

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**THE FIRST LIBERTY INSURANCE
CORPORATION**

West Des Moines, Iowa

**AS OF
August 4, 2008**

COMMONWEALTH OF PENNSYLVANIA

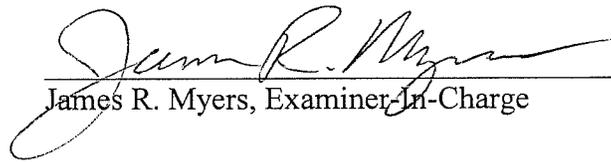


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 2, 2008

VERIFICATION

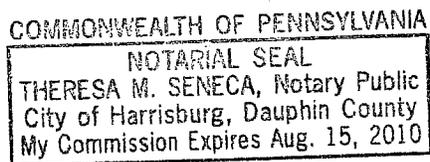
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-In-Charge

Sworn to and Subscribed Before me

This 20 Day of *November*, 2007


Notary Public



THE FIRST LIBERTY INSURANCE CORPORATION

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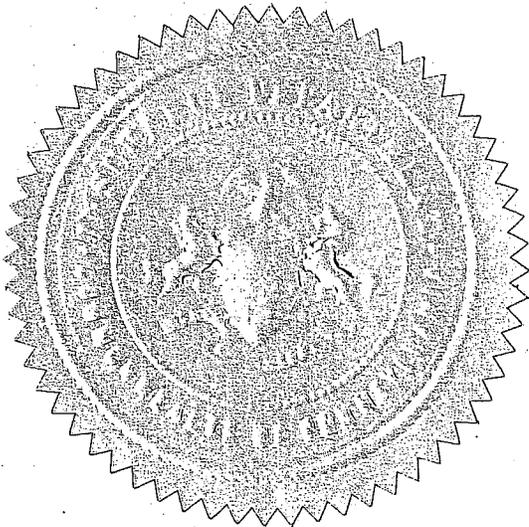
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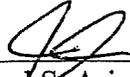
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
THE FIRST LIBERTY INSURANCE CORPORATION	:	Section 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789 (40 P.S. § 323.3)
175 Berkeley Street	:	
Boston, MA 02117	:	
	:	Act 1990-6, Sections 1705(a)(1) and (4), 1725, 1738(d)(1)(2), 1791, 1791.1(a) and (b), 1792(b)(1), 1793(b), 1797(b)(2) and (5), and 1799.3(a) (Title 75, Pa.C.S. §§ 1705, 1725, 1738, 1791, 1792, 1793, 1797 and 1799)
	:	
	:	Title 31, Pennsylvania Code, Sections 67.33(b)(1) and 146.7(a)(1)
	:	
Respondent.	:	Docket No. MC08-09-005

CONSENT ORDER

AND NOW, this *2nd* 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. Respondent neither admits nor denies the Findings of Fact contained herein.

FINDINGS OF FACT

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

- (a) Respondent is The First Liberty Insurance Corporation, and maintains its address at 175 Berkeley Street, Boston, Massachusetts 02117.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2006 through December 31, 2006.
- (c) On August 4, 2008, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on September 3, 2008.
- (e) The Examination Report notes violations of the following:

- (i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (ii) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (iii) Section 1725 of Act 1990-6, Title 75, Pa.C.S. § 1725, which requires every motor vehicle policy to contain a notice whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear language and printed on the first page of the policy in bold, capital letters;

- (iv) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he

may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;

(v) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available under this chapter provided the notice is given to the insured at time of application;

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

- (vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (viii) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;
- (ix) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;
- (x) Sections 1797(b)(2) and (5) of Act 1990-6, Title 75, Pa.C.S. § 1797, states that an insurer, provider or insured may request reconsideration by the PRO of the PRO's initial determination. Such a request for reconsideration must be made within 30 days of the PRO's initial determination. If a PRO

determines that medical treatment or rehabilitative services or merchandise were medically necessary, the insurer must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending PRO review;

- (xi) Section 1799.3(a) of Act 19990-6, Title 75, Pa.C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1050 (\$1,150 effective 7/1/05), in excess of any self-insured retention or deductible applicable to the named insured;
- (xii) Title 31, Pennsylvania Code, Section 67.33(b)(1), which states an insurer may not assess a premium surcharge for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident; and
- (xiii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

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 Title 31, Pennsylvania Code, Section 146.7(a)(1) are punishable 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.

- (c) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

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

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 Ten Thousand Dollars (\$10,000.00) 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 Ginny Baker, Administrative Assistant, 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.

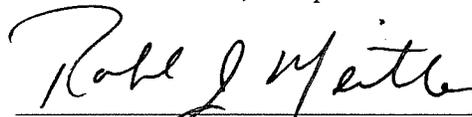
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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.

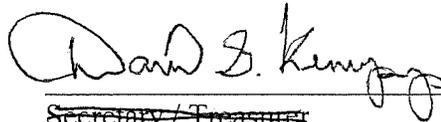
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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: THE FIRST LIBERTY INSURANCE CORPORATION, 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 The First Liberty Insurance Corporation's offices located in Berwyn, Pennsylvania, and Blue Bell, Pennsylvania, from August 16, 2007, through September 21, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

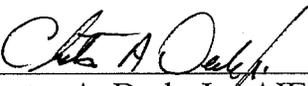
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

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

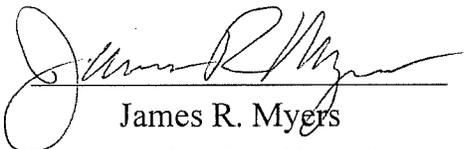
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

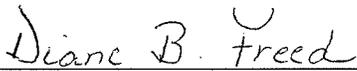
The undersigned participated in this examination and in preparation of this Report.



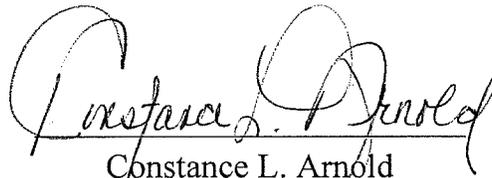
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R. Myers
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on The First Liberty Insurance Corporation, hereinafter referred to as “Company,” at their offices located in Berwyn, Pennsylvania, and Blue Bell, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2006, through December 31, 2006, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.

3. Commercial Automobile
 - Underwriting – Appropriate and timely notices of midterm cancellations, rescissions and renewals.

4. Workers' Compensation

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

5. Claims

6. Forms

7. Advertising

8. Complaints

9. Licensing

III. COMPANY HISTORY AND LICENSING

The First Liberty Insurance Corporation was incorporated under the laws of Iowa on June 16, 1989, and began business on June 22, 1989.

LICENSING

The First Liberty Insurance Corporation's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2007. The Company is licensed in all states, the District of Columbia, Guam and the U.S. Virgin Islands. The Company's 2006 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$165,699,316. Premium volume related to the areas of this review were: Homeowners Multiple Peril \$41,131,332; Workers' Compensation \$6,893,519; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$10,646,725; Other Private Passenger Auto Liability \$53,751,037 and Private Passenger Auto Physical Damage \$49,541,907; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$124,498; Other Commercial Auto Liability \$1,539,262 and Commercial Auto Physical Damage \$220,241.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and Pennsylvania automobile product guides were furnished for private passenger automobile, homeowners, dwelling fire 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. No violations were noted.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

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

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

From the universe of 151 private passenger automobile files identified as being cancelled in the first 60 days of new business, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 4,949 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

From the universe of 139 private passenger automobile files identified as nonrenewals by the Company, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

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

From the universe of 503 private passenger automobile files identified as declinations, 35 files were selected for review. All 35 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 79 property policies which were cancelled within the first 60 days of new business, 18 files were selected for review. The policies consisted of homeowners and tenant homeowners. All 18 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 4,195 property policies which were cancelled midterm during the experience period, 100 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 100 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 7 property policies which were nonrenewed during the experience period was selected for review. The property policies consisted of homeowners and tenant homeowners. All 7 files were received and reviewed. No violations were 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.

From the universe of 622 personal property files which were identified as declinations by the Company, 30 files were selected for review. Of the 30 files requested, 29 were received and reviewed. Of the 29 files reviewed, 4 applications were rejected and the remaining 25 applications were subsequently written. The violation noted resulted in an error ratio of 3%.

The following finding was made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The file noted was not produced by the Company.

D. Commercial Automobile

1. 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 3 commercial automobile policies identified as midterm cancellations was selected for review. All 3 files were received and reviewed. No violations were noted.

2. Rescissions

A rescission is any policy, which was void *ab initio*.

The primary purpose of the 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.

The universe of 2 commercial automobile policies identified as rescissions was selected, received and reviewed. No violations were noted.

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 23 commercial automobile policies which were renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

E. 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.

The universe of 1 workers' compensation policy identified as a midterm cancellation was selected for review. The file was 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 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 41 workers' compensation policies which were renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

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

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

Private Passenger Automobile – New Business Without Surcharges

From the universe of 13,119 private passenger automobile and miscellaneous vehicle policies identified as new business without surcharges, 50 files were selected for review. All 50 files were received and reviewed. The 11,564 violations noted were based on 11,562 policies within the universe of 13,119, resulting in an error ratio of 88%.

The following findings were made:

11,562 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice on the front page of the policy declarations in boldface capital letters for private passenger automobile policies.

1 Violation Title 75, Pa. C.S. §1738(d)(1)&(2)

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

1 Violation Title 75, Pa. C.S. §1792(b)(1)

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The Company failed to provide the signed statement from the insured requesting a deductible of less than \$500.

Private Passenger Automobile - New Business With Surcharges

From the universe of 1,676 private passenger automobile policies identified as new business with surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 1,687 violations noted were based on the universe of 1,676, resulting in an error ratio of 100%.

The following findings were made:

1,676 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice on the front page of the policy declarations in boldface capital letters.

2 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required wording at the time of application for the 2 files noted.

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company failed to provide the required notice at the time of application for the 2 files noted.

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

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of application for the 2 files noted.

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

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company did not provide the surcharge disclosure plan to the insured at the time of application. The Company failed to provide the required surcharge disclosure plan at the time of application for the 2 files noted.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to have a signed limited tort option selection form in the 2 files noted.

1 Violation Title 75, Pa. C.S. §1738(d)(1)&(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file 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 58,093 private passenger automobile and miscellaneous vehicle policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 56,045 violations noted were based on the universe of 58,093 files, resulting in an error ratio of 96%.

The following findings were made:

56,045 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations page in boldface capital letters for the entire universe of private passenger automobile policies.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 6,285 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 6,288 violations

noted were based on the universe of 6,285 files, resulting in an error ratio of 100%.

The following findings were made:

6,285 Violations Title 75, Pa. C.S. §1725

Every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to place the notice of rental vehicle collision coverage on the front page of the policy declarations page in boldface capital letters.

1 Violation Title 75, Pa. C.S. §1799.3(a)

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1050, (\$1,150 effective 7/1/2005) in excess of any self insured retention or deductible applicable to the named insured. The Company surcharged the policy for an accident under the threshold, which resulted in an overcharge of \$264.

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

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

accident. The 2 files noted contained an improper accident surcharge, which resulted in overcharges of \$1535.

General Automobile Rating

Subsequent to the on-site examination, the Company self reported an automobile rating issue related to Liberty Mutual's application of its Preferred Auto Rating Plan (PARP), a vehicle based discount available to customers that are free of incidents for 40 months and meet certain other criteria. Liberty Mutual has issued refunds to 998 current and former policyholders of Liberty Mutual Fire Insurance Company, The First Liberty Insurance Corporation and Liberty Insurance Corporation. The total refund including interest is \$332,158.

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 15,071 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.

Homeowner Rating – New Business With Surcharges

From the universe of 29 homeowner policies written as new business with surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 51,968 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.

Homeowner Rating – Renewals With Surcharges

From the universe of 247 homeowner 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.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing.

Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

General Homeowner Rating

During the course of the examination, the Company was asked to provide a list of new business and renewals to be manually rated. As a result of that review, it was noted that the application of a “Year of Construction Surcharge” was inconsistent with the manual’s premium determination page instructions. As a result, it was found that the premium calculation resulted in an overcharge to policyholders. The Company identified 6,136 new business and renewal policies produced in 2006, which were subject to the “Year of Construction Surcharge”, which resulted in overcharges of \$31,934.

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 2,029 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.

Tenant Homeowner Rating – New Business With Surcharges

The universe of 7 tenant homeowner policies written as new business with surcharges during the experience was selected for review. All 7 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

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 4,263 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.

Tenant Homeowner Rating – Renewals With Surcharges

The universe of 8 tenant homeowner policies renewed with surcharges during the experience period was selected for review. All 8 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

A. Automobile Property Damage Claims

From the universe of 5,894 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations noted were noted.

B. Automobile Comprehensive Claims

From the universe of 2,228 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 146.7(a)(1)

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to deny the claim in writing for the 2 files noted.

C. Automobile Collision Claims

From the universe of 7,137 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

From the universe of 1,374 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

From the universe of 2,053 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

F. Automobile First Party Medical Claims Referred to a PRO

From the universe of 60 private passenger automobile first party medical claims referred to a peer review organization, 20 files were selected for review. All 20 files were received and reviewed. The Company was requested to provide copies of any written contracts with the peer review organization it has contracted. The Company provided a written contract. The violation noted resulted in an error ratio of 5%.

The following finding was made:

1 Violation Title 75, Pa. C.S. §1797(b)(2) & (5)

PRO reconsideration. An insurer, provider or insured may request reconsideration by the PRO of the PRO's initial determination. Such a request for reconsideration must be made within 30 days of the PRO's initial determination. If a PRO determines that medical treatment or rehabilitative services or merchandise were medically necessary, the insurer must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending PRO review. The Company failed to pay the medical bill after a PRO decision was made and the reconsideration period had passed.

G. Homeowner Claims

From the universe of 4,011 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

H. Tenant Homeowner Claims

From the universe of 120 tenant homeowner claims reported during the experience period, 15 files were selected for review. All 15 files 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)] 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 their advertising in use during the experience period. 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 95 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 95 complaints reported, 25 files 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.

No violations were noted.

The following synopsis reflects the nature of the 25 complaints that were reviewed.

•	6	Billing	24%
•	5	Underwriting Related	20%
•	5	Cancellations	20%
•	4	Claims Related	16%
•	3	Customer Service	12%
•	2	Miscellaneous	8%
	<hr/>		<hr/>
	25		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.

No violations were noted.

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 Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that an itemized invoice listing minimum coverages and tort options is provided at the time of application, as noted in the Report, and does not occur in the future.
2. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
3. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
4. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.

5. The Company must review Title 75, Pa. C.S. §1791 violations to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
6. The Company must review Title 75, Pa. C.S. §1725 to ensure that a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage shall be printed on the first page of the policy in boldface capital letters.
7. The Company must review Title 75, Pa. C.S. §1799.3(a) to ensure that a policy is not surcharged where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than the applicable threshold in excess of any self-insured retention or deductible applicable to the named insured.
8. The Company must review Title 31, Pa. Code, Section 67.33(b)(1) to ensure that a policy is not surcharged for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident.
9. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.
10. 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 claim denials, as noted in the Report, do not occur in the future.

11. The Company must review Title 75, Pa. C.S. §1797(b)(2)&(5) with its claim staff to ensure that payment is made when a peer review determination has been made and the reconsideration period has passed. The Company must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending the PRO review.

XIII. COMPANY RESPONSE



Hector Reyes, ARM
Regional Director, Market Conduct Services
Liberty Mutual Group
175 Berkeley Street
P.O. Box 140
Boston, MA 02116-0140
Telephone: (617) 357-9500

September 2, 2008

VIA OVERNIGHT DELIVERY

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

Re: **The First Liberty Insurance Corporation**
Examination Warrant Number 07-M22-017

Dear Mr. Derk:

The appropriate company personnel reviewed the Report of Examination of The First Liberty Insurance Corporation (Company) issued by the Pennsylvania Insurance Department for the period of January 1, 2006, through December 31, 2006, as of the close of business on August 4, 2008. We thank the Market Conduct Division for the observations and the recommendations that are part of the report.

The Company strives to comply with the Pennsylvania statutes and Department regulations, it believes that market conduct examinations serve the consumers of the Commonwealth and the Company as an effective tool to help avoid compliance issues. The Report, in addition to individual findings, contains Recommendations in Section XII. To address the Division's recommendations, the Company is enclosing its response to each of them.

We want to thank you and the entire staff of the Division for the cooperation it extended to everyone in the Company associated with this examination. I look forward to working with you on a final resolution to the Report.

Sincerely,

Hector D. Reyes, ARM
Regional Director, Market Conduct Services
Office of Corporate Compliance

Attachment

1. The Company must review Title 75, Pa C.S. §1791.1(a) and (b) to ensure that violations of providing an itemized invoice listing minimum coverages and tort options at the time of application, as noted in the Reports, do not occur in the future.

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors cited were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

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

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors cited were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

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

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors cited were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

4. The Company must revise its underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors cited were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

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

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors cited were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

6. The Company must review title 75, Pa C.S. §1725 to ensure that a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage shall be printed on the first page of the policy in boldface capital letters.

Response: The Company, in January 2008, replaced the type of the required notice with boldface capital letters per Pennsylvania statute.

7. The Company must review Title 75, Pa C.S. §1799.3(a) to ensure that a policy is not surcharged where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than the applicable threshold in excess of any self-insured retention or deductible applicable to the named insured.

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 1 error cited was a human error and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

8. The Company must review Title 31, Pa. Code, Section 67.33(b)(1) to ensure that a policy is not surcharged for payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident.

Response: The Company will review the cited Pennsylvania statute with the appropriate personnel. However, we believe the 2 errors were human errors and not representative of a non-compliant business practice. We will strive to eliminate human errors of this nature in the future.

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

Response: The Company processed policy refunds in October 2007, when the error was discovered. The Company will provide the Department with proof of refunds within the requested timeframe.

10. 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 claim denials, as noted in the Report, do not occur in the future.

Response: These were isolated instances and do not reflect the Company's business practices. When brought to our attention the 2 errors were immediately remedied. We have reinforced the requirements with staff.

11. The Company must review Title 75, Pa. C.S. §1797(b)(2)&(5) with its claims staff to ensure that payment is made when a peer review determination has been made and the reconsideration period has passed. The Company must pay the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending the PRO review.

Response: This is an isolated instance and does not reflect the Company's business practices. When brought to our attention the one error was immediately remedied. We have reinforced the requirements with staff.