

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

FEDERAL INSURANCE COMPANY
Indianapolis, Indiana

**AS OF
September 15, 2008**

COMMONWEALTH OF PENNSYLVANIA

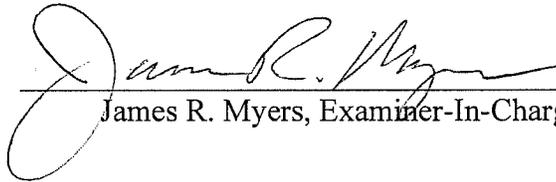


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 27, 2008

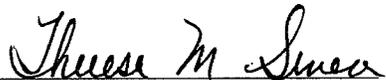
VERIFICATION

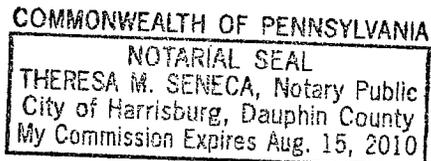
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 4 Day of September, 2008


Notary Public



FEDERAL INSURANCE COMPANY

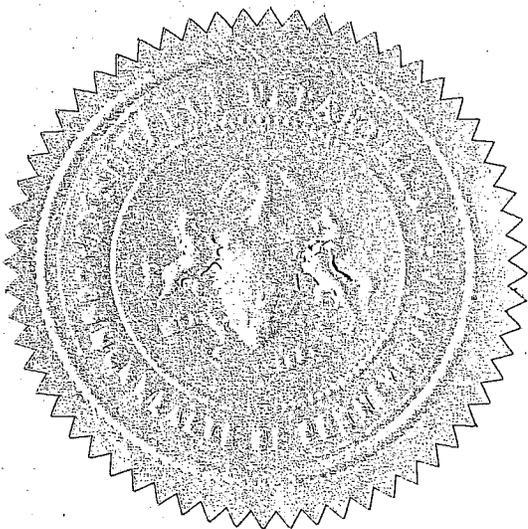
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
FEDERAL INSURANCE COMPANY	:	Sections 641.1-A and 671-A of Act
15 Mountain View Road	:	147 of 2002 (40 P.S. §§ 310.41 and
Warren, NJ 07061-1615	:	310.71)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(i),
	:	(iii), (iv) and (v) of the Unfair
	:	Insurance Practices Act, Act of
	:	July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.5)
	:	
	:	Sections 1, 2, 3(a)(5), 3(a)(6), 4(a)
	:	and 4(b) of the Act of July 3, 1986,
	:	P.L. 396, No. 86 (40 P.S. §§ 3401,
	:	3402, 3403 and 3404)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	113.88 and 146.6
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Section 1161(a) and (b)
	:	
	:	
Respondent.	:	Docket No. MC08-09-010

CONSENT ORDER

AND NOW, this 27th day of October, 2008, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Federal Insurance Company, and maintains its address at 15 Mountain View Road, Warren, New Jersey 07061-1615.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2006 through June 30, 2007.
- (c) On September 16, 2008, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on October 14, 2008.
- (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) 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;
 - (iv) 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;

- (v) Section 5(a)(9)(i) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use.

- (vi) Section 5(a)(9)(iii) of Act 205 (40 P.S. § 1171.5) requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation;

- (vii) 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;
- (viii) Section 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5(a)(9)(v)) requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under The PA Fair Plan Act;
- (ix) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;
- (x) Section 2 of Act 86 (40 P.S. § 3402), which states canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section;
- (xi) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying the condition, factor or loss experience which caused the nonrenewal. The notice

shall provide sufficient information or data for the insured to correct the deficiency;

- (xii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or nonrenewal notice shall state that, at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;
- (xiii) Section 4(a) of Act 86 (40 P.S. § 3404), which requires that unearned premium must be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer;
- (xiv) Section 4(b) of Act 86 (40 P.S. § 3404), which requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured;
- (xv) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases

such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;

- (xvi) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (xvii) 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)(9), 5(a)(9)(i), (iii), (iv) and (v) 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 1, 2, 3 and 4 of Act 86 (40 P.S. §§ 3401, 3402, 3403 and 3404), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:
- (i) Order that the insurer cease and desist from the violation.
 - (ii) Impose a fine or not more than \$5,000 for each violation.
- (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 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 Forty-Five Thousand Dollars (\$45,000.00) 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 Fraser, Administrative Officer, Bureau of Market Conduct, 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.

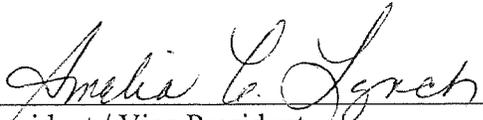
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

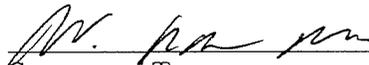
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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: FEDERAL INSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Federal Insurance Company's offices located in Chesapeake, Virginia, Philadelphia, Pennsylvania and Whitehouse, New Jersey, from April 14, 2008, through May 23, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

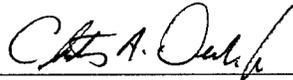
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

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

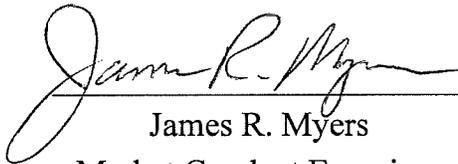
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

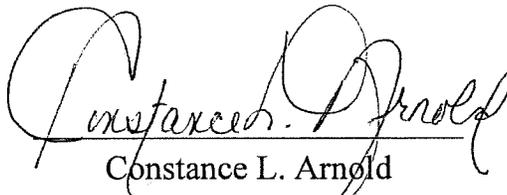
The undersigned participated in this examination and in preparation of this Report.



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



James R. Myers
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Federal Insurance Company, hereinafter referred to as “Company,” at their offices located in Chesapeake, Virginia, Whitehouse, New Jersey and Philadelphia, 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 July 1, 2006, through June 30, 2007, 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 and 60-day cancellations.
- 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. Commercial Property

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

4. Commercial Automobile

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

5. Workers' Compensation

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and renewals.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Federal Insurance Company was incorporated on February 15, 1901, and began business on March 2, 1901, under the laws of New Jersey. On March 23, 1990, it was redomesticated to the state of Indiana.

On July 1, 1953, the United States Guarantee Company (formed in 1890, and a member of the Chubb & Son Group since 1921), was merged into the Federal Insurance Company.

LICENSING

Federal Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2008. The Company is licensed in all states, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. It is also licensed in Canada, the United Kingdom and a large number of foreign countries.

The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$244,365,571.

Premium volume related to the areas of this review were: Fire \$65,072; Homeowners Multiple Peril \$9,861,927; Commercial Multiple Peril (Non-liability portion) \$32,777,741; Commercial Multiple Peril (Liability portion) \$22,235,696; Inland Marine \$7,692,177; Workers' Compensation \$22,424,088; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$427,941; Other Private Passenger Auto Liability \$2,425,916 and Private Passenger Auto Physical Damage \$2,391,202; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$329,582; Other Commercial Auto Liability \$8,132,509 and Commercial Auto Physical Damage \$2,780,256.

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

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company's commercial automobile underwriting guide indicated product to be offered as part of an account and as a means to an end.

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 6 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 6 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 291 private passenger automobile files identified as midterm cancellations by the Company, 25 files were selected for review. All 25 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 11 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 11 files were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

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

C. Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 52 property policies which were cancelled within the first 60 days of new business, 10 files were selected for review. The policies consisted of homeowner and tenant homeowner. All 10 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 879 property policies which were cancelled midterm during the experience period, 31 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 31 files were received and reviewed. The 8 violations noted were based on 2 files, resulting in an error ratio of 6%.

The following findings were made:

2 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 cancelled the 2 files due to an increase in hazard which was not substantiated.

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

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The Company did

not use an approved Pennsylvania cancellation notice for the 2 files noted.

2 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 their right of review by the Pennsylvania Insurance Commissioner for the 2 files noted.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The Company did not advise the insured of his possible eligibility under the Fair Plan for the 2 files noted.

3. Nonrenewals

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

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

The universe of 16 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowner and personal inland marine portions of the Company's masterpiece program. All 16 files were received and reviewed. The 15 violations noted were based on 7 files, resulting in an error ratio of 44%.

The following findings were made:

5 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 nonrenewed the 5 files noted for an improper reason. The reasons for nonrenewal were: "No longer qualifies for group insurance plan-former employee", "Loss of jewelry" and "Automobile accidents and violations".

3 Violations Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)]
Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. The Company's nonrenewal notice was not approved for use by the Pennsylvania Insurance Commissioner for the 3 files noted.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for 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 their right of review by the Pennsylvania Insurance Commissioner for the 3 files noted.

3 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]
Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The PA Fair Plan Act". The Company did not advise the insured of his possible eligibility under the Fair Plan for the 3 files noted.

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 2 personal property applications declined during the experience period was selected for review. Both files were received and reviewed. No violations were noted.

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

The universe of 1 commercial inland marine policy identified by the Company as being cancelled in the first 60 days of new business was selected for review. The file was received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

The universe of 29 commercial property policies cancelled midterm during the experience period was selected for review. The commercial property files consisted of commercial package and commercial inland marine. All 29 files were received and reviewed. The 22 violations noted were based on 20 files, resulting in an error ratio of 69%.

The following findings were made:

1 Violation Act 86, Section 2 [40 P.S. §3402]

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The file noted was cancelled for other than permitted reasons. The reason for cancellation was: “Account no longer meets our underwriting standards”.

1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a cancellation notice shall state the specific reasons for the cancellation. The reasons shall identify the

condition, factor or loss experience, which caused the cancellation. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code, Section 113.88

The reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation. The Company failed to provide a specific reason for cancellation.

1 Violation Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not return the unearned premium to the insured within 10 business days after the effective date of termination.

19 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the 19 files 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

From the universe of 93 commercial property policies nonrenewed during the experience period, 30 files were selected for review. The commercial property policies consisted of commercial inland marine and commercial package. All 30 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The notice of nonrenewal has a section in which there is an offer of loss information; however, in order to activate that section of the nonrenewal notice, the box should be checked. On many of the notices that were reviewed, the section of the notice regarding the offer of loss information is not checked. The Company should make certain the notice is properly completed and all applicable sections are activated.

4. Renewals

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

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

From the universe of 1,125 commercial property policies renewed during the experience period, 50 files were selected for review. The commercial property policies consisted of commercial inland marine and commercial package. All 50 files were received and reviewed. The 12 violations noted were based on 12 files, resulting in an error ratio of 24%.

The following findings were made:

12 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 12 files noted.

5. Declinations

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

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

From the universe of 980 commercial property declinations reported by the Company during the experience period, 35 files were selected for review. The commercial property files consisted of commercial package and commercial inland marine. All 35 files were received and reviewed. No violations were noted.

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

The universe of 5 commercial automobile policies cancelled within the first 60 days of new business was selected for review. All 5 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

The universe of 35 commercial automobile policies cancelled midterm during the experience period was selected for review. All 35 files were received and reviewed. The 24 violations noted were based on 24 files, resulting in an error ratio of 69%.

The following findings were made:

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide an offer of loss information on the notice as required for the 3 files noted.

21 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination for the 21 files 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

From the universe of 74 commercial automobile policies nonrenewed during the experience period, 20 files were selected for review. All 20 files were received and reviewed. The violation noted resulted in an error ratio of 5%.

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a nonrenewal notice which required supporting business.

4. Renewals

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

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

From the universe of 963 commercial automobile policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 32%.

The following findings were made:

8 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 8 files noted.

5. Declinations

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

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

From the universe of 789 commercial automobile declinations reported by the Company during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

F. Workers' Compensation

1. Midterm Cancellations

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

The purpose of the review was to determine compliance with Insurance Company Law, Section 653 (40 P.S. §813), which prohibits midterm cancellation with exceptions for nonpayment of premium or by request of the insured.

From the universe of 31 workers' compensation policies identified as midterm cancellations, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

2. 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

From the universe of 70 workers' compensation policies nonrenewed during the experience period, 23 files were selected for review. All 23 files

were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 17%.

The following findings were made:

1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency. The Company failed to provide a specific reason for nonrenewal.

3 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 3 files noted contained a nonrenewal notice which required supporting business.

3. Renewals

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

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

From the universe of 551 workers' compensation policies which were renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 36%.

The following findings were made:

9 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 9 files 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

The universe of 17 private passenger automobile policies identified as new business without surcharges was selected for review. All 17 files were received and reviewed. No violations were noted.

Private Passenger Automobile - New Business With Surcharges

The universe of 4 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 4 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 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 1,535 private passenger automobile 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.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 302 private passenger automobile policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals In a Higher Plan

From the universe of 108 private passenger automobile policies identified as renewal in a higher plan, 25 files were selected for review. All 25 files were received and reviewed. A review of the files indicated that all policies were tier changes and were not changed from one filed program to another. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

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

C. 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 366 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 3,300 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 108 tenant 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.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 609 tenant 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.

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

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 107 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 144 private passenger automobile comprehensive 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:

2 Violations Title 31, Pa. Code, Section 146.6

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

C. Automobile Collision Claims

From the universe of 282 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 59 private passenger automobile total loss claims reported during the experience period, 38 files were selected for review. All 38 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 8%.

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

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The 3 files noted did not reflect a Pennsylvania salvage title was obtained.

E. Automobile First Party Medical Claims

The universe of 3 private passenger automobile first party medical claims reported during the experience period was selected for review. All 3 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims Referred to a PRO

The universe of 1 automobile first party medical claim referred to a peer review organization by the Company was selected for review. The file was 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.

F. Homeowner Claims

From the universe of 428 homeowner claims reported 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 Title 31, Pa. Code, Section 146.6

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

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 45 pieces of advertising in use during the experience period, which included brochures. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 13 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 13 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 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 due to losses.

The following synopsis reflects the nature of the 13 complaints that were reviewed.

•	7	Cancellation/Nonrenewal	54%
•	5	Claims Handling	38%
•	1	Miscellaneous	8%
	<hr/>		<hr/>
	13		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:

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

CBS Coverage Group
Seitlin & Company

Sleeper Sewell Insurance Services, Inc.

*4 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.

ISG International, Inc.
Montgomery Insurance Services, Inc.
Ponta Castle Ingram Agency, Inc.
U S Risk, Inc.

XII. RECOMMENDATIONS

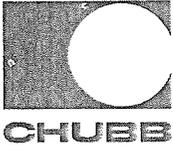
The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2, 3 and 4 [40 P.S. §§3402, 3403 and 3404], so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
4. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report do not occur in the future.
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 relating to status letters, as noted in the Report, do not

occur in the future.

6. 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.
7. 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.
8. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting coverage.

XIII. COMPANY RESPONSE



CHUBB GROUP OF INSURANCE COMPANIES

15 Mountain View Road, P.O. Box 1615, Warren, NJ 07061-1615

October 10, 2008
VIA UPS

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

**Re: Examination Warrant Number: 07-M22-066
Federal Insurance Company**

Dear Mr. Derk:

We have received and reviewed the Report of Examination dated September 15, 2008. This response will address the 8 recommendations found on pages 43 and 44 of the Report.

RECOMMENDATION #1

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

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for canceling 2 property policies using a reason that was not substantiated.

COMPANY RESPONSE:

The Company agrees with this criticism and will take the following actions to ensure compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]:

- By year-end 2008, we will provide additional training for the underwriting centers on Pennsylvania mid-term cancellation laws and corresponding legal and prohibited reasons. We are considering designating an underwriter familiar with Pennsylvania cancellation requirements as a resource for all Pennsylvania-related cancellation questions that arise from other branches.*

INSURANCE DEPARTMENT CRITICISMS:

The Company was criticized for the following on 2 policies:

- not using an approved Pennsylvania cancellations notice

- failing to advise the insured of their right to review by the Pennsylvania Insurance Commissioner
- not advising the insured of the possible eligibility under the Fair Plan

COMPANY RESPONSE:

The Company agrees with these criticisms and will take the following actions to ensure compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]:

- *By year-end 2008, we will implement a manual workflow in our Processing Department that will alert staff to the specific Pennsylvania requirements when they are canceling a policy with a Pennsylvania location and a different state's mailing address.*

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for:

- non-renewing 6 property policies for an improper reason
- failing to provide a specific reason for non-renewal on 1 policy

COMPANY RESPONSE:

The Company agrees with these criticisms and will take the following actions to ensure compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]:

- *By year-end 2008, we will provide additional training for the underwriting centers on Pennsylvania non-renewal laws and corresponding legal and prohibited reasons. We are considering designating an underwriter familiar with Pennsylvania cancellation requirements as a resource for all Pennsylvania-related cancellation questions that arise from other branches.*

INSURANCE DEPARTMENT CRITICISM:

The Company was criticized for the following on 3 policies:

- not using an approved Pennsylvania non-renewal notice
- failing to advise the insured of their right to review by the Pennsylvania Insurance Commissioner not advising the insured of the possible eligibility under for Fair Plan

COMPANY RESPONSE:

The Company agrees with these criticisms and will take the following actions to ensure compliance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]:

- *By year-end 2008, we will implement a manual workflow in our Processing Department that will alert staff to the specific Pennsylvania requirements when they are canceling a policy with a Pennsylvania location and a different state's mailing address.*

RECOMMENDATION #2

The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and non-renewal requirements

of Act 86, Sections 2, 3 and 4 [40 P.S. §§3402, 3403 and 3404] so that the violations noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 1 violation for canceling a commercial property policy for other than a permitted reason
- 1 violation for canceling a commercial property policy without providing sufficient information or data for the insured to correct the deficiency
- 3 violations for canceling commercial automobile policies and not providing an offer of loss information on the notice as required
- 1 violation for failing to provide a specific reason for nonrenewal on one workers compensation policy

COMPANY RESPONSE:

Our internal control procedures provide for a review of cancellation/non-renewal notices for accuracy and compliance as part of our quality assessment process. The Company will conduct a review of randomly selected policies at the end of 1st Quarter 2009 to ensure compliance with Act 86, Section 2, 3 and 4. A company directive will also be issued to the commercial lines' field staff reinforcing the requirements to use compliant reasons for cancellation. A directive will also be issued by 11/1/08 to all staff, referring them to an existing reference document that provides guidelines for providing clear, concise and specific reasons for cancellation.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 1 violation when it did not return the unearned premium to the insured within 10 business days after the effective date of the termination by the insurer on a commercial property policy
- 19 violations when it did not return the unearned premium to the insured within 30 days after the effective date of the termination by the insured of certain commercial property policies.
- 21 violations when it did not return the unearned premium to the insured within 30 days after the effective date of the termination by the insured of certain commercial automobile policies.

COMPANY RESPONSE:

In accordance with industry standard, Chubb participates with its agents and brokers in the exchange of either a producer-prepared Account Current or a company-prepared Statement, both of which outline premium due to the Company and return premiums due the insured. This monthly premium accounting cycle is designed to facilitate the reconciliation of premium accounting details between Chubb and its producers on behalf of the insured.

While this is a highly effective and accurate exchange of information, several steps must be performed involving the Company and the producer to effectuate issuance of the notices of cancellation and return premium. This process occasionally extends beyond 30 days:

- *cancellations must be entered into rating systems*
- *premium records must be ceded to the premium accounting system*
- *company records must be reconciled with the producer prior to the return premium being issued.*

Chubb, in cooperation with its agents and brokers, will make every effort to expedite this process in order to comply with Act 86.

RECOMMENDATION #3

The Company must review Act 86, Section 1 (40 P.S. 3401), to ensure that violations regarding notifications to the insured of an increase in premium do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 12 violations because it did not provide at least 30 days advance notice to the named insured of an increase in renewal premium on commercial property policies
- 8 violations because it did not provide at least 30 days advance notice to the named insured of an increase in renewal premium on commercial automobile policies
- 9 violations because it did not provide at least 30 days advance notice to the named insured of an increase in renewal premium on workers' compensation policies

COMPANY RESPONSE:

The Company is preparing a directive to commercial lines' field staff to be distributed by 11/01/08 which clarifies and re-emphasizes the requirement for 30 days advance notice to the named insured in Pennsylvania of an increase in renewal premium. We will continue to include this topic in the commercial lines' compliance training program; which should further enhance our compliance efforts. In addition, a new 'Notice Pertaining to Renewal Premium,' which complies with Pennsylvania law, has been created and will be communicated and available to our field staff by 11/01/08.

RECOMMENDATION #4

The Company must review Act 205, Sections 5 (a)(4) (40 P.S. 1171.5(a)(4) to ensure that the violations relative to supporting coverage noted in the Report do not occur in the future.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 1 violation for sending a non-renewal notice that indicated supporting business was required for a commercial automobile policy
- 3 violations for sending non-renewal notices that indicated supporting business was required for workers compensation policies

COMPANY RESPONSE:

The Company agrees with these criticisms. To effect compliance with Act 205, Sections 5 (a)(4) (40 P.S. 1171.5(a)(4), a directive will be issued by 11/1/08 to commercial lines' field staff that will state that requiring supporting business is a violation of Pennsylvania law.

RECOMMENDATION #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 relating to status letters, as noted in the Report, do not occur in the future.

INSURANCE DEPARTMENT CRITICISMS:

The Company was cited for 3 violations because it did not provide timely status letters for the 2 automobile comprehensive claims and 1 homeowner claim noted.

COMPANY RESPONSE:

To reinforce compliance, a directive was sent on 9/30/08 to all staff handling Pennsylvania losses regarding the specific requirements of the Pennsylvania Unfair Claims Settlement Practices. An electronic automatic reminder has been implemented in the claim system to remind the adjuster of Pennsylvania requirements. Compliance will be monitored through random mini-audits conducted by claim supervisors and management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #6

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.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for 3 violations because those files did not reflect that a Pennsylvania salvage title was obtained.

COMPANY RESPONSE:

The Company agrees with this criticism. To reinforce compliance, a directive was issued on 9/30/08 to all staff handling Pennsylvania losses regarding the specific

requirements of the Pennsylvania Unfair Claims Settlement Practices. The Company will ensure that salvage certificates are obtained on all total loss vehicles and retained in the claim file, and will ensure that Pennsylvania salvage certificates are obtained on all vehicles located or registered in Pennsylvania. Additionally, an automatic electronic reminder has been implemented in the claim system to remind the adjusters of Pennsylvania requirements. Compliance will be monitored through random mini-audits conducted by claim supervisors and management and through audits coordinated by the Home Office Claim Audit Manager.

RECOMMENDATION #7

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.

INSURANCE DEPARTMENT CRITICISM:

The Company was cited for:

- 3 violations because the producers were found to be writing and / or soliciting policies but were not found in the Insurance Departments records as holding a Pennsylvania producer license
- 4 violations because the producers were found to be writing policies but were not found in the Insurance Department records as having an appointment.

COMPANY RESPONSE:

The Company agrees with these criticisms. To comply with 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, we have taken the following steps to ensure all producers are properly licensed in Pennsylvania and appointed in Federal Insurance Company:

- *For the 3 violations noted where producers were not properly licensed in Pennsylvania, our Agency Services Department contacted each of these producers and required them to obtain a Pennsylvania license. All 3 producers are now properly licensed in the state of Pennsylvania.*

Procedures are currently in place that require verification of the producer's license prior to booking any business with Chubb. Chubb's rating systems contain system edits that prompt the customer service representative to verify the license (and appointment) of the producer as part of the policy issuance workflow. These procedures have been reinforced with recent communication to field offices and our various underwriting departments.

- *For the 3 violations where properly licensed producers did not hold the appropriate appointments for Federal Insurance Company, those appointments have been processed with the state.*

Procedures are in place to ensure that all producers writing for Federal Insurance Company are properly appointed. These include system edits that prompt customer service representatives to validate appointments prior to the booking of a policy.

RECOMMENDATION #8

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

INSURANCE DEPARTMENT CRITICISM:

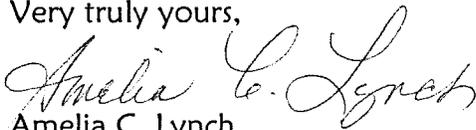
The Company's commercial automobile underwriting guide indicated product to be offered as part of an account and as a means to an end.

COMPANY RESPONSE:

The Company agrees with this criticism. We have revised the internal Commercial Automobile Underwriting Guide to comply with Act 205. Section 5(a)(4) [40 P.S. 1171.4(a)(4)] by removing all wording that referenced supporting coverage. This was finalized and distributed to the field on 7/02/08. A copy was sent to the Pennsylvania Insurance Department on 9/04/08.

We appreciate the professionalism and efficiency of your staff during the examination and thank you for your continued cooperation and assistance. Should you require additional information or have any questions, please let me know.

Very truly yours,



Amelia C. Lynch
Senior Vice President and Insurance Compliance Officer

Cc: D. Fiorot
M. Dayter
C. Staron
K. Zilinski
G. Woodring
T. Kelly