

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**HANNAHSTOWN MUTUAL INSURANCE  
COMPANY**

Saxonburg, Pennsylvania

**AS OF  
October 23, 2003**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: November 21, 2003**

# HANNAHSTOWN MUTUAL INSURANCE COMPANY

## TABLE OF CONTENTS

### ORDER

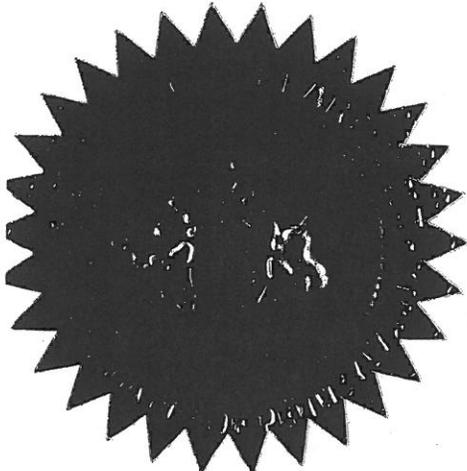
I.	Introduction.....	1
II.	Scope of Examination.....	3
III.	Company History/Licensing.....	5
IV.	Underwriting Practices and Procedures.....	6
V.	Underwriting	
	A. Personal Lines Property.....	7
	B. Commercial Property.....	11
VI.	Rating	
	A. Homeowners.....	15
	B. Dwelling Fire.....	16
VII.	Claims.....	18
VIII.	Forms.....	20
IX.	Advertising.....	21
X.	Consumer Complaints.....	22
XI.	Agent Licensing.....	25
XII.	Recommendations.....	27
XIII.	Company Response.....	28

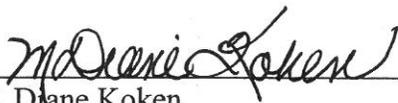


BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



  
\_\_\_\_\_  
M. Diane Koken  
Insurance Commissioner



Hannahstown Mutual Insurance Company

Docket No.  
MC03-11-018

Market Conduct Examination as of the  
close of business on October 23, 2003

### **ORDER**

A market conduct examination of Hannahstown Mutual Insurance Company was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, *et seq.*, for the period January 1, 2002 through December 31, 2002. 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:

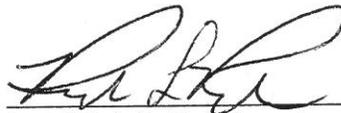
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania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



(November 21, 2003)

Randolph L. Rohrbaugh  
Deputy Insurance Commissioner

## I. INTRODUCTION

The market conduct examination was conducted at Hannahstown Mutual Insurance Company's offices located in Saxonburg, Pennsylvania from May 19, 2003, to May 28, 2003. 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.

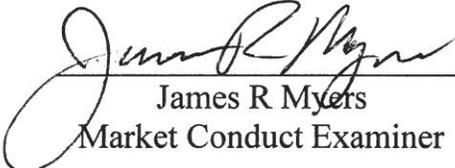
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Hannahstown Mutual Insurance Company, hereinafter referred to as "Company," at their office located in Saxonburg, 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, 2002, through December 31, 2002, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property
  - Underwriting – Appropriate and timely notices of nonrenewal, mid-term cancellations, 60-day cancellations and declinations.
  - Rating – Proper use of all classification and rating plans and procedures.
2. Dwelling Fire
  - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Lines Property
  - Underwriting – Appropriate and timely notices of nonrenewal, mid-term cancellations, 60 day cancellations and declinations.
4. Claims
5. Forms
6. Advertising

7. Complaints

8. Licensing

### **III. COMPANY HISTORY AND LICENSING**

Hannahstown Mutual Insurance Company was founded in Butler County, Pennsylvania, in 1860. Originally known as Farmer's Mutual Fire Insurance Company of Hannahstown and Vicinity, the company merged with the Glade Mill Insurance Company in 1972. Glade Mill Insurance Company was founded in 1873.

#### **LICENSING**

Hannahstown Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on August 17, 1876. The Company is licensed in Pennsylvania only. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,055,566. Premium volume related to the areas of this review were: Fire \$461,815; Farmowners' Multiple Peril \$294,594; Homeowners' Multiple Peril \$939,429.

#### **IV. UNDERWRITING PRACTICES AND PROCEDURES**

As part of the examination, the Company was requested to supply underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. The following findings were made:

*2 Violations Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]*

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company requires supporting coverage to write mono line commercial liability insurance and mono line personal liability insurance.

## V. UNDERWRITING

### A. Personal Lines 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.

The universe of 14 personal lines property policies, which were cancelled within the first 60 days of new business was selected for review. The property policies consisted of homeowners and tenant homeowners. All 14 files requested were received and reviewed. The 3 violations noted were based on 3 files, resulting in error ratio of 21%.

The following findings were made.

*3 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. 1171.5(a)(7)(iii)] -*  
“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: (7) Unfairly discriminating by means of: (iii) making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility

requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence, or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company failed to provide a reason for cancellation of policies.

## 2. Mid-term Cancellations

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

The 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 440 personal lines property policies, which were cancelled mid-term during the experience period, 183 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 183 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 1%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. The violation was the failure to send a cancellation notice.

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

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: (7) Unfairly discriminating by means of: (iii) making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility

requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence, or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company failed to provide a reason for cancellation of policy.

### 3. Nonrenewals

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

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

The universe of 3 personal lines property policies, which were nonrenewed during the experience period, was selected for review. The property files consisted of homeowners and tenant homeowner policies. All 3 files requested 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.

The Company did not report any personal property declinations during the experience period.

## **B. Commercial Property**

### **1. Declinations**

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

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

This Company did not report any commercial property declinations during the experience period.

### **2. 60-Day Cancellations**

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

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60<sup>th</sup> day unless the policy provides for a longer period of notification.

The universe of 17 tenant occupied dwelling fire, commercial fire, and commercial package property policies cancelled within the first 60 days of inception was selected for review. All 17 files selected were received and reviewed. No violations were noted.

### 3. Mid-term Cancellations

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

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons, Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice and Section 4 (40 P.S. §3404), which establishes the requirements for the return of unearned premium to the named insured.

From the universe of 245 commercial property policies cancelled during the experience period, 129 files were selected for review. The commercial property files consisted of commercial packages, farmowners and farm fire, commercial fire and tenant occupied dwelling fire. All 129 files were received and reviewed. No violations were noted.

### 4. 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 1 commercial property policy nonrenewed during the experience period was selected for review. The file selected was received and reviewed. The commercial property was a tenant occupied dwelling fire policy. The 2 violations noted were based on 1 file, resulting in an error ratio of 100%.

The following findings were made:

*1 Violation Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]*

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination. The file noted was absent any evidence this requirement was complied with.

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

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

AND

*Title 31, PA Code, §113.88*

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

The file noted was absent any evidence these requirements were complied with.

5. 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 698 commercial property policies identified by the Company as renewals during the experience period, 100 files were selected for review. The policies consisted of commercial fire, farmowners and farm fire and tenant occupied dwelling fire. No violations were noted.

## VI. RATING

### **A. 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.

#### Homeowners - New Business Without Surcharges

From the universe of 472 homeowner policies written as new business without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

#### 2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it

proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

#### Homeowners – Renewals Without Surcharges

From the universe of 1,671 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

### **B. Dwelling Fire**

#### 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.

The universe of 48 dwelling fire policies written as new business during the experience period was selected for review. All 48 files selected were received and reviewed. No violations were noted.

## 2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which 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.

From the universe of 224 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files selected 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. Homeowner Claims
- B. Dwelling Fire 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. Homeowner Claims**

From the universe of 179 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

*2 Violations Title 31, PA Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violations noted were absent any evidence this requirement was complied with.

## **B. Dwelling Fire Claims**

The universe of 34 dwelling fire claims reported during the experience period was selected for review. All 34 files selected were received and reviewed. The 1 violation noted was resulted in an error ratio of 3%.

The following finding was made:

### *1 Violation Title 31, PA Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violation noted was absent any evidence this requirement was complied with.

### 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. C.S. §4117(k)(1)] and Act 6 of 1990 [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 5 pieces of advertising, which included brochures and magazine ads. The Company did not use any internet advertising via the internet nor did it have a web site. 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 10 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 10 files were selected 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:

### *4 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]*

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

negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Improper reasons were used to cancel the policies.

*1 Violation Title 31, PA Code, Chapter 59.6(5)*

The reasons given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action.

*AND*

*Title 31, PA Code, Chapter 59.6(6)*

If the reason is a substantial change or increase in the hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it was due. The violation noted was absent any evidence these requirements were complied with.

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

Requires any person to maintain a complete record of all complaints which it has received during the preceding four years. This record shall indicate that total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the

time it took to process each complaint. For the purposes of this paragraph, “complaint” means any written communication primarily expressing a grievance. The complaint register did not include all of the required elements.

The following synopsis reflects the nature of the 10 complaints that were reviewed.

• 9	Cancellation/Nonrenewal	90%
• 1	Claims Related	10%
—		—
10		100%

## XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following findings were made:

*2 Violations Insurance Department Act, Section 605 (40 P.S. §235)  
Appointment.*

- (a) No agent shall do business on behalf of any entity without a written appointment from that entity.
- (b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.
- (c) Insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
- (d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The following producers were found to be writing policies and were not found in the Insurance Department records as having an appointment by the Company.

Alan Bowser

John Armitage, Jr

*1 Violation The Insurance Department Act, Section 623 (40 P.S. §253)*

*Doing Business With Unlicensed Brokers*

Any entity or the appointed agent of an entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following producer was found to be writing policies and was not found in the Insurance Department records as having a broker's license or a certificate of qualification.

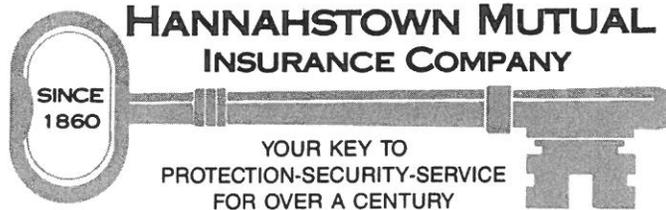
Chris Lee, Inc.

## *XII. RECOMMENDATIONS*

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

1. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations noted in the Report do not occur in the future.
2. The Company must ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, prior to accepting any business from an agent or broker.
3. The Company must review Act 205, Section 5(a) [40 P.S. §1171.5(a)] to ensure that violations regarding the need for supporting coverage and requirements for cancellation notices, as noted in the Report, do not occur in the future.
4. The Company must reinforce its internal underwriting controls to ensure that notices of cancellation provided to the named insured meet the requirements of Act 86, Section 3 (40 P.S. §3403).
5. The Company must review Title 31, PA Code, 59.6 to ensure that violations regarding reasons allowed for cancellation or refusal to renew, as noted in the Report, do not occur in the future.

**XIII. COMPANY RESPONSE**



November 18, 2003

Commonwealth of PA Insurance Department  
Bureau of Enforcement  
1321 Strawberry Square  
Harrisburg, PA 17120

Attn.: Chester A. Derk Jr., AIE HIA

RE: Examination Warrant Number: 03-M22-005

Dear Mr. Derk Jr.,

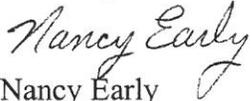
I have reviewed the Report of Examination of Hannahstown Mutual and the recommendations listed on page 27. We understand the importance of compliance with these recommendations and have made the necessary corrections. We accept the report as presented and offer the following responses to the recommendations:

1. We have reviewed and revised the internal control procedures of claims handling to achieve full compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so the violations noted in the report do not occur in the future. The claims department has been instructed to review files more carefully and provide notices for delay of settlement of claims on all applicable files.
2. The Company has reviewed all its agents, agencies and brokers licenses to insure proper licensing and appointments as required by Section 605 (40 P.S. 235) and Section 623 (40 P.S. 253).
3. The Company has reviewed Act 205, Section 5(a)[40P.S. 1171.5(a)] to ensure that violations of the type noted in the report do not occur in the future. Most of the violations had already been identified and corrected prior to the examination. The remaining violations have been identified and have been corrected.
4. The Company has reinforced its internal underwriting controls procedures to ensure that notices of cancellation provided to the named insured meet the requirements of Act 86, Section 3 (40 P.S. 3403). The violations noted had been identified and corrected prior to the examination.

5. The Company has reviewed Title 31, PA Code, 59.6 to ensure that violations of the types noted in the Report do not occur in the future.

We at Hannahstown Mutual take pride in our company and strive to give quality service to our policyholders. It is our sincerest desire to cooperate with the Department and to comply with the laws. We have viewed the Market Conduct Examination as a good learning experience. I want to express my appreciation to our examiner for his professionalism and courtesy.

Sincerely,



Nancy Early  
Office Manager