new business with surcharges during the experience period, 50 files were selected, were received and reviewed. The 876 violations noted were based on the universe of 146 files, resulting in an error ratio of 100%.

146 Violations Title 75, Pa. C.S. §1799.3(d) – Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The violations resulted from failure to provide a surcharge disclosure statement listing the dates of accidents and violations and the amount of surcharge on the premium notice.

146 Violations Title 75, Pa. C.S. §1791.1(a) - Invoice. At the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the

premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages". The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premium for the insured's existing coverages. The violations resulted from failure to provide the Minimum Limits Invoice at the time of application as required.

146 Violations Title 75, Pa. C.S. §1793(b)(1)(2) – Surcharge disclosure plan. All insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:

(1) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder.

(2) The number of years any surcharge will be in effect

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

146 Violations Title 75, Pa. C.S. §1791.1(b) Disclosure of tort options.

(b) Notice of tort options. – In addition to the invoice required under subsection (a), an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the notice of the availability of two alternatives of full tort and limited tort insurance. The violations resulted from failure to provide disclosure of tort options at the time of application.

146 Violations Title 75, Pa. C.S. §1791 – Notice of available benefits and limits. It shall be presumed that the insured has been advised of the benefits and limits available under this chapter provided the notice in bold print of at least ten-point type is given to the applicant at the time of application for original coverage and no other notice or rejection shall be required. (refer to statute for specific language of IMPORTANT NOTICE). The violations resulted from failure to provide the available benefits and limits at the time of application.

146 Violations Title 75, Pa. C.S. § 1731 (b) and (c) - Uninsured and underinsured motorist coverage. Uninsured and underinsured motorist coverage shall provide protection for persons who suffer injury arising out of the maintenance or use of a motor vehicle and are legally entitled to recover damages therefore from owners or operators of uninsured or underinsured motor vehicles. The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. There was no evidence the Company was in compliance with this requirement.

3. Renewals Without Surcharges

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

From the universe of 12,135 private passenger automobile policies reported as renewal business without surcharges, 100 policies were selected, received and reviewed. No violations were noted.

4. Renewals With Surcharges

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

From the universe of 1,498 personal automobile policies identified as renewals with surcharges by the Company, 75 files were selected, were received and reviewed. The 1,498 violations noted were based on the universe of files, resulting in an error ratio of 100%.

1,498 Violations Title 75, Pa. C.S. §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The violations resulted from failure to provide a surcharge disclosure statement listing the dates of accidents and violations and the amount of surcharge on the premium notice.

B. Personal Property

The Company processes and issues personal property 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 territory assignments, fire protection classifications, dwelling construction and base premiums, the examiners were able to determine compliance with the Company's filed and approved rating plans

1. Homeowner – 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.

From the universe of 1,170 homeowner policies written as new business during the experience period, 100 files were selected, received and reviewed. No violations were noted.

2. Homeowner – 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.

From the universe of 7,664 homeowner policies renewed during the experience period, 100 files were selected, received and reviewed. No violations were noted.

3. Dwelling Fire – 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 universe of 69 dwelling fire policies written as new business during the experience period was selected, received and reviewed. No violations were noted.

4. Dwelling Fire – 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.

From the universe of 248 dwelling fire policies renewed during the experience period, 100 files were selected, 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 Comprehensive Claims
- B. Automobile Collision Claims
- C. Automobile Property Damage Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Peer Review Organizations
- G. Personal Property 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 Comprehensive Claims

From a universe of 2,783 comprehensive claims reported during the experience period, 100 files were selected, received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 4%.

4 Violations Title 31, Pa Code, Section 146.6 - Standards for prompt investigation of claims. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The files noted did not evidence status letters were sent as required.

B. Automobile Collision Claims

From a universe of 1,982 collision claims reported during the experience period, 75 files were selected, received and reviewed. No violations were noted.

C. Automobile Property Damage Liability Claims

From a universe of 274 property damage liability claims reported during the experience period, 75 files were selected, received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 5%.

4 Violations Title 31, Pa Code, Section 146.6 - Standards for prompt investigation of claims. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The files noted did not evidence status letters were sent as required.

D. Automobile Total Loss Claims

From a universe of 447 total loss claims reported during the experience period, 50 files were selected, received and reviewed. The 4 violations noted were based on 2 files, resulting in an error ratio of 4%.

2 Violations Title 75, Pa. C.S. § 1161(a) & (b)

(a) Except as provided in sections 1162 and 1163, a person, including an insurer or self-insurer as defined in section 1702, who owns, possesses or transfers a vehicle located or registered in this Commonwealth which qualifies as a salvage vehicle shall make application to the department for a certificate of salvage for that vehicle.

(b) 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. If an owner retains possession of a vehicle which is damaged to the extent that it qualifies for vehicle replacement payment, the owner shall apply for a certificate of salvage immediately. In this case, an insurer shall not pay vehicle replacement value until the owner produces evidence to the insurer that the certificate of salvage has been issued. The Company paid the replacement value of the vehicle while only holding back the sales tax for the title. Titles were never delivered to the Company.

2 Violations Title 31, Pa. Code, Section 62.3(e)(5) Requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value. The files noted reflected the sales tax was withheld pending receipt of the title.

E. Automobile First Party Benefits Claims

From a universe of 470 first party benefit claims reported during the experience period, 50 files were selected, received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 6%.

2 Violations Title 31, Pa. Code, Section 69.52(b) – An insurer shall make a referral to a PRO within 90 days of the insurer’s receipt of sufficient documentation supporting the bill. An insurer shall pay bills for care that are not referred to a PRO within 30 days after the insurer receives sufficient documentation supporting the bill. If an insurer makes its referral after the 30th day and on or before the 90th day, the provider’s bill for care shall be paid. The violations resulted from failure to pay medical bills within 30 days.

3 Violations Title 75, Pa. C.S. §1716 – Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of the benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The violations resulted from failure to pay interest on first party medical bills, when the bills are not paid within 30 days.

F. Automobile - Peer Review Organizations (PRO)

The purpose of this review was to determine compliance with Title 75, Pa. C.S. 1797(b)(1) Peer review plan for challenges to reasonableness and necessity of treatment which states that insurers shall contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person.

The Company was requested to provide copies of any contracts with the Peer Review Organization they have contracted. A Peer Review contract was provided.

From a universe of 12 first party benefits claims referred for Peer Review reported during in the experience period, all 12 files were selected, received and reviewed. No violations were noted.

G. Personal Property

From a universe of 1,207 personal property claims reported during the experience period, 67 files were selected, received and reviewed. The files consisted of 1,190 homeowner files and 17 dwelling claims. The 9 violations noted were based on 9 files, resulting in an error ratio of 13%.

9 Violations Title 31, Pa Code, Section 146.6 Standards for prompt investigation of claims. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The files did not evidence status letters were sent as required.

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 (Title 18 Pa. C.S. § 4117)(k)(1) and Title 75, Pa. C.S. § 1822 which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following forms violations were noted.

9 Violations Title 75, Pa. C.S., §1822 Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following:

"Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." Five violations resulted from failure to provide fraud statement at the time of application. Four of the Company's automobile claim forms did not contain a fraud warning as required.

59 Violations Title 18, Pa. C.S. §4117(k)(1) Insurance forms and verification of services. All applications for insurance and all claim forms shall contain or have attached thereto the following notice: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. Of these 59 violations, 57 dwelling fire files did not contain a fraud warning with the application for new business. Two homeowner claim files contained a loss report without the required fraud warning.

IX. CONSUMER COMPLAINTS

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 evidence 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 Company was asked to provide a record of all complaints which it had received during the preceding four years.

1 Violation Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)] – Failure of any person to maintain a complete record of all the complaints which it has 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. For purposes of this paragraph, “complaint” means any written communication primarily expressing a grievance. The claim complaint register did not include the time it took to process each complaint.

The universe of 34 complaints received by the Company during the experience period of January 1, 2003, through December 31, 2003, was selected for review in order to verify compliance with The Unfair Insurance Practices Act No. 205.

All 34 complaint files were received and reviewed.

The following violation was noted.

1 Violation Title 31, Pa. Code, Section 146.6 – Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violation resulted from failure to provide either a 30 day or 45 day status letter in the claim file reviewed.

The following synopsis reflects the nature of the 34 complaints that were reviewed.

•	12	Premium	36%
•	9	Cancellation Related	26%
•	9	Claims Related	26%
•	<u>4</u>	Service Related	<u>12%</u>
	34		100%

X. ADVERTISING

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, Pa. Code, Section 51.61.

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period. The Company advised they did not use any print advertising.

The Company used the internet exclusively to reach potential customers. The Company's internet site was reviewed.

No violations were noted.

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to to Section 605 (40 P.S. §235), Section 623 (40 P.S. §253) of the Insurance Department Act and Insurance Department Act, No. 147, Sections 671-A (40 P.S. §310.71a) and 641-A (40 P.S. § 310.41a), the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. In addition to these lists provided by the Company, underwriting files and rating files were checked to verify proper licensing and appointment.

2 Violations Insurance Department Act, Section 623 (40 P. S. §253) Doing Business with Unlicensed Brokers. Any entity or the appointed agent of any entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following agents could not be verified as having a Certificate of Qualification or a Broker's License.

Rebecca M. Perreault

Linda J. Reeves

XII. RECOMMENDATIONS

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2004 and 2006, [40 P.S. §§991.2004 and 2006] and Act 205, Section 5(a)(9) (40 P.S. §1171.5(a)(9) so that the violations noted in the report do not occur in the future.
2. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that violations of providing an itemized invoice listing minimum coverages and tort options at the time of application, 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. When a surcharge is imposed on a private passenger automobile policy the Company must identify the dates of accidents and citations as part of the surcharge disclosure notice to the insured, in accordance with Title 75, Pa. C.S. §1799.3(d). This procedure must be implemented within 30 days of the Report issue date.
5. 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 noted in the Report do not occur in the future.
6. The Company must review and revise internal procedures to ensure the complaint logs meet the requirements of Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)].

7. The Company should review and put into place procedures to ensure required fraud warning notices are provided on automobile applications and claim forms as required by Title 75, Pa. C.S. § 1822 and property applications and claim forms as required by Title 18, Pa. C.S. §4117(k)(1).
8. The Company must ensure all producers are properly licensed and appointed, as required by Insurance Department Act.
9. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms and obtained at the time of application and retained with the underwriting file. This is to ensure that violations noted under Act 1990-6, Section 9, Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.
10. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage at the time of application, by signing written rejection forms. This is to ensure that violations noted under Act 1990-6, Section 12, Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.

XIII. COMPANY RESPONSE



June 3, 2005

UPS OVERNIGHT DELIVERY

Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
c/o Mr. Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief
1321 Strawberry Square
Harrisburg, PA 17120

**Re: Market Conduct Examination for Amica Mutual Insurance Company
Examination Warrant Number: 04-M17-004
Experience Period: January 1, 2003 – December 31, 2003**

Dear Mr. Derk:

This is in regard to your "Report of Examination of Amica Mutual Insurance Company" dated May 5, 2005. We wish to take this opportunity to respond to your findings and recommendations as follows:

**Recommendation 1 and Findings Found in Sections V.A.2; V.A.3; V.B.I; V.B.2;
V.B. 3:**

It is Amica Mutual Insurance Company's practice to comply with all the cancellation notice requirements of Acts 205 and 68, and we are currently in compliance with these requirements.

Typographical errors in our letterwriting program, however, gave our insureds a 20 day appeal period, rather than the 10 day period established under Pennsylvania law (Act 205). This was a repeated error noted in the exam feedback for notices sent out during the examination period. After the exam period, but prior to the exam, Amica's internal quality control discovered this error and corrected it. The proper appeal period is stated in our current cancellation letter.

You also found two files related to Act 68 that did not involve the extra notice given by Amica. One case was due to an interpretation of the Act. The other case involved an oversight in not offering a Named Driver Exclusion.

As always, Amica institutes quality control measures to ensure compliance with all regulations.

Recommendation 2 and Findings Found in Sections VI.A.1; and VI.A.2:

The issue central to this Recommendation is the question is when does the “time of application for original coverage” occur during the application process. For the reasons stated below, it remains Amica Mutual Insurance Company’s position that we are in full compliance with the statutes cited by the Department. As a result, no change is required on our part. An itemized invoice listing minimum coverages and notice of tort options were offered at the time of application throughout the exam period.

As a direct writer, Amica Mutual Insurance Company takes telephone inquires over the telephone. During the telephone inquiry an Amica representative educates the applicant as to their coverage options and discusses the mandatory state disclosure requirements. Amica takes the education portion of the inquiry process very seriously. This education process includes in substance the disclosures required by the state. In fact, Pennsylvania Department of Insurance Examiners noted to us they were impressed by the high quality of the education we provide the applicant during the inquiry. This education process is one of the reasons groups such as *Consumer Reports* and J.D. Power consistently rank Amica as number one in customer service.

Often a quotation is produced at the inquiry stage. After the quotation Amica will sometimes bind coverage over the telephone. This binder is based upon the information developed during the inquiry and is made pending the successful completion of an application. In most cases, the binder is for a future effective date. Typically, the application package and binder is mailed to the applicant the same day the temporary binder is issued over the telephone. The application package contains the required disclosures in written form, such as the itemized invoice listing minimum coverages, notice of tort options, surcharge disclosure plan, Uninsured Motorist information and Underinsured Motorist information.

Amica will cancel the binder of coverage if the applicant/insured does not sign and return the application package and all required forms. If upon receiving the application package the applicant wishes to choose another option or limit connected to the required disclosures, Amica will retroactively (back to the date we bound coverage) honor changes in the insurance package. Once again, if the upon receiving the application package the applicant wishes to cancel coverage as a result of what they learned after reading one of the mandatory disclosures, Amica would at the direction of the applicant cancel the policy without charge.

It remains our position that this procedure complies with the letter and intent of the statutory requirements of providing these notices “at the time of application.” As a direct writer, Amica conducts most all of its new business application procedures by telephone. The written notices are provided to applicants at the same time the application is sent out for review and signature. In many cases the applicant will receive the required forms prior to the policy effective date. In no case will the applicant be disadvantaged by receiving this form by mail with the application, as Amica will in all cases modify coverage as requested by an applicant upon their receipt of the required forms.

Recommendation 3 and Findings Found in Sections VI.A.I; VI.A.2:

As stated in the Response to Recommendation 2, the issue central to Recommendation 3 is the question of when an applicant receives and completes an application. It is Amica Mutual Insurance Company's position that we are in full compliance with the regulations cited by the Department. As a result, no change is required on our part. A surcharge disclosure plan was "given", as required by statute, at the time of application during the exam period by placing such notice in the mail to the applicant.

Amica Mutual Insurance Company's inquiry and application process is outlined in our Response to Recommendation 2.

Recommendation 4 and Findings Found in Sections VI.A.2; VI.A.4:

Amica Mutual Insurance Company has provided our automobile policy named insureds who have received automobile surcharges information outlining the manner in which the surcharge was made and the amount of the surcharge, as prescribed by 1799.3(d). It is our understanding you wish us to also include the date of the surcharge incident in our notice. We have already begun programming this change to provide this additional information.

Recommendation 5 and Findings Found in Section VII.:

Upon receipt of the "Initial Summaries" report the Branch Claims Managers of our two Pennsylvania offices created an action plan to review Title 31, Pennsylvania Code, and Chapter 146, Unfair Claims Settlement Practices on a semi-annual basis. The semi-annual reviews are designed to eliminate a repeat of the violations cited in the report.

Recommendation 6 and Findings Found in Section IX.:

As part of the aforementioned action plan each Branch Manager has reviewed Act 205, Section 5 (a) (11) [40 P.S. &1171.5 (a) (11)]. They will also regularly review our complaint log to ensure we are meeting the requirements outlined in this recommendation.

Recommendation 7 and Findings Found in Section VIII.:

This has been completed and all forms now contain fraud warning notices as required.

Recommendation 8 and Findings Found in Section XI.:

Amica Mutual Insurance Company strives to ensure all of its producers are properly licensed and appointed. Safeguards and checks are in place to ensure that all employees who accept applications for Pennsylvania insurance are properly licensed and appointed.

Recommendation 9 and Findings Found in Section VI.A.2:

As stated in Response to Recommendations 2 and 3 the issue central to recommendation 9 is the question of when an applicant receives and completes an application. It is Amica Mutual Insurance Company's position that we are in full compliance with the regulations cited by the Department. As a result, no change is required on our part. An opportunity to exercise the waiver for Uninsured and Underinsured Motorists coverage was offered at the time of application during the exam period.

Amica Mutual Insurance Company's inquiry and application process is outlined in our response to recommendation 2. In addition to giving the applicant an opportunity to reject Uninsured Motorist Coverage and Underinsured Motorist Coverage on the telephone during the inquiry, an opportunity to reject these coverages is again given during the application process.

Recommendation 10 and Findings Found in Section VI.A.I:

As stated in Response to Recommendations 2, 3 and 9 the issue central to Recommendation 10 is the question of when an applicant receives and completes an application. It is Amica Mutual Insurance Company's position that we are in full compliance with the regulations cited by the Department. As a result, no change is required on our part. An opportunity to exercise the waiver of stacked limits for Uninsured and Underinsured Motorists Coverage was offered at the time of application during the exam period.

Amica Mutual Insurance Company's inquiry and application process is outlined in our Response to Recommendation 2. In addition to giving the applicant an opportunity to waive stacked limits for both Uninsured Motorist Coverage and Underinsured Motorist Coverage on the telephone during the inquiry, an opportunity to waive stacked limits for these coverages is again given during the application process.

Violations Noted Regarding Important PIP Notice found on Pages 14 and 18 and Findings Found in Sections VI.A.I and VI.A.2:

As stated in Responses to Recommendations 2, 3, 9 and 10 the issue central to comments made about the PIP Important Notice found in Section 1791 is the question of when an applicant receives and completes an application. It is Amica Mutual Insurance Company's position that we are in full compliance with the regulation cited by the Department. As a result, no change is required on our part. The Important Notice outlined in Section 1791 was offered at the time of application during the exam period.

Amica Mutual Insurance Company's inquiry and application process is outlined in our Response to Recommendation 2. In addition to giving the applicant an opportunity to learn about the information contained in the "Important Notice" on the telephone during the inquiry, an opportunity to read the form is given during the application process.

Thank you for allowing us this opportunity to respond to your report. Amica reserves all its rights to assert any other positions or defenses it may have. We look forward to further discussion on the examination.

Very truly yours,

A handwritten signature in black ink, appearing to read "Peter H. Cameron". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Peter H. Cameron, CPCU
Assistant Vice President
Amica Mutual Insurance Company

PHC:DA