

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**ELECTRIC INSURANCE COMPANY**  
Beverly, Massachusetts

**AS OF  
August 22, 2005**

**COMMONWEALTH OF PENNSYLVANIA**

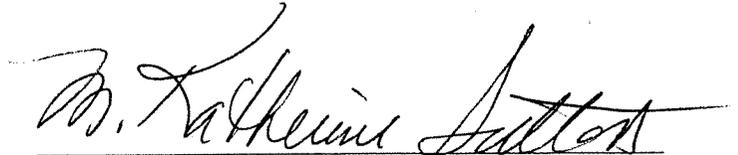


**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: September 29, 2005**

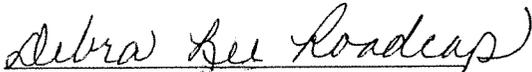
VERIFICATION

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

  
M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 25 Day of July, 2005



Notary Public  
COMMONWEALTH OF PENNSYLVANIA  
NOTARIAL SEAL  
DEBRA LEE ROADCAP, Notary Public  
Wayne Township, Dauphin County  
My Commission Expires Sept. 28, 2008

# ELECTRIC INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



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

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
ELECTRIC INSURANCE COMPANY :	:	Act 1990-6, Sections 1705(a)(1) and
75 Sam Fonzo Drive :	:	(4), 1731(c)(1), 1738(c)(d)(1) and (2),
Beverly, MA 01915 :	:	1791, 1791.1(a) and (b), 1792(b)(1),
	:	1793(b), 1797 and 1799.3(d) (Title 75,
	:	Pa.C.S. §§ 1705, 1731, 1738, 1791,
	:	1792, 1793, 1797 and 1799)
	:	
	:	Sections 2003(a)(13) and (14),
	:	2006(2) and 2008(b) of Act 68 of
	:	1998 (40 P.S. §§991.2003, 991.2006
	:	and 991.2008)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Section 5(a)(4) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. § 1171.5)
	:	
	:	Pennsylvania Assigned Risk Plan,
	:	Section 12A-3
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	69.52(a), 69.52(e), 146.5(d) and 146.6
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Sections 1161(a) and (b)
	:	
Respondent.	:	Docket No. MC05-08-013

CONSENT ORDER

AND NOW, this 29<sup>th</sup> day of *September*, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Electric Insurance Company, and maintains its address at 75 Sam Fonzo Drive, Beverly, Massachusetts 01915.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.
  
- (c) On August 22, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
  
- (d) A response to the Examination Report was provided by Respondent on September 12, 2005.
  
- (e) The Examination Report notes violations of the following:
  - (i) 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;
  
  - (ii) Section 1731(c)(1) of Act 1990-6, Title 75, Pa.C.S. § 1731, which on policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that

the policy does not provide protection against damages caused by uninsured or underinsured motorists;

- (iii) Section 1738(c)(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;
- (iv) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available under this chapter provided the notice is given to the insured at the time of application;
- (v) 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;

(vi) 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;

(vii) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792, 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;

(viii) 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;

- (ix) Section 1797 of Act 1990-6, Title 75, Pa.C.S. § 1797, which states if a prevailing charge, fee schedule, recommended fee, inflation index charge or DRG payment has not been calculated under the Medicare program for a particular treatment, accommodation, product or service, the amount of the payment may not exceed 80% of the provider's usual and customary charge;
  
- (x) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;
  
- (xi) Section 2003(a)(13) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Not at fault accidents;

- (xii) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Any claim under the comprehensive portion of the policy unless intentionally caused by the insured;
  
- (xiii) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;
  
- (xiv) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of the refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;
  
- (xv) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (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 this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

- (xvi) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a 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;
- (xvii) Pennsylvania Assigned Risk Plan, Section 12A-3, which states the assigned Company shall mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced;
- (xviii) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;
- (xix) Title 31, Pennsylvania Code, Section 69.52(e), which requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within five days of receipt;
- (xx) Title 31, Pennsylvania Code, Section 146.5(d), requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-

party claimants can comply with policy conditions and reasonable requirements of the insurer;

- (xxi) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;
  
- (xxii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”
  
- (xxiii) Title 75, Pennsylvania Consolidated Statutes, Section 1161(a) and (b), which states:
  - (a) Except as provided in sections 1162 and 1163, a person who owns or possesses or transfers a vehicle located or registered in this Commonwealth

which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle, and

(b) An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. If an owner retains possession of a vehicle which is damaged to the extent that it qualifies for vehicle replacement payment, the owner shall apply for a certificate of salvage immediately. In this case, an insurer shall not pay vehicle replacement value until the owner produces evidence to the insurer that the certificate of salvage has been issued.

#### CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 2003, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (c) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
  - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.
- (d) Respondent's violations of Section 5(a)(4) of the Unfair Insurance Practices Act 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.
- (e) 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).
- (f) Respondent's violations of Title 31, Pennsylvania Code, Section 146.3, 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Forty Thousand Dollars (\$40,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square,

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

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

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

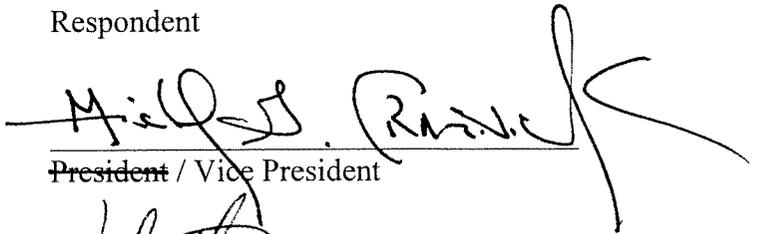
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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

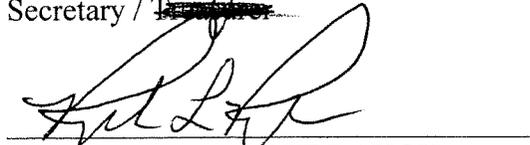
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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

BY: ELECTRIC INSURANCE COMPANY,  
Respondent

  
\_\_\_\_\_  
President / Vice President

  
\_\_\_\_\_  
Secretary / ~~Treasurer~~

  
\_\_\_\_\_  
RANDOLPH L. ROHRBAUGH  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## I. INTRODUCTION

The market conduct examination was conducted at Electric Insurance Company's office located in Beverly, Massachusetts, from May 9, 2005, through June 10, 2005. 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%.

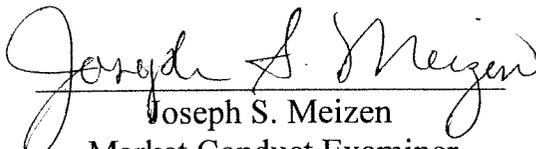
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

  
\_\_\_\_\_  
M. Katherine Sutton, AIC  
Market Conduct Examiner

  
\_\_\_\_\_  
Joseph S. Meizen  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Electric Insurance Company, hereinafter referred to as “Company,” at their office located in Beverly, Massachusetts. 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, 2004, through December 31, 2004, 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. Assigned Risk
  - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellations.
  - Rating – Proper use of all classification and rating plans and procedures.
  
3. Personal Lines 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.
  
4. Dwelling Fire
  - Rating – Proper use of all classification and rating plans and procedures.

5. Commercial Automobile

- Underwriting – Appropriate and timely notices of renewals.

6. Commercial Property

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

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

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

Electric Insurance Company was incorporated on April 21, 1966, under the laws of Massachusetts and became licensed on September 28, 1966. The Company is a direct writer of automobile and homeowners insurance. Electric Insurance Company was founded in 1966 principally to serve the personal insurance needs of General Electric employees and has since expanded to the general public. Today, Electric Insurance insures well over 100,000 policyholders.

#### **LICENSING**

Electric Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in all states, District of Columbia and Puerto Rico. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$15,877,845. Premium volume related to the areas of this review were: Fire \$7,138; Homeowners multiple peril \$1,130,786; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Automobile No-Fault (personal injury protection) \$588,445; Other Private Passenger Automobile Liability \$2,357,802 and Private Passenger Automobile Physical Damage \$2,180,133; Commercial Automobile Direct Written Premium was reported as Other Commercial Automobile Liability \$513,401.

#### IV. UNDERWRITING PRACTICES AND PROCEDURES

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

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The homeowner guidelines indicate the Company will not write seasonal property if they do not insure the primary dwelling.

*1 Violation Act 68, Section 2003(a)(13) [40 P.S. §991.2003(a)(13)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13). The Company’s guidelines state the following: “The following basic eligibility requirements must be met for new business applicants: The number of incident points\* must not exceed the number of vehicles plus 3”. “\*Incident points are defined as at-fault accidents, not-at-fault accidents, violations,

towing/glass losses, vandalism/theft, total loss, other comp, in either 0-12, 13-36, 37-60 months”. The Company may not use not-at-fault accidents to refuse to write a policy.

*1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The Company’s guidelines state the following: “The following basic eligibility requirements must be met for new business applicants: The number of incident points\* must not exceed the number of vehicles plus 3”. “\*Incident points are defined as at-fault accidents, not-at-fault accidents, violations, towing/glass losses, vandalism/theft, total loss, other comp, in either 0-12, 13-36, 37-60 months”. The Company may not use comprehensive claims as a reason to refuse to write a policy.

## V. UNDERWRITING

### **A. Private Passenger Automobile**

#### 1. 60-Day Cancellations

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

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

The universe of 42 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 42 files selected 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 400 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

### 3. Nonrenewals

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

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

The universe of 8 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 8 files selected were received and reviewed. The violation noted resulted in an error ratio of 13%.

The following finding was made:

*1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)]*

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery.

The Company did not provide 60 days notice of nonrenewal for the file 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 500 private passenger automobile files identified as being declinations by the Company during the experience period, 75 files were selected for review. All 75 files requested were received and reviewed. The 26 violations were based on 26 files, resulting in an error ratio of 35%.

The following findings were made:

##### *26 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)]*

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. Of the 26

violations noted, 22 were the result of the Company not providing written notice of refusal to write to the applicant. The remaining 4 violations resulted because the refusal to write did not contain a specific reason.

## **B. Private Passenger Automobile – Assigned Risk**

Electric Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

### 1. 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 Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 an 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

The universe of 21 private passenger automobile assigned risk policies cancelled during the experience period was selected for review. All 21 files selected were received and reviewed. No violations were noted.

### 2. Nonrenewals

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

The purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743, 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

The universe of 14 private passenger automobile assigned risk policies nonrenewed during the experience period was selected for review. All 14 files selected were received and reviewed. The 5 violations were based on 5 files, resulting in an error ratio of 36%.

The following findings were made:

*5 Violations PA Assigned Risk Plan, Section 12A-3*

The assigned Company shall mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced. The Company failed to provide a take-out notice at least 45 days prior to the expiration of the policy on the 5 files noted.

### **C. 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 10 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 10 files selected 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 179 personal lines property policies, which were cancelled midterm during the experience period, 83 files were selected for review. The property policies consisted of homeowners, tenant homeowners and boat owners. All 83 files requested 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 5 homeowner policies which were nonrenewed during the experience period was selected for review. All 5 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.

From the universe of 379 property files identified as declinations by the Company, 79 files were selected for review. The property policies consisted of homeowners and boat owners. All 79 files selected were received and reviewed. No violations were noted.

### **D. Commercial Automobile**

#### 1. 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.

The universe of 1 commercial automobile policy which was renewed during the experience period was selected for review. The file was received and reviewed. No violations were noted.

## **E. Commercial Property**

### 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 4 tenant occupied dwelling fire policies which were cancelled during the experience period was selected for review. All 4 files were received and reviewed. No violations were noted.

### 2. Renewals

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

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

The universe of 29 tenant occupied dwelling fire policies renewed during the experience period was selected for review. All 29 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 583 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The 2,917 violations were based on the universe of 583 files, resulting in an error ratio of 100%.

The following findings were made:

*583 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 with the notice required by paragraph (1). A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company did not provide the required notice at the time of application.

*1 Violation Title 75, Pa. C.S. §1738(c)(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. There was no evidence in the file of a signed rejection of stacked limits.

*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. There was no evidence in the file of a signed statement from the insured.

*583 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.

*583 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

did not provide the itemized invoice at the time of application.

*583 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.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 583 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

Private Passenger Automobile – New Business With Surcharges

From the universe of 72 private passenger automobile policies identified as new business with surcharges by the Company, 25 files were selected for review. All 25 files requested were received and reviewed. The 432 violations noted were based on the universe of 72 files, resulting in an error ratio of 100%.

The following findings were made:

*72 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 with the notice required by paragraph (1). A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company did not provide the required notice at the time of application.

*72 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.

*72 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 did not provide the itemized invoice at the time of application.

*72 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.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 72 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

*72 Violations Title 75, Pa. C.S. §1799.3(d)*

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record

point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company did not identify the amount of the surcharge on the premium notice.

## 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 2,904 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

*1 Violation Title 75, Pa. C.S. §1731(c)(1)*

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The policy renewal did not reflect the prominent notice as required.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 524 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 526 violations noted were based on the universe of 524, resulting in an error ratio of 100%.

The following findings were made:

*524 Violations Title 75, Pa. C.S. §1799.3(d)*

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company did not identify the amount of the surcharge on the premium notice.

*2 Violations Title 75, Pa. C.S. §1731(c)(1)*

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The 2 policy renewals did not reflect the prominent notice as required.

**B. Private Passenger Automobile – Assigned Risk**

Electric Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

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 primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean

The universe of 30 assigned risk private passenger automobile new business policies written as clean during the experience period was selected for review. All 30 files selected were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – New Business – Other Than Clean

The universe of 13 assigned risk private passenger automobile new business policies written as other than clean during the experience period was selected for review. All 13 files selected were received and reviewed. No violations were noted.

### Assigned Risk Private Passenger Automobile – Renewals – Clean

The universe of 10 assigned risk private passenger automobile renewal policies written as clean during the experience was selected for review. All 10 files selected were received and reviewed. No violations were noted.

### Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

The universe of 2 assigned risk private passenger automobile renewal policies written as other than clean during the experience period was selected for review. The 2 files selected were received and reviewed. No violations were noted.

## **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.

### Homeowners – New Business Without Surcharges

From the universe of 280 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for

review. All 25 files were received and reviewed. No violations were noted.

## 2. Renewals

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

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

### Homeowner – Renewals Without Surcharges

From the universe of 1,642 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.

## **D. Dwelling Fire**

### 1. 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.

The universe of 1 dwelling fire policy renewed during the experience period was selected for review. The file selected was received and reviewed. No violations were noted.

## VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

From the universe of 222 private passenger automobile property damage claims reported during the experience period, 50 files were selected for

review. All 50 files requested were received and reviewed. No violations were noted.

### **B. Automobile Comprehensive Claims**

From the universe of 216 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

### **C. Automobile Collision Claims**

From the universe of 337 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

*1 Violation Title 75, Pa. C.S. §1161(a)&(b) – Certificate of Salvage Required.*

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to

whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The file noted did not reflect a salvage title was obtained.

#### **D. Automobile Total Loss Claims**

From the universe of 90 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

#### **E. Automobile First Party Medical Claims**

From the universe of 102 private passenger automobile first party medical claims reported during the experience period, 25 claim files were selected for review. All 25 files requested were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

*1 Violation Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days,

and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a 30 day status letter to the claimant.

#### **F. Automobile First Party Medical Claims Referred to a PRO**

The universe of 2 automobile first party medical claims that were referred to a peer review organization by the Company was selected for review. The 2 files selected were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the experience period. A contract was received and reviewed. The 2 violations noted were based on 2 files, resulting in an error of 100%.

The following findings were made:

##### *1 Violation Title 31, Pa. Code, Section 69.52(a)*

Requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral. The Company failed to notify the provider when bills were referred for a PRO review.

*1 Violation Title 31, Pa. Code, Section 69.52(e)*

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The Company failed to provide the written analysis to the insured.

#### **G. Assigned Risk Automobile Property Damage Claims**

The universe of 2 assigned risk automobile property damage claims reported during the experience period was selected for review. The files selected were received and reviewed. No violations were noted.

#### **H. Assigned Risk Automobile First Party Medical Claims**

The universe of 3 assigned risk automobile first party medical claims reported during the experience period was selected for review. All 3 files were received and reviewed. The 3 violations noted were based on 1 file, resulting in an error ratio of 33%.

The following findings were made:

*1 Violation Title 31, Pa. Code, Section 146.6*

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

*1 Violation Title 31, Pa. Code, Section 146.5(d)*

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The Company did not send the application for benefits to the claimant within 10 working days.

*1 Violation Title 75, Pa. C.S. §1797*

If a prevailing charge, fee schedule, recommended fee, inflation index charge or DRG payment has not been calculated under the Medicare program for a particular treatment, accommodation, product or service, the amount of the payment may not exceed 80% of the provider's usual and customary charge. The Company did not reprice the provider's charges.

## **I. Homeowner Claims**

From the universe of 128 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

## **J. Dwelling Fire Claims**

The universe of 1 dwelling fire claim reported during the experience period was selected for review. The file was 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 Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following finding was made:

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on the property loss report EIC-48-06-85A as required.

The following concern was noted:

The Company is using the fraud warning described in Title 18, Pa. C.S. §4117(k)(1) on all applications for private passenger automobile. The Company should use the fraud warning statement that is associated with private passenger automobile insurance in accordance with Title 75, Pa. C.S. §1822. The following statement should be incorporated on all applications for insurance, renewals and claim forms: “Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.”

## **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 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 in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 8 pieces of advertising which included brochures, newspaper and magazine ads and mail solicitation. 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 15 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 15 complaints reported were selected, received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

The following findings were made:

*1 Violation Act 246, The Casualty and Surety Rate Regulatory Act,  
Section 4 (40 P.S. §1184)*

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 of issue. The violation was the result of an improper surcharge applied to the policy. The Company subsequently corrected the policy premium due.

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

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company did not provide the required surcharge disclosure information.

*1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)]*

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 60 days notice of nonrenewal.

The following synopsis reflects the nature of the 15 complaints that were reviewed.

•	8	Cancellation/Nonrenewal	83%
•	3	Premium Related	23%
•	3	Claims Related	23%
•	1	Service	1%
	<hr/>		<hr/>
	15		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 and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2006 and 2008 [40 P.S. §991.2006 and 2008], so that the violations noted in the Report do not occur in the future.
2. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided with the notice required under Title 75, Pa. C.S. §1705(a)(1), prior to the first issuance of a policy. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
3. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application, as noted in the Report, do not occur in the future.
4. The Company must review Title 75, Pa. C.S. §1791.1(a) to ensure that violations of providing an itemized invoice listing minimum coverages at the time of application as noted in the Report do not occur in the future.

5. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that violations of providing the notice of tort options at the time of application as noted in the Report do not occur in the future.
6. The Company must review Title 75, Pa. C.S. §1791 to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
7. When a surcharge is imposed on a private passenger automobile policy the Company must include the amount of the surcharge on the premium notice. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.
8. The Company must review Title 75, Pa. C.S. §1731(c)(1) to ensure that policy renewals contain a notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists, as noted in the Report, does not occur in the future.
9. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and sending claim forms within the required time, as noted in the Report, do not occur in the future.

10. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
11. The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that the violation regarding the requirement of a fraud warning on claim forms, as noted in the Report, does not occur in the future.
12. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 of Act 68 [40 P.S. §991.2003].
13. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] and revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not require supporting coverage.
14. The Company must review the PA Assigned Risk Manual, Section 12 to ensure the violations regarding take-out offers, as noted in the Report do not occur in the future.

**XIII. COMPANY RESPONSE**



**Michael G. Crasnick, CPCU, ARM**  
Vice President - Commercial Lines Underwriting  
& Chief Compliance Officer

September 9, 2005

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

RE: Examination Warrant Number: 05-M17-004

Dear Mr. Derk:

I have received and reviewed the Report of Examination prepared by the Pennsylvania Department of Insurance Market Conduct Division. I would like to take this opportunity to respond to the findings in the report. First, however, I would like to thank the Department for its professionalism and courtesy throughout the examination process.

I would like to begin Electric Insurance Company's formal response by addressing the recommendations listed in Section XII on page forty-two of the Department's report. Although Electric Insurance Company's interpretation of several key statutes and regulations differs from that of the Department, we will voluntarily comply with all fourteen recommendations. Our positions are addressed in more detail throughout the rest of the response. Electric Insurance Company will:

1. Review and revise internal control procedures to ensure compliance with cancellation and non-renewal notice requirements. **[We would like to note that only one violation was identified in this area and it is our position that it does not reflect an issue with our internal controls.]**
2. Revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided with the notice required under Title 75, Pa. C.S. Sec. 1705(a)(1), prior to the first issuance of a policy. **[We would like to note that all our customers do currently receive this notice with their application paperwork.]**

3. Provide the insured with a surcharge disclosure plan at the time of application. **[We would like to note that all our customers do currently receive this notice with their application paperwork.]**
4. Provide an itemized invoice listing minimum coverages at the time of application. **[We would like to note that all our customers do currently receive this invoice with their policy package.]**
5. Provide the notice of tort options at the time of application. **[We would like to note that all our customers do currently receive this notice with their application paperwork.]**
6. Give the notice of available benefits to the insured at the time of application. **[We would like to note that all our customers do currently receive this notice with their application paperwork.]**
7. Include the amount of the surcharge on the premium notice.
8. Place a notice in prominent type in policy renewals when the policy does not provide protection against damages caused by uninsured or underinsured motorists.
9. Review and revise internal control procedures to ensure that status letters and claim forms are sent within the required time. **[We would like to note that only three violations were identified in this area and it is our position that this does not reflect an issue with our internal controls.]**
10. Obtain salvage certificates and retain them with the claim file. **[We would like to note that only one violation was identified in this area and it is our position that this does not reflect an issue with our internal controls.]**
11. Use a Pennsylvania-specific fraud warning on its claim forms. **[This has already been added to our automated correspondence effective July 25, 2005.]**
12. Revise and reissue its underwriting guidelines to make them Pennsylvania-specific. **[We would like to note that no underwriting violations were identified where the company excluded an application in violation of reasons established in Section 2003 of Act 68.]**

13. Revise and reissue its underwriting guidelines to ensure that supporting coverage is not required. **[We would like to note that no violations were identified where a consumer was declined due to lack of supporting coverage nor did our guidelines require supporting coverage.]**
14. Review the Assigned Risk Manual regarding take-out offers.

Our detailed responses to all the Department's findings are listed below.

Under Section IV, Underwriting Practices and Procedures, one violation was noted because the homeowner guidelines indicate the Company will not write seasonal property if they do not insure the primary dwelling. This is not actually the case. The Pennsylvania homeowners guidelines clearly state that declination of seasonal properties on the basis of no primary property insured with Electric is not allowed. The guidelines provide that if there is no supporting business and the seasonal property has losses, Electric reserves the right to review the risk prior to underwriting it. We do understand that the Department has a concern that all consumers should be treated the same regardless of whether supporting business is written by the Company, therefore, we have amended our guidelines, effective immediately. The guidelines now state that any seasonal dwelling with losses will be reviewed by Underwriting regardless of whether there is supporting business with Electric.

Under this same section one violation was noted that the Company may not use not-at-fault accidents to refuse to write a policy and one violation was noted that the company may not use comprehensive claims as a reason to refuse to write a policy. Electric uses a generic country-wide set of eligibility guidelines for automobile new business. The guidelines contain a disclaimer that states as follows: "Note: Where state laws conflict with these requirements, the state law will apply." We have a sophisticated automated underwriting system that allows us to program underwriting rules based on specific state requirements. In fact, there were no situations identified during the examination where a declination was based on either of these prohibited reasons. We recognize, however, the Department's concern that they would like to be able to verify that the Company is aware of their state-specific requirements. We have, therefore, created a Pennsylvania-specific set of written eligibility guidelines effective immediately.

Under Section V.A.3, Private Passenger Automobile Nonrenewals, one violation was noted because the Company did not provide 60 days notice of the nonrenewal. This one case involved a unique set of facts regarding a license suspension. The requirements have been clarified with the Underwriting Department and we do not anticipate any similar violations in the future.

Under Section V.A.4, Private Passenger Automobile Declinations, twenty-two violations were noted for failure to provide a written refusal to write and four violations were noted for failure to provide a specific reason. As part of our standard business process, when a consumer does not meet our underwriting standards, our automated quoting system automatically pops up a box offering the sales representative the opportunity to send a written decline letter. If the sales representative clicks "Okay," the system automatically generates a letter with the reasons for the decline. This letter is systematically (via computer automation) sent to our Product Distribution Center to be mailed to the consumer. Unfortunately, during the audit, Electric Insurance Company was unable to produce copies of all of the letters that were sent. Although we are confident that these letters were sent, we are reprogramming the process so that a copy of the letter is also sent to our Imaging System for storage and retrieval, if requested.

Under Section V.B.2, Private Passenger Automobile – Assigned Risk Nonrenewals, five violations were noted for failure to send a take-out notice to the insured at least forty-five days prior to the expiration of the policy. We do not disagree with the Department's findings. We are reviewing our internal process to ensure that all notices are sent in a timely manner.

Under Section VI.A.1, Private Passenger Automobile – New Business Without Surcharges, one violation was noted for failure to provide evidence in the file of a signed rejection of stacked UM/UIM limits. When the policyholder failed to return the signed rejection, the policy was endorsed to include stacked limits.

Under Section VI.A.1, Private Passenger Automobile – New Business Without Surcharges, one violation was noted for failure to provide evidence in the file of a signed statement from the insured requesting a deductible of less than \$500. In this case, the policyholder did not sign and return the required underwriting documents, therefore, the policy was cancelled.

Under Section VI.A.1, Private Passenger Automobile – New Business Without Surcharges and Private Passenger Automobile – New Business With Surcharges, Electric Insurance Company was cited for the entire universe of files for failing to provide certain information "at the time of application." These items include the Medical Benefits Important Notice, the Minimum Limits Invoice, the Tort Option Election Form, and the Surcharge Disclosure Plan. Electric Insurance Company disagrees with the Department's position that its practices fail to comply with the intent and meaning of the statute.

Title 75 requires that forms be provided to the applicant "at the time of application." The statute does not define the phrase "at the time of application." It is the

position of Electric Insurance Company that its process does comply with this requirement. "At the time of application" does not refer to a single point in time, but can be interpreted to mean over the course of a period of time. As a direct writer of insurance, there is, by necessity, contact with the company prior to the completion of the application process; this is how the applicant initiates the application process. Although coverage may be temporarily bound, we do not consider the application to be complete until the applicant has received, reviewed, signed, and returned all application paperwork including the forms required by Title 75. If these forms are not returned within the first sixty days, Electric Insurance Company cancels the policy. It is, therefore, our position that we have not violated any provisions of the statutes cited. We believe that the following description of our process will further substantiate this point.

As a direct writer of insurance, applicants get quotations for coverage by contacting our sales call center in Beverly Massachusetts. Our sales call center is staffed with agents licensed in Pennsylvania who advise applicants of all mandated coverages and limits, as well as all available options, including, but not limited to, medical benefits, tort options, minimum limits, UM/UIM coverage (including stacked versus non-stacked), surcharges, and discounts.

Our sales call center policy processing and rating systems are capable of generating a premium quotation for full and limited tort options as well as for all available limits for the coverages we offer. We can offer the applicant, in real time, a premium comparison between the mandatory minimum limits (bodily injury, property damage, and first party medical expense benefit) and any coverages selected by the applicant. In addition, the agent is able to obtain CLUE and MVR information during the course of the call. This allows our agents to provide an accurate quotation based on the nature of the risk being underwritten and to bind the coverage, should be the caller be interested in buying the policy, with an effective date of the next business day at the earliest.

As a result of our call center processes, we can collect all of the necessary underwriting information during the call with the applicant and temporarily bind coverage, effective 12:01 a.m. the next business day after the call, subject to payment of the premium or a premium deposit which is collected during the call. All of the written disclosures required under Title 75 are mailed to the insured the next business day. The written disclosures contain the verbatim language required under Title 75 and are in the form prescribed by the statute. The Department does not contest the validity of the forms. Customers have the opportunity to review all the forms and disclosures and make changes if they choose to elect different coverages or limits. This can be accomplished

either by calling our Call Center for an immediate change or by noting the changes on the application paperwork and those changes will be processed as soon as the paperwork is returned.

Additionally, it is the position of Electric Insurance Company that the Department should provide its position regarding its interpretation of the phrase "at the time of application" prior to finding violations during an examination. It would have been fairer to issue guidance advising companies of the interpretation and allowing us the opportunity to get into compliance or, at the very least, to note the findings only as concerns for purposes of the market conduct examination report and, again, afford us the opportunity to get into compliance with the Department's interpretation.

It is further the position of Electric Insurance Company that the Department's interpretation of these statutes has a negative effect on direct writers. The Department's interpretation is basically making it impossible for direct writers who run their business from a call center from participating in the marketplace. One of the reasons we are able to offer competitive rates in Pennsylvania as a direct writer is because of the efficiencies we can achieve through the way we do business. Allowing different distribution methods in the marketplace creates more competition. More competition means more access to more products for more consumers as well as competitive pricing of products. Excluding direct writers does not benefit the consumers of Pennsylvania.

Although we disagree with the Department's interpretation of Title 75, we are in the process of examining our options.

Under Section VI.A.1, Private Passenger Automobile – New Business With Surcharges and under Section VI.A.2, Private Passenger Automobile – Renewals With Surcharges, Electric Insurance Company was cited for the entire universe of files for failing to clearly identify the amount of the surcharge penalty. Electric Insurance Company does not disagree that the law requires that the amount of the surcharge be clearly identified. We have already begun the process of programming the necessary changes to display this amount on the declarations page. Programming of this change will be completed within thirty days of the date of the examination report.

Under Section VI.A.2, Private Passenger Automobile – Renewals Without Surcharges and Renewals With Surcharges, a total of three violations were noted for failure to include a notice in the renewal policy that uninsured or underinsured motorist coverage was not provided. All renewal policies contained a Pennsylvania Coverage Selection Form that clearly showed that Uninsured and Underinsured Motorists Coverage has been rejected. Although we believe that we have complied with the requirement to

provide notice, we understand the Department's interpretation and we have programmed our system (effective July 21, 2005) to display this information prominently on the renewal declarations page.

Under Section VII.C, Automobile Collision Claims, one violation was noted for failure to obtain a copy of the salvage certificate where the claimant retained the total loss vehicle. We do not disagree with the Department's finding in this one case.

Under Section VII.E, Automobile First Party Medical Claims, one violation was noted for failure to send a thirty-day status letter to the insured regarding the First Party Benefit Application. We do not disagree with the Department's finding in this one case.

Under Section VII.F, Automobile First Party Medical Claims Referred to a PRO, one violation was noted for failure to notify the provider of the referral. The provider was notified of the referral on our behalf by the peer review organization. It is our understanding that the Department requires that the carrier notify the provider. In the future, we will comply with this requirement, however, at the present time we have discontinued use of peer review referrals.

Under Section VII.F, Automobile First Party Medical Claims Referred to a PRO, one violation was noted for failure to provide a written analysis to the insured. We do not disagree with the Department's finding in this one case. As noted above, Electric Insurance Company has discontinued use of peer review referrals.

Under Section VII.H, Assigned Risk Automobile First Party Medical Claims, one violation was noted for failure to provide a thirty day status letter to the claimant, one violation was noted for failure to send an application for benefits to the claimant within ten working days, and one violation was noted for failure to reprice the provider's charges. All three violations occurred on one claim file. Based on a conversation with the claimant, the adjuster determined that the claimant had finished treating at the time the claim was reported and that the charges were minimal. In an effort to process the claim as quickly and efficiently as possible, the bill was paid as soon as it was received and the claim file was closed. The adjuster has been reminded that, regardless of the size of the claim, all of Electric Insurance Company's standard claim handling practices must be complied with to ensure full compliance with all regulations.

Under Section VIII, Forms, one violation was noted for failure to use a Pennsylvania-specific fraud warning on our policyholder property loss form. The form in question, EIC-48-06-85A, did contain a fraud warning notice; it was just not the specific

Pennsylvania wording. The form was amended effective July 25, 2005 to contain the Pennsylvania-specific wording.

Under Section VIII, Forms, a concern was noted for failure to use the Pennsylvania-specific fraud warning language on our applications, renewals, and claim forms. Title 75, Pa. C.S. Sec. 1822 requires that an application contain a fraud warning that states *in substance* the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." Our application contained a fraud warning that states as follows: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties." It is the position of Electric Insurance Company that this fraud warning does state *in substance* the same information that is contained in Sec. 1822. We have, however, created Pennsylvania-specific forms that contain exactly the same fraud warning language that is contained in Sec. 1822. Those forms were put into production effective August 5, 2005.

Under Section X, Consumer Complaints, one complaint was reviewed where Electric Insurance Company improperly applied a surcharge to a policy. Electric Insurance Company promptly corrected the error and refunded premium to our customer. The complaint was the result of an isolated incident and did not reflect a problem or trend with the application of our surcharges.

Under Section X, Consumer Complaints, one complaint was reviewed where the company failed to clearly identify the amount of the surcharge penalty on the policy. This is the same issue that was identified in the Private Passenger Automobile – New Business With Surcharges and Private Passenger Automobile – Renewals With Surcharges sections of the examination. As addressed above, Electric Insurance Company does not disagree with the finding and has already begun the process of programming the necessary changes to display the amount of the surcharge on the declarations page.

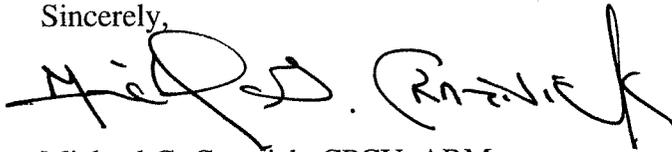
Under Section X, Consumer Complaints, one complaint was reviewed where the company failed to provide timely notice of a nonrenewal. This is the same policy file that was identified in the Private Passenger Automobile Nonrenewals section of the examination. As addressed above, this case involved a unique set of facts regarding a

Chester A. Derk Jr  
RE: Examination Warrant Number: 05-M17-004  
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license suspension. The requirements have been clarified with the Underwriting Department and we do not anticipate any similar violations in the future.

Thank you for this opportunity to provide our response to your examination report. Please do not hesitate to contact me at 978-524-5168 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael G. Crasnick". The signature is stylized with a large initial "M" and a long, sweeping underline.

Michael G. Crasnick, CPCU, ARM  
Vice-President & Chief Compliance Officer