

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**FIRST KEYSTONE RISK RETENTION
GROUP, INC.**

John Island, South Carolina

**AS OF
December 17, 2010**

COMMONWEALTH OF PENNSYLVANIA

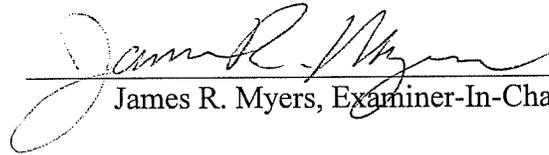


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: January 25, 2011

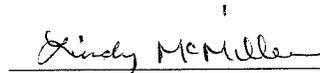
VERIFICATION

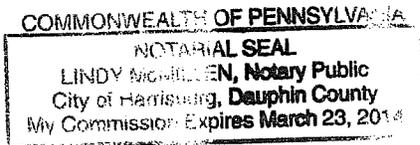
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 14 Day of December , 2010


Notary Public



FIRST KEYSTONE RISK RETENTION GROUP, INC.

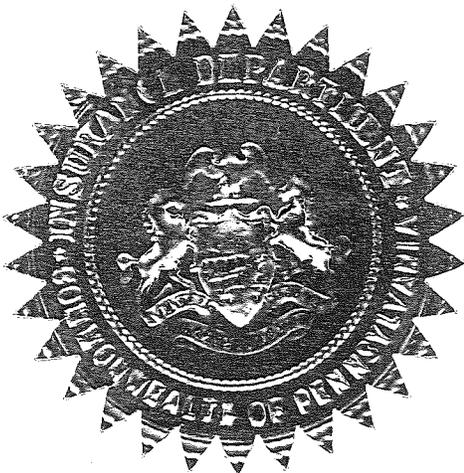
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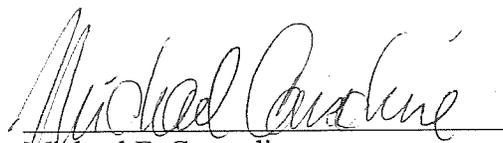
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 24 day of January, 2011, 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.




Michael F. Consedine
Acting Insurance Commissioner

First Keystone Risk Retention Group, Inc.

Docket No.
MC11-01-015

Market Conduct Examination as of the
close of business on December 17, 2010

ORDER

A market conduct examination of First Keystone Risk Retention Group, Inc. was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, *et seq.*, for the period January 1, 2010 to May 31, 2010. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

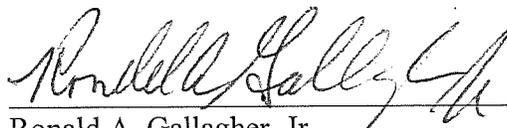
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with all recommendations contained in the attached Report.

4. 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.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania



(January 25, 2011)

Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at First Keystone Risk Retention Group, Inc.'s office located in Philadelphia, Pennsylvania, from October 12, 2010, through October 28, 2010. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

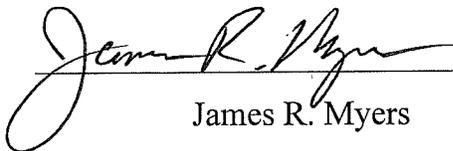
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

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



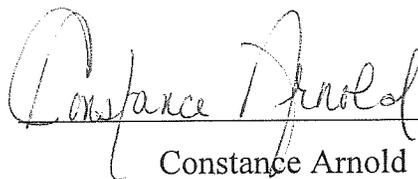
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



Constance Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on First Keystone Risk Retention Group, Inc., hereinafter referred to as “Company,” at their office located in 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 January 1, 2010, through May 31, 2010, 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. Commercial 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. Claims
3. Forms
4. Complaints
5. Licensing

III. COMPANY HISTORY AND LICENSING

First Keystone Risk Retention Group, Inc. was formed and authorized on September 24, 2003, by the South Carolina Department of Insurance to provide commercial automobile liability coverage to taxis and limousines in the Commonwealth of Pennsylvania.

In 2004, the Company's request to expand coverage into the state of New Jersey was submitted and approved by the South Carolina Department of Insurance. A revised business plan was submitted in the 1st quarter of 2006, to expand coverage territories in Pennsylvania and New Jersey and to offer coverage in the states of Delaware and Maryland. On May 16, 2006, the South Carolina Department of Insurance approved and granted the Company an expanded coverage area along with expanded coverage options.

On December 21, 2006, the Company was approved by the South Carolina Department of Insurance to commence business in Massachusetts, Virginia, North Carolina, Georgia and South Carolina.

LICENSING

First Keystone Risk Retention Group, Inc.'s Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2010. The Company is registered to do business in Delaware, Georgia, Maryland, Massachusetts, New Jersey, North Carolina, Pennsylvania, South Carolina and Virginia. The Company's 2009 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,576,391. Premium volume related to the area of this review was: Other Commercial Automobile Liability \$2,576,391.

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 commercial 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. 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 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 9 commercial automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 9 files were received and reviewed. The violation resulted in an error ratio of 11%.

The following finding was made:

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

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

Company failed to provide at least 30 days' notice of cancellation to the insured.

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 5 commercial automobile policies cancelled midterm during the experience period was selected for review. All 5 files were received and reviewed. No violations were noted.

2. 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.

The universe of 14 commercial automobile policies nonrenewed during the experience period was selected for review. All 14 files were received and reviewed. No violations were noted.

VI. RATING

A. Commercial Automobile

1. New Business

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

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

From the universe of 135 commercial automobile policies written as new business without surcharges during the experience period, 35 files were selected for review. All 35 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. Commercial Automobile Property Damage Claims
- B. Commercial Automobile Total Loss Claims
- C. Commercial Automobile First Party Medical Claims
- D. Commercial Automobile First Party Medical Claims Referred to a PRO

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. Commercial Automobile Property Damage Claims

From the universe of 243 first party medical claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

B. Commercial Automobile Total Loss Claims

The universe of eight (8) commercial automobile total loss claims reported during the experience period was selected for review. All 8 files were received and reviewed. The 2 violations noted were based on 2 files,

resulting in an error ratio of 25%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion. The Company failed to provide the total loss evaluation report within 5 working days to the consumer for the 2 files noted.

C. Commercial Automobile First Party Medical Claims

From the universe of 98 commercial automobile first party medical claims reported during the experience period, 30 claim files were selected for review. All 30 files were received and reviewed. The 2 files noted were based on 2 files, resulting in an error ratio of 7%.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 69.21

A provider may not require payment in excess of the Medicare payment pertaining to the applicable specialty under Medicare for comparable services at the time services were rendered, or the provider's usual and customary charge,

whichever is less. An insurer shall use the Medicare payment applicable in this Commonwealth to determine the appropriate payment. The applicable Medicare payment shall be utilized even when a service is not a reimbursed service under Medicare. If no Medicare payment has been calculated, payment shall be 80% of the provider's usual and customary charge. The Company failed to pay 80% of the prescription invoice.

1 Violation Title 31, Pa. Code, Section 69.42

An insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer.

AND

Title 31, Pa. Code, Section 69.43

An insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the

data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount. The Company failed to have medical bills repriced or adjusted for cost containment.

C. Commercial Automobile First Party Medical Claims Referred to a PRO

The universe of 2 commercial automobile first party medical claims referred to a peer review organization was selected for review. Both files were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the experience period. The contracts were received and reviewed. No violations were noted.

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)], which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

The following findings were made:

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

Requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination. The Company failed to provide 60 days notice of cancellation.

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

Written notice of cancellation in the manner prescribed in this section must be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless the insured has made a material misrepresentation which affects the insurability of the risk, in which case the prescribed written notice of

cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effect date of termination. The Company failed to provide 15 days notice of cancellation for misrepresentation.

2 Violations Title 75, Pa. C.S. §1701 et seq.

The ability to respond in damages for liability on account of accidents arising out of the maintenance or use of a motor vehicle in the amount of \$15,000 because of injury to one person in any one accident, in the amount of \$30,000 because of injury to two or more persons in any one accident and in the amount of \$5,000 because of damage to property of others in any one accident. The financial responsibility shall be in a form acceptable to the Department of Transportation. The Company's endorsements FKEPA 1003 in the commercial lines policy-reinstatement of liability limits and KEPA 1009 in the commercial lines policy-SIR Endorsement were not in compliance with this requirement. The Company must maintain minimum coverages.

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

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

AND

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." The Company failed to provide the fraud warning on 3 claim forms.

IX. 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 2 consumer complaints received during the experience period and provided all consumer complaint logs requested. Both 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 findings were made:

5 Violations Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]

Requires an insurer 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 time it took to process each complaint. The Company failed to provide complete registers for 2006, 2007, 2008, 2009 and 2010. The registers did not include their classification by line of business, nature of each complaint or the disposition of each complaint.

The following synopsis reflects the nature of the 2 complaints that were reviewed.

•	1	Claims Related	50%
•	1	Policy Related	50%
	<hr/>		<hr/>
	2		100%

X. 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.

No violations were noted.

XI. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 7 [40 P.S. §§3403 and 3407], so that the violations noted in the Report do not occur in the future.
2. The Company must review Title 75, Pa. C.S. §1701 *et seq.* and revise all procedures to ensure that the Company maintains minimum coverages in the future.
3. The Company must review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.
4. The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.
5. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)], to ensure that the violations relative to complaint records noted in the Report do not occur in the future.
6. The Company must ensure that all claim forms contain the required fraud warning notice.

7. The Company must review Title 31, Pa. Code, Section 69.21 to ensure the appropriate payment is made and the violation noted in the report does not occur in the future.

XII. COMPANY RESPONSE



FIRST KEYSTONE RISK RETENTION GROUP Inc.

4421 Aramingo Ave, Philadelphia, PA 19124 Telephone: 215-235-5000 Facsimile: 215-235-5582

January 13, 2011

Mr. Chester A. Derk Jr., AIE,HIA
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Market Conduct – Property and Casualty Division
1227 Strawberry Square
Harrisburg, PA 17120

Dear Mr. Derk:

We appreciate the diligent effort of the Pennsylvania Department of Insurance in performing its recent Market Conduct Examination of First Keystone Risk Retention Group, Inc. and the professionalism of the staff who conducted the examination. The Company concurs with the Department of Insurance's believe of the useful purpose that the Market Conduct Examination servers the company, consumers and the insurance industry.

The attachment as provided represents First Keystone Risk Retention Group, Inc.'s reply to the Pennsylvania Market Conduct Examination Report relating to Examination Warrant Number 10-M22-063.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Joseph Schmidt".

Joseph Schmidt
President
First Keystone Risk Retention Group, Inc.

First Keystone Risk Retention Group, Inc.
Reply to Examination Warrant Number: 10-M22-063

First Keystone RRG, Inc. (the Company) is pleased with the findings, and view expressed by the Pennsylvania Department of Insurance during the recent Market Conduct Examination Exit Conference, as to the remarkable achievements accomplished by the Company to address and resolve the violations that were identified by the previous Market Conduct Examination conducted in 2008. It was also noted by the Pennsylvania Department of Insurance that these improvements were accomplished in a relatively short period of time.

Upon the conclusion of the previous examination, the Company commenced an all out effort to address and resolve each and every violation that was identified by the 2008 Market Conduct Examination. In addition, process improvements were designed and implemented to benefit future examinations. This involved the hiring of highly qualified personal with many years of insurance industry experience along with developing computer applications and process improvements to existing applications. The results of the Company's efforts can clearly be seen in this Report of Examination.

Despite the diligent effort of the Company to operate completely (100%) in compliance with the rules and regulations of the Pennsylvania Insurance Department a few violations were detected by this current examination. In all cases the Company took immediate action to address the violation and implement the required change to bring the Company in full compliance. In most cases these changes were executed on the same day that the on-site examiner detected the violation. All violations that are described by this Market Conduct Examination report have been addressed and the appropriate action taken by the Company to operate in full compliance with the Insurance laws of Pennsylvania. This was accomplished by the Company prior to the Market Conduct Examination Exit Conference.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As the result of implementing various process improvements since the previous Market Conduct Examination, the Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

V. UNDERWRITING

1. 60-Day Cancellations

The Market Conduct Examination report noted one violation to provide a 60-Day notice of cancellation.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

During the examination it was noted that the company must provide 30 days notice for cancellation for any reason, including non-payment of premium, for a new policy cancelled in the first 60 days. The company immediately changed its practice during the on-site examination and is now in compliance with Act 86, Section 7(c) [40 P.S. § 3407(c)]

2. Midterm Cancellations

As the result of implementing various process improvements since the previous Market Conduct Examination, the Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

3. Nonrenewals

As the result of implementing various process improvements since the previous Market Conduct Examination, the Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

VI. RATING

The Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

VII. CLAIMS

A. Commercial Automobile Property Damage Claims

As the result of implementing various process improvements since the previous Market Conduct Examination, the Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

B. Commercial Automobile Total Loss Claims

The Market Conduct Examination report noted two violations where the Company failed to provide the total loss evaluation report within 5 working days to the consumer.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

Although it have been the practice of the Company to provide the consumer with a total loss evaluation report within 5 working days two violation were identified by the examiner. Upon recognizing these violations, the Company took immediate action by meeting with and discussing this requirement with the Company's claims property damage staff. The Company is committed to operate in full compliance of regulation *Title 31, Pa. Code, section 62.3 (e) (7)*.

C. Commercial Automobile First Party Medical Claims

The Market Conduct Examination report noted one violation where the Company failed to pay 80% of the prescription invoice.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

This violation was the result of the Company paying 100% of the amount listed on a prescription invoice, rather than paying 80% as described by *Title 31, Pa. Code, Section 69.21*. Although this was an isolated error the Company took immediate action upon this being detected by the on-site examiner. The Company reviewed this regulation with the Company's PIP Adjuster staff and is committed to operate in full compliance of regulation *Title 31, Pa. Code, section 69.21*.

The Market Conduct Examination report noted one violation where the Company failed to have medical bills repriced or adjusted for cost containment.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

This violation involved a PIP invoice that was not repriced, the repricing would have elevated form over substance as regardless of the repricing, the PIP benefits would have been exhausted. Still the Company accepts the Examiners position that, as a matter of form, the repricing should occur, even where there is no substantive effect and has instructed our PIP adjusters to reprice regardless to the amount of remaining PIP coverage. The Company is committed to operate in full compliance of regulations *Title 31, Pa. Code, Section 69.42* and *Title 31, Pa. Code, section 69.43*.

D. Commercial Automobile First Party Medical Claims Referred to a PRO

As the result of implementing various process improvements since the previous Market Conduct Examination, the Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.

VIII FORMS

- The Market Conduct Examination report noted one violation where the Company failed to provide 60 days notice of cancellation.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

The Company would like to duly note that although the policy language previously stated 30 days, it has been the practice of the company to provide 60 days before the effective date of cancellation if cancelling for any other reason. The Company upon recognizing this issue during the on-site examination immediately changed its policy language to comply with Act 86, Section 3(a) (3) [40 P.S. §3403 (a) (3)]

- The Market Conduct Examination report noted one violation where the Company failed to provide 15 days notice of cancellation for misrepresentation.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

The Company upon recognizing this issue during the on-site examination immediately changed its policy language to comply with Act 86, Section 3(a)(3) (i) [40 P.S. §3403 (a) (3) (i)]

- The Market Conduct Examination report noted two violations where the Company must maintain minimum coverages.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

It has never been the intent or the practice of the Company to not provide coverage to our insured to maintain minimum limits of financial responsibility as defined by the Motor Vehicle Financial Responsibility Law. To resolve this matter the Company immediately during the on-site examination proposed the following two measures to the Pennsylvania Department of Insurance.

1. Include the following clause on endorsements FKEPA1003 and FKEPA1009 that would be agreeable with the Pennsylvania Department of Insurance.

“In no event, as long as the policy is in force, shall there be less than the minimum coverage required by law available to pay third-party claims.”

2. Notify all active policy holders by mailing a notification of the revision and include a copy of the revised endorsements.

The Company was notified by the Market Conduct Examiner that the Company's proposal was agreeable with the Pennsylvania Department of Insurance. The company immediately executed its proposal that was approved by the Pennsylvania Department of Insurance. The Company is committed to comply with *Title 75, Pa, C.S. § 1701 et seq.*

- The Market Conduct Examination report noted three violations where the Company failed to provide the fraud warning on claim forms.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

Upon recognizing this issue during the on-site examination the Company took immediate action by changing the forms to include the appropriate fraud warning language, The Company is committed to comply with *Act 165 of 1994 [18 Pa. C.S. § 4117 (k) (1)]* and *Title 75, Pa C.S. § 1822*.

IX. CONSUMER COMPLAINTS

- The Market Conduct Examination report notes five violations where the Company's complaint register did not include its classification by line of business, nature of each complaint or disposition of each complaint.

Company Reply:

The Company agrees with the findings of the Market Conduct Examination.

The company maintains the information that is listed as missing on the Market Conduct Examination report (line of business, nature of complaint and disposition of complaint) in its system data base. However, this information was not listed on the Complaint Log report that was initially provided to the Market Conduct Examiner. The company resolved this issue immediately by working with the on-site examiner and revising its Complaint Log report. The on-site examiner was provided the revised Complaint Log report, which complied with *Act 205, Section 5(a)(11) [40 P.S. § 1171.5 (a)(11)]*, on the same day in which the initial complaint log report was provided.

X. LICENSING

The Company is pleased with the findings of this recent Pennsylvania Department of Insurance Market Conduct Examination that no violations were noted.