

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**FOREMOST INSURANCE COMPANY GRAND
RAPIDS MICHIGAN
FOREMOST SIGNATURE INSURANCE COMPANY
Caledonia, Michigan**

**AS OF
April 22, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 19, 2005

VERIFICATION

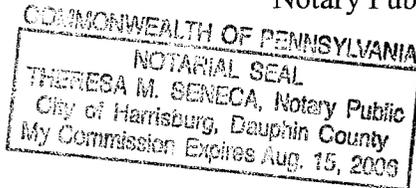
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


Constance Arnold, Examiner-In-Charge

Sworn to and Subscribed Before me

This 19 Day of April, 2005


Notary Public



**FOREMOST INSURANCE COMPANY
FOREMOST SIGNATURE INSURANCE COMPANY**

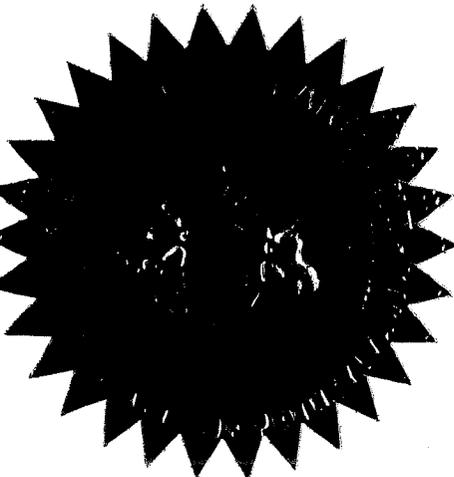
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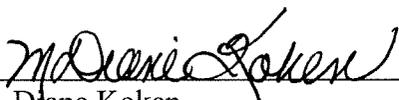
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
FOREMOST INSURANCE	:	Section 671-A of Act 147 of 2002
COMPANY GRAND RAPIDS,	:	(40 P.S. § 310.71)
MICHIGAN	:	
FOREMOST SIGNATURE	:	Sections 4(a) and (h) of the Act of June
INSURANCE COMPANY	:	11, 1947, P.L. 538, No. 246 (40 P.S.
5600 Beech Tree Lane	:	§ 1184)
Caledonia, MI 49316-0050	:	
	:	Act 1990-6, Sections 1791.1(a),
	:	1793(b), and 1799.3(d) (75 Pa.
	:	C.S. §§ 1791.1(a) 1793 and 1799.3(d))
	:	
	:	Section 3(a)(6) of the Act of July 3,
	:	1986, P.L. 396, No. 86 (40 P.S.
	:	§ 3403(a)(6))
	:	
	:	Sections 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(ii), 5(a)(9)(iii), 5(a)(9)(iv) and
	:	5(a)(9)(v) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. § 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	62.3(e)(1)(i-iii) and (7), 146.6 and
	:	146.7(a)(1)
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	
Respondent.	:	Docket No. MC05-04-028

CONSENT ORDER

AND NOW, this 19th day of MAY, 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.

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent specifically denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

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

- (a) Respondent is Foremost Insurance Company Grand Rapids, Michigan, and Foremost Signature Insurance Company, and maintains its address at 5600 Beech Tree Lane, Caledonia, Michigan 49316-0050.

- (b) A market conduct examination of Respondent was conducted by the Pennsylvania Insurance Department (Department) covering the period from January 1, 2003 through December 31, 2003.
- (c) On April 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 May 13, 2005.
- (e) The Examination Report notes violations of the following:
 - (i) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71);
 - (ii) 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;
 - (iii) Section 1791.1(a) of Act 1990-6, 75 Pa.C.S. § 1791.1(a), which requires that “[a]t 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;"

- (iv) Section 1793(b) of Act 1990-6, 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;

- (v) Section 1799.3(d) of Act 1990-6, 75 Pa.C.S. § 1799.3(d), 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;”

- (vi) Section 3(a)(6) of Act 86 (40 P.S. § 3403(a)(6)), which requires a commercial policy “nonrenewal notice shall state that, at the insured’s request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;”

- (vii) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5(a)(7)(iii)), which prohibits unfair discrimination by means of “[m]aking or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;”

(viii) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5(a)(9)), which defines an unfair act or practice as (“) [c]ancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;”

- (ix) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5(a)(9)(ii)), which requires that a cancellation notice “[s]hall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;”
- (x) Section 5(a)(9)(iii) of Act 205 (40 P.S. § 1171.5(a)(9)(iii)), which requires that a cancellation notice shall “[s]tate the specific reason or reasons of the insurer for cancellation or refusal to renew;”
- (xi) Section 5(a)(9)(iv) of Act 205 (40 P.S. § 1171.5(a)(9)(iv)), which requires that a cancellation notice shall “[a]dvice the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew, that the insurance commissioner review the action of the insurer;”
- (xii) Section 5(a)(9)(v) of Act 205 (40 P.S. § 1171.5(a)(9)(v)), which requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under Act 233, The PA Fair Plan Act;
- (xiii) Title 31, Pennsylvania Code, Section 62.3(e)(1)(i-iii), which requires the replacement value of a motor vehicle be calculated by

use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method;

- (xiv) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states “[t]he appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report’s contents and of the consumer’s right to be sent a copy within 5 days after its completion;”

- (xv) Title 31, Pennsylvania Code, Section 146.6, requires that “[e]very insurer shall complete [an] investigation of a claim within 30 days after notification of [the] claim, unless the 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;”

- (xvi) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires “[w]ithin 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of

the acceptance or denial of the claim by the insurer. An insurer may not deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;” and

- (xvii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)(1), requires “[a]ll applications for insurance and all claim forms 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.”

CONCLUSIONS OF LAW

5. 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 Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 (40 P.S. § 1196) 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 3(a)(6) of Act 86 (40 P.S. § 3403), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

- (i) Order that the insurer cease and desist from the violation.
- (ii) Impose a fine or not more than \$5,000 for each violation.

(e) Respondent's violations of Sections 5(a)(7)(iii), 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iii) 5(a)(9)(iv) and 5(a)(9)(v) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(f) 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).
- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7 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

6. 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 Examination 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 Examination Report.
- (d) Respondent shall pay Two Hundred and Twenty-Five Thousand Dollars (\$225,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Examination 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.

7. 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.

8. 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.

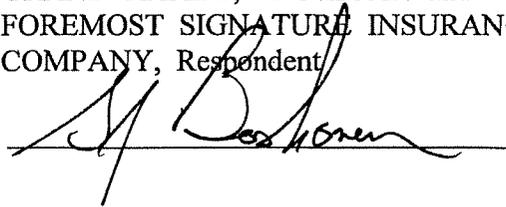
9. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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

11. 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.

12. 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: FOREMOST INSURANCE COMPANY
GRAND RAPIDS, MICHIGAN and
FOREMOST SIGNATURE INSURANCE
COMPANY, Respondent



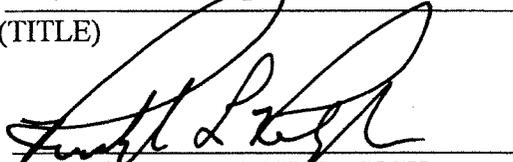
Chief Operating Officer

(TITLE)



VP, Secretary & Associate General Counsel

(TITLE)



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Foremost Insurance Company Grand Rapids, Michigan and Foremost Signature Insurance Company's offices located in Caledonia, Michigan, from October 12, 2004, through November 19, 2004. 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

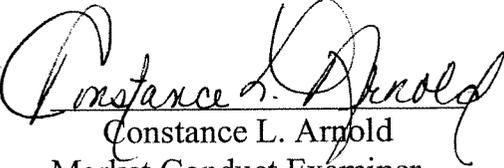
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

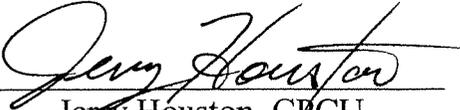
The undersigned participated in this examination and in preparation of this Report.



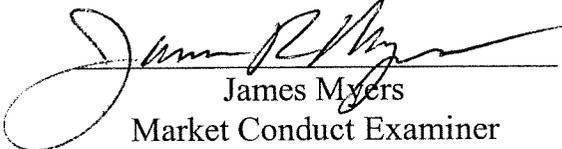
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Constance L. Arnold
Market Conduct Examiner



Jerry Houston, CPCU
Market Conduct Examiner



James Myers
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Foremost Insurance Company Grand Rapids, Michigan and Foremost Signature Insurance Company, hereinafter referred to as “Company,” at their office located in Caledonia, Michigan. 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, 2003, through December 31, 2003, 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. Motor Home and Motor Cycle
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating - Proper use of all classification and rating plans and procedures.

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

3. Dwelling Fire
 - Rating – Proper use of all classification and rating plans and procedures.

4. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations, declinations and renewals.

5. Claims

6. Forms

7. Advertising

8. Complaints

9. Licensing

III. COMPANY HISTORY AND LICENSING

Foremost Insurance Company Grand Rapids, Michigan was incorporated with the title Foremost Insurance Company under the laws of Michigan on June 12, 1952, and began business the same day. The words "Grand Rapids, Michigan," were added to its name in 1963.

Foremost Signature Insurance Company was incorporated September 7, 1982, under the laws of Michigan, and began business on October 25, 1982. Operations of the Company were conducted under the title American Freedom Insurance Company from organization until February 1, 1988, when the present corporate title was adopted.

LICENSING

Foremost Insurance Company Grand Rapids, Michigan's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in all states and the District of Columbia. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$26,592,411. Premium volume related to the areas of this review were: Fire \$4,950,091; Homeowners multiple peril \$10,005,644; Inland Marine \$32,225; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$98,206; Private Passenger Auto Liability \$3,496,367 and Private Passenger Auto Physical Damage \$5,304,384.

Foremost Signature Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia,

Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Virginia, Washington, West Virginia and Wisconsin. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$4,011,033. Premium volume related to the areas of this review were: Homeowners multiple peril \$3,799,474; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$3,843; Private Passenger Auto Liability \$29,784 and Private Passenger Auto Physical Damage \$169,083.

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 mobile homes, motor homes, travel trailers, motor cycle and off-road vehicles, homeowners and dwelling fire, family boaters and personal watercraft. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. UNDERWRITING

A. Motor Home and Motor Cycle

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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 6,616 motor home and motor cycle policies reported by the Company as cancelled within the first 60 days of new business, 27 files were reviewed. No violations were noted.

Foremost Signature Insurance Company

The Company did not report any motor home or motor cycle policies cancelled within the first 60 days of new business during the experience period.

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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 1,802 motor home and motor cycle policies identified as midterm cancellations by the Company, 50 files were reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 15 motor home files identified as midterm cancellations by the Company was selected for review. All 15 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.

Foremost Insurance Company Grand Rapids, Michigan

The universe of 7 motor home files identified as nonrenewals by the Company, was selected for review. All 7 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 1 motor home file identified as a nonrenewal by the Company, was selected for review. The file was received and reviewed. No violations were noted.

4. Declinations

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

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

Foremost Insurance Company Grand Rapids, Michigan

The universe of 2 motor home files identified as declinations by the Company was selected for review. The 2 files were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 6 motor home files identified as declinations by the Company was selected for review. The 6 files selected were received and reviewed. The 2 violations were based on 2 files, resulting in an error ratio of 33%.

The following findings were made:

2 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The 2 violations were the result of the Company using age as a reason for declination.

B. 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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 1,702 property policies, which were cancelled in the first 60 days of new business, 100 policies were selected for review. The policies consisted of 212 homeowner, 71 owner occupied dwelling fire, 48 mobile homeowners, 5 travel trailer and 1,366 off-road vehicles. All 100 files selected were received and reviewed. The 2,420 violations were based on 1,210 files, which was a portion of the universe of off-road vehicle policies.

The following findings were made:

1,210 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer.

The 1,210 violations noted were the result of off-road vehicle cancellation notices being issued without the required information.

1,210 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”.

The 1,210 violations noted were the result of off-road vehicle

cancellation notices being issued without the required information.

Foremost Signature Insurance Company

The universe of 3 travel trailer policies which were cancelled in the first 60 days of new business was selected for review. All 3 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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 3,226 property policies, which were identified as midterm cancellations by the Company, 200 policies were selected for review. The policies consisted of 555 homeowner, 74 inland marine, 193 owner occupied dwelling fire, 1,620 mobile homeowners, 451 travel trailer and 333 off-road vehicles. All 200 files selected were received and reviewed. The 589 violations were based on 295 files, which was a portion of the universe for off-road vehicle and inland marine policies and one homeowner policy.

The following findings were made:

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The violation was due to homeowner cancellation notice being issued that did not provide the required thirty days.

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The 294 violations noted were the result of inland marine and off-road vehicle cancellation notices being issued without the required information.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The 294 violations noted were the result of inland marine and off-road vehicle cancellation notices being issued without the required information.

Foremost Signature Insurance Company

From the universe of 1,325 property policies, which were identified as midterm cancellations by the Company, 80 policies were selected for review. The policies consisted of 5 homeowner, 1,279 mobile homeowners

and 41 travel trailer. All 80 files selected 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.

Foremost Insurance Company Grand Rapids, Michigan

The universe of 65 property policies, which were nonrenewed during the experience period was selected for review. All 65 files selected were received and reviewed. The property policies consisted of homeowners, owner occupied dwelling fire, mobile home and travel trailer. The 31 violations were based on 31 files, resulting in an error ratio of 48%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the

acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Thirty violations were noted for use of an improper reason to nonrenew the policy. The reasons used were nonrenewal based on credit, claims history, agent no longer represents the company and unsubstantiated increase in hazard.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a nonrenewal notice shall state the specific reason or reasons of the insurer for cancellation. The violation was due to a nonrenewal notice being issued that did not provide a specific reason for the nonrenewal.

Foremost Signature Insurance Company

From the universe of 304 property policies, which were nonrenewed during the experience period, 99 policies were selected for review. All 99 files selected were received and reviewed. The property policies consisted of homeowners, mobile home and tenant homeowners. The 5 violations were based on 5 files, resulting in an error ratio of 5%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 5 violations noted were the result of an improper reason to nonrenew the policy. The reasons used were nonrenewal based on agent no longer represents the Company and claims history.

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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 157 property files, identified as declinations by the Company, 66 files were selected for review. The property policies consisted of mobile home, travel trailer, homeowners and owner occupied dwelling fire. All 66 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 8 property files, identified as declinations by the Company, was selected for review. The property policies consisted of mobile home and travel trailer. All 8 files selected were received and reviewed. No violations were noted.

C. Commercial Property

1. 60-Day Cancellations

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 340 commercial property policies cancelled within the first 60 days of new business, 38 files were selected for review. The policies consisted of tenant occupied dwelling fire and rental mobile

homeowners. All 38 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any commercial property policies cancelled within the first 60 days of new business.

2. Midterm Cancellations

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 830 tenant occupied dwelling fire policies, which were cancelled during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any commercial property policies which were cancelled during the experience period.

3. Nonrenewals

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

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 134 tenant occupied dwelling fire policies identified as nonrenewals by the Company, 25 policies were selected for review. All 25 files selected were received and reviewed. The 17 violations noted were based on 17 files, resulting in an error ratio of 68%.

The following findings were made:

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

Requires that a nonrenewal notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 17 files noted were absent any evidence this requirement was complied with.

Foremost Signature Insurance Company

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

4. Renewals

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 5,693 commercial property policies, which were renewed during the experience period, 103 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial inland marine and commercial fire. All 103 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

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

5. Declinations

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 52 tenant occupied dwelling fire policies identified as declinations by the Company, 20 files were selected for review. All 20 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

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

VI. RATING

A. Motor Home and Motor Cycle

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 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, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

New Business Without Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 27,873 motor home and motor cycle policies identified as new business without surcharges by the Company, 120 files were selected for review. The policies consisted of 264 motor home and 27,609 motor cycle. All 120 files requested were received and reviewed. The 83,362 violations were based on the universe of 27,873, which resulted in an error ratio of 100%.

The following findings were made:

*27,616 Violations 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 27,616 violations were the result of policies being issued with improper rates. Of the 27,616 violations, 27,609 were the result of the Company not applying the preferred discount to comprehensive, collision and medical payments coverage and applying a renewal discount to uninsured and underinsured motorist coverage for motor cycle policies, which was not applicable. These policies must be rerated following the filed plan during the experience period. The remaining 7 violations were due to improper rates for uninsured and underinsured motorist

coverage. The insured chose and signed for nonstacked limits and the Company provided and charged for stacked limits. This resulted in overcharges of \$106.

27,873 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 27,873 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

27,873 Violations Act 1990-6, Section 17, 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 27,873 violations noted were the result of the Company not providing the itemized invoice at the time of application.

Foremost Signature Insurance Company

From the universe of 52 motor home policies identified as new business without surcharges by the Company, 10 files were selected for review. The 10 files requested were received and reviewed. The 104 violations were based on the universe of 52 files, resulting in an error ratio of 100%.

The following findings were made:

52 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 52 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

52 Violations Act 1990-6, Section 17, 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 52 violations noted were the result of the Company not providing the itemized invoice at the time of application.

New Business With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 198 motor home and motor cycle policies identified as new business with surcharges by the Company, 60 files were selected for review. The policies consisted of 10 motor home and 188 motor cycle. All 60 files selected were received and reviewed. The 801 violations were based on the universe of 198 files, resulting in an error ratio of 100%.

The following findings were made:

*207 Violations 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 207 violations were the result of policies being issued with improper rates. Of the 207 violations, 188 were the result of the Company not applying the preferred discount to comprehensive, collision and medical payments coverage and applying a renewal discount to uninsured and underinsured motorist coverage for motor cycle policies, which was not applicable. These policies must be rerated following the filed plan during the experience period. One violation was due to improper rates for uninsured and underinsured motorist coverage. The insured chose and signed for nonstacked limits and the Company provided and charged for stacked limits. This resulted in an overcharge of \$10. The remaining 18 violations were due to improper surcharges. The Company did not verify the total loss or damage caused by the accident exceeded \$1,050 for at-fault accidents, which is stated in the Company's filed rating plan. The Company does not request Clue Reports, which would indicate the amount of damage paid out. This resulted in overcharges of \$1,590.96.

198 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 198 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

198 Violations Act 1990-6, Section 19, 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 198 violations noted were the result of the Company not informing the insured of specific dates for accidents and/or violations, which were subject to surcharge in the disclosure on the premium notice.

198 Violations Act 1990-6, Section 17, 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 198 violations noted were the result of the Company not providing the itemized invoice at the time of application.

Foremost Signature Insurance Company

The universe of 2 motor home policies identified as new business with surcharges by the Company was selected for review. Both files requested were received and reviewed. The 6 violations noted were based on the universe of 2 files, resulting in an error ratio of 100%.

The following findings were made:

2 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 2 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

2 Violations Act 1990-6, Section 19, 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 2 violations noted were the result of the Company not informing the insured of specific dates for accidents and/or violations, which were subject to surcharge in the disclosure on the premium notice.

2 Violations Act 1990-6, Section 17, 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 2 violations noted were the result of the Company not providing the itemized invoice at the time of application.

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 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, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Renewals Without Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 2,691 motor home and motor cycle policies renewed without surcharges during the experience period, 100 files were selected for review. The automobile policies consisted of 1,158 motor home and 1,533 motor cycle. All 100 files selected were received and reviewed. The 1,961 violations noted were based on 1,533 motor cycle files.

The following findings were made:

1,961 Violations 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 1,961 violations were the result of policies being issued with improper rates. Of the 1,961 violations, 1,533 violations were due to the Company not applying the

preferred discount to comprehensive, collision and medical payments coverage and applying a renewal discount to uninsured and underinsured motorist coverage for motor cycle policies, which was not applicable. These policies must be rerated following the filed plan during the experience period. The remaining 428 violations were due to use of credit as a tier-placement factor to increase premium at renewal for motor cycle policies whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

Foremost Signature Insurance Company

From the universe of 98 motor home policies renewed during the experience period, 15 files without surcharges were selected for review. All 15 files selected were received and reviewed. No violations were noted.

Renewals With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

The universe of 41 motor home and motor cycle policies renewed with surcharges during the experience period was selected for review. The automobile policies consisted of 11 motor home and 30 motor cycle. All 41 files selected were received and reviewed. The 78 violations noted were based on the universe of 41 files, resulting in an error ratio of 100%.

The following findings were made:

*37 Violations 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 37 violations were the result of policies being issued with improper rates. Of the 37 violations, 22 violations were due to the Company not applying the preferred discount to comprehensive, collision and medical payments coverage and applying a renewal discount to uninsured and underinsured motorist coverage for motor cycle policies, which was not applicable. These policies must be rerated following the filed plan during the experience period. Seven violations were due to improper surcharges applied to the policy. The Company did not verify that the total loss or damaged caused by the accident exceeded \$1,050 for at-fault accidents, which is stated in the Company's filed rating plan. The Company does not request clue reports, which would indicate the amount of damage paid out. This resulted in overcharges of \$1,063.29. The remaining 8 violations were due to use of credit as a tier-placement factor to increase premium at renewal for motor cycle policies whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

41 Violations Act 1990-6, Section 19, 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 41 violations noted were the result of the Company not informing the insured of specific dates for accidents and/or violations, which were subject to surcharge in the disclosure on the premium notice.

Foremost Signature Insurance Company

The universe of 1 motor home policy renewed during the experience period with surcharges was selected for review. The file selected was received and reviewed. The violation noted resulted in an error ratio of 100%.

The following finding was made:

1 Violation Act 1990-6, Section 19, 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 violation noted was the result of the Company not informing

the insured of specific dates for accidents and/or violations, which were subject to surcharge in the disclosure on the premium notice.

B. 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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 8,181 homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. The files consisted of 5,355 mobile home and 2,826 specialty dwelling policies. All 100 files were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any homeowner policies written as new business during the experience period.

Homeowners - New Business With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 724 specialty dwelling policies written as new business with surcharges during the experience period, 50 files were selected for review. The files consisted of specialty dwelling. All 50 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any homeowner policies written as new business during the experience period.

2. Renewals

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

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

Homeowners – Renewals Without Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 11,184 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. The homeowner policies consisted of 9,334 mobile home and 1,850 specialty dwelling. All 100 files selected were received and reviewed. The

160 violations noted were based off the universe of 1,850 specialty dwelling policies.

The following findings were made:

*160 Violations 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 160 violations were the result of specialty dwelling policies being issued with improper rates. The violations were due to use of credit as a tier-placement factor to increase premium at renewal whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

CONCERN: The specialty dwelling homeowner policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the Department's position on surcharge disclosure was provided to all companies, in an Important Notice dated September 18, 1998.

Foremost Signature Insurance Company

From the universe of 10,988 mobile 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.

Homeowners – Renewals With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 258 specialty dwelling policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 25 violations noted were based on the universe, resulting in an error ratio of 10%.

The following findings were made:

*25 Violations 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 25 violations were the result of specialty dwelling policies being issued with improper rates. The violations were due to use of credit as a tier-placement factor to increase premium at renewal whereas, it is the Department's position that the filed and approved rate

manuals only allow use of credit as a tier-placement factor for new business.

CONCERN: The specialty dwelling homeowner policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan was provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the Department's position on surcharge disclosure was provided to all companies, in an Important Notice dated September 18, 1998.

Foremost Signature Insurance Company

This Company did not report any homeowner renewals with surcharges during the experience period.

C. Dwelling Fire

1. New Business

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 2,672 dwelling fire policies written as new business during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any dwelling fire new business during the experience period.

2. Renewals

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 2,113 dwelling fire policies renewed during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 18 violations noted were based on the universe, resulting in an error ratio of 1%.

The following findings were made:

*18 Violations 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 18 violations were the result of specialty dwelling policies being issued with improper rates. The violations were due to use of credit as a tier-placement factor to increase premium at renewal whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

Foremost Signature Insurance Company

This Company did not report any dwelling fire renewals during the experience period.

D. Travel Trailer

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.

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 870 travel trailer policies written as new business during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

From the universe of 134 travel trailer policies written as new business during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. No violations were noted.

2. Renewals

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

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

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 3,205 travel trailer policies renewed during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

From the universe of 279 travel trailer policies renewed during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. No violations were noted.

E. Off-Road Vehicles

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.

New Business Without Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 4,055 off-road vehicle policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The

1,899 violations were based on the universe, resulting in an error ratio of 47%.

The following findings were made:

*1,899 Violations 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 1,899 violations were the result of policies being issued with improper rates. The Company provided pedestrian first party benefits coverage to off-road vehicle new business policies and charged \$1 premium for this coverage, which was not an approved filing. The Company ceased this practice as of 7/1/03 for new business policies.

Foremost Signature Insurance Company

This Company did not report any off-road vehicle new business policies during the experience period.

New Business With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 63 off-road vehicle policies written as new business with surcharges during the experience period, 10 files were selected for

review. All 10 files selected were received and reviewed. The 35 violations were based on the universe, resulting in an error ratio of 56%.

The following findings were made:

*35 Violations 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 35 violations were the result of policies being issued with improper rates. Of the 35 violations, 31 were the result of the Company providing pedestrian first party benefits coverage to off-road vehicle new business policies and charged \$1 premium for this coverage, which was not an approved filing. The Company ceased this practice as of 7/1/03 for new business policies. The remaining 4 violations were due to improper surcharges. The Company did not verify the total loss or damage caused by the at-fault accident exceeded \$1,050, which is required for the Company to surcharge for the accident. The Company does not request clue reports, which would indicate the amount of damage paid out. This resulted in overcharges of \$338.

Foremost Signature Insurance Company

This Company did not report any off-road vehicle new business policies during the experience period.

2. Renewals

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

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

Renewals Without Surcharges

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 733 off-road vehicle policies renewed without surcharges during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. The 217 violations noted were based on the universe, resulting in an error ratio of 30%.

The following findings were made:

*217 Violations 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 217 violations were the result of policies being issued with improper rates. Of the 217 violations, 56 were the result of the Company providing pedestrian first party benefits coverage to off-road vehicle policies and charged \$1 premium for this coverage, which was not an approved filing. The Company ceased this practice as of 8/1/03 for renewal policies. The remaining 161 violations were due to use of credit as a tier-placement factor to increase premium at renewal whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

Foremost Signature Insurance Company

This Company did not report any off-road vehicle renewal policies during the experience period.

Renewals With Surcharges

Foremost Insurance Company Grand Rapids, Michigan

The universe of 9 off-road vehicle policies renewed with surcharges during the experience period was selected for review. All 9 files selected were received and reviewed. The 6 violations noted were based on 4 files, resulting in an error ratio of 44%.

The following findings were made:

*6 Violations 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 6 violations were the result of policies being issued with improper rates. Of the 6 violations, 2 violations were the result of the Company providing pedestrian first party benefits coverage to off-road vehicle policies and charged \$1 premium for this coverage, which was not an approved filing. The Company ceased this practice as of 8/1/03 for renewal policies. One violation was due to use of credit as a tier-placement factor to increase premium at renewal whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business. The remaining 3 violations were due to improper surcharges. The Company did not verify that the total loss or damage caused by the accident exceeded \$1,050 for at-fault accidents, which is stated in the Company's filed rating plan. The Company does not request clue reports, which would indicate the amount of damage paid out. This resulted in overcharges of \$27.

Foremost Signature Insurance Company

This Company did not report any off-road vehicle renewal policies during the experience period.

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. Property Damage Claims
- B. Comprehensive Claims
- C. Collision Claims
- D. Total Loss Claims
- E. First Party Medical Claims
- F. Homeowner Claims
- G. 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. Property Damage Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 94 property damage claims reported during the experience period, 25 claim files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 3 property damage claims reported during the experience period was selected for review. All 3 files requested were received and reviewed. No violations were noted.

B. Comprehensive Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 297 comprehensive claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 34 comprehensive claims reported during the experience period was selected for review. All 34 files requested were received and reviewed. No violations were noted.

C. Collision Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 377 collision claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

The universe of 3 collision claims reported during the experience period was selected for review. All 3 files requested were received and reviewed. No violations were noted.

D. Total Loss Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 71 total loss claims reported during the experience period, 58 files were selected for review. All 58 files selected were received and reviewed. The 122 violations noted were based on the universe, resulting in an error ratio of 100%.

The following findings were made:

8 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 8 violations noted were absent any evidence this requirement was complied with.

1 Violation Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violation noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

42 Violations Title 31, Pa. Code, Section 62.3(e)(1)

Requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company did not calculate the replacement value by using one of the 3 approved methods.

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

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy of within 5 days after its completion. The Company did not provide a copy of the total loss evaluation to the insured.

Foremost Signature Insurance Company

This Company did not report any total loss claims during the experience period.

E. First Party Medical Claims

Foremost Insurance Company Grand Rapids, Michigan

The universe of 19 first party medical claims reported during the experience period was selected for review. All 19 files were received and reviewed. The 2 violations noted resulted in an error ratio of 11%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 2 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

Foremost Signature Insurance Company

This Company did not report any first party medical claims during the experience period.

F. Homeowner Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 1,965 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Foremost Signature Insurance Company

This Company did not report any homeowner claims during the experience period.

G. Dwelling Fire Claims

Foremost Insurance Company Grand Rapids, Michigan

From the universe of 574 dwelling fire claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 4 violations noted were based on 3 files, resulting in an error ratio of 6%.

The following findings were made:

3 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 3 violations noted were absent any evidence this requirement was complied with.

1 Violation Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violation noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

Foremost Signature Insurance Company

This Company did not report any dwelling fire claims during the experience period.

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 findings were made:

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the proper fraud warning on the mobile home application form 737477 07/01; dwelling fire application form 4180-88 11/01 and specialty dwelling application form 4010-99 11/01.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertising in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 144 pieces of advertising, which included direct mailers, magazine ads, mailers and brochures. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The universe of 45 complaints filed within the experience period was selected for review. All 45 complaints selected were 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:

Foremost Insurance Company Grand Rapids, Michigan

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

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

increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 3 violations noted were due to an improper reason for nonrenewal.

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The violation was due to a cancellation notice being issued that did not provide the required thirty days.

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 due to use of credit as a tier-placement factor to increase premium at renewal for a motor cycle policy whereas, it is the Department's position that the filed and approved rate manuals only allow use of credit as a tier-placement factor for new business.

The following synopsis reflects the nature of the 45 complaints that were reviewed.

Foremost Insurance Company Grand Rapids, Michigan

• 27	Cancellation/Nonrenewal	64%
• 10	Claims Related	24%
• 4	Premium	10%
• 1	Service	2%
<hr/>		<hr/>
42		100%

Foremost Signature Insurance Company

• 1	Cancellation/Nonrenewal	33%
• 1	Claims Related	33%
• 1	Premium	34%
<hr/>		<hr/>
3		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, and effective June 4, 2003, 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 agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following findings were made:

6 Violations Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)

Effective 06/04/2003

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineate the services to be provided; and

(2) Provide full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of

appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records of having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Foremost Insurance Company Grand Rapids, Michigan
Reed & Dallas Insurance Agency
Susan Triggiani
Donlin Agency, Inc.
Steven P. Lesser

Foremost Signature Insurance Company
Steven P. Lesser
Berkepile Insurance Agency, Inc.

XII. RECOMMENDATIONS

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

1. The Company must review Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.
2. The premium overcharges noted in the rating section of this report, other than those for use of credit at renewal, motorcycle discount factors and off-road vehicles pedestrian first party benefits, must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.
3. The premium overcharges noted in the rating section of this report for use of credit at renewal, motorcycle discount factors and off-road vehicles pedestrian first party benefits must be calculated and a report thereof provided to the Insurance Department within 120 days of the report issue date. For calculating overcharges due to use of credit at renewal, the term under review must be compared to the first term in which Respondent used credit for tier placement. Within 30 days of agreement by the Department to the amounts reported, the calculated overcharges must then be refunded to the insured, which in the case of current term policies may result in the issuance of a check if paid in full or an adjustment of future billings if the insured is on an installment plan, and proof of such refund must be provided to the Department.

4. 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.
5. The Company must review Act 1990-6, Section 17, 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.
6. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1799.3(d) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure statement listing the dates of accidents and/or violations as noted in the Report do not occur in the future.
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
8. The Company must review Act 205, Sections 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
9. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice

requirements of Act 86, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.

10. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, claim acceptance and denials as noted in the Report do not occur in the future.

11. The Company must review Title 31, Pennsylvania Code, Sections 62.3(e)(1) and 62.3(e)(7) regarding total loss evaluations as noted in the Report do not occur in the future.

XIII. COMPANY RESPONSE

May 13, 2005

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

Re: *Response to the Report of Market Conduct Examination Warrant: 04-M08-010 Foremost Insurance Company, Foremost Signature Insurance Company*

Dear Mr. Derk:

On behalf of Foremost Insurance Company Grand Rapids, Michigan and Foremost Signature Insurance Company (collectively "Foremost" or "We"), please allow this letter to serve as our response to the Report of the Market Conduct Examination Warrant Number 04-M08-010 (the "Report"), which was received with your cover letter dated April 22, 2005. We have reviewed the Report and respectfully submit this response.

This response will address the recommendations beginning on page 63 of the Report. The recommendations made in the Report identify measures that the Department believes are necessary as a result of the number or the nature of the alleged violations noted in the Report. With respect to the other exceptions covered in the Report, but not addressed in the recommendations or within this response, Foremost wishes to note that the remaining areas typically involve a single or statistically insignificant number of unique errors and not a trend. Those exceptions are a reflection of human error or deviation from Foremost's established procedures and practices and do not require material institutional corrective actions. Foremost has nonetheless taken steps to minimize the recurrence of these issues in the future.

We have organized our response in relation to the recommendations set forth in the Report as follows:

- 1. The Company must review Act 246, Section 4 [40 P.s. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.**

- Foremost accepts this recommendation and prior to the examination had already implemented additional checks and balances to ensure that the rating systems loaded on its computers matches the filed and approved rate plans.
2. **The premium overcharges noted in the rating section of this report, other than those for motorcycle discount factors and use of credit at renewal, must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.**
- Foremost accepts this recommendation and is in the process of refunding premium overcharges, other than those for motorcycle discount factors and use of credit at renewal.
3. **The premium overcharges noted in the rating section of this report for motorcycle discount factors and use of credit at renewal must be calculated and a report thereof provided to the Insurance Department within 120 days of the report issue date. For calculating overcharges due to use of credit at renewal, the term under review must be compared to the first term in which Respondent used credit for tier placement. Within 30 days of agreement by the Department to the amounts reported, the calculated overcharges must then be refunded to the insured, which in the case of current term policies may result in the issuance of a check if paid in full or an adjustment of future billings if the insured is on an installment plan, and proof of such refund must be provided to the Department.**
- Foremost accepts this recommendation to bring this matter to a resolution and is currently working on providing the calculation and reporting of the premium refunds. Foremost began changing its practice prior to the start of the examination after the Insurance Department clearly communicated its position to Foremost for the first time. The lack of legal requirements or Insurance Department notification resulted in the inability of Foremost to comply with the department's unstated position on the use of credit at renewal. Foremost believes that its filed and approved rate plans allowed the use of credit at renewal in the manner used by Foremost.

- 4. 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.**

 - Foremost accepts this recommendation and will review and revise its applications for its various motor vehicle insurance programs to include disclosure of its surcharge disclosure plans.

- 5. The Company must review Act 1990-6, Section 17, 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.**

 - Foremost accepts this recommendation and will review and revise its procedures to ensure that violations do not occur in the future.

- 6. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. § 1799.3(d) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure statement listing the dates of accidents and/or violations as noted in the report do not occur in the future.**

 - Foremost accepts this recommendation and will review and revise its procedures to ensure that violations do not occur in the future.

- 7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.s. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.**

 - Foremost accepts this recommendation and has already developed a supplemental audit to identify producers to ensure that they are properly licensed and appointed.

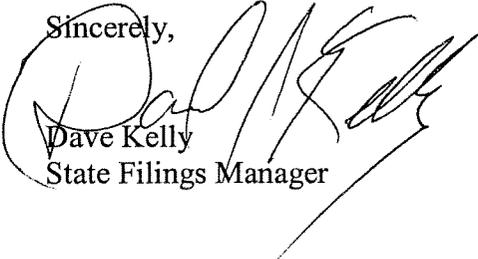
- 8. The Company must review Act 205, Sections 5(a)(9) [40 P.s. § 1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.**

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- Foremost accepts this recommendation and will review and revise its processes and procedures to ensure compliance with respect to cancellation.
9. **The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 86, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.**
- Foremost accepts this recommendation and will review and revise its control procedures to insure that violations do not occur in the future.
10. **The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, claim acceptance and denials as noted in the Report do not occur in the future.**
- Foremost accepts this recommendation and will review and revise its control procedures to ensure that violations do not occur in the future.
11. **The Company must review Title 31, Pennsylvania Code, Sections 62.3(e)(1) and 62.3(e)(7) regarding total loss evaluations as noted in the Report do not occur in the future.**
- Foremost accepts this recommendation and will review and revise its procedures to insure that violations do not occur in the future.

Thank you for your consideration on this matter and for providing us with an opportunity to respond to the Report. We wish to offer our sincere gratitude to the Department and each individual examiner for the courtesies granted Foremost throughout the course of this examination.

Sincerely,

Dave Kelly
State Filings Manager