

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

GENERAL CASUALTY COMPANY OF WISCONSIN
Sun Prairie, Wisconsin

**AS OF
June 13, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 8, 2005

VERIFICATION

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

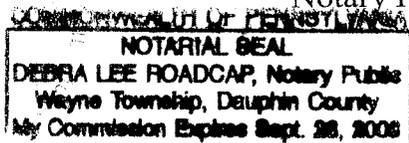
M. Katherine Sutton

M. Katherine Sutton

Sworn to and Subscribed Before me
This *1st* Day of *April*, 2005

Debra Lee Roadcap

Notary Public



General Casualty Company of Wisconsin

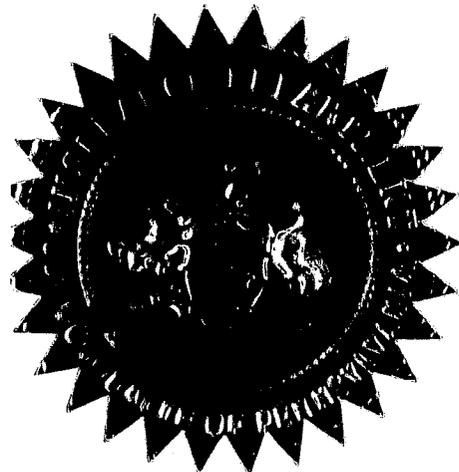
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	VIOLATIONS:
GENERAL CASUALTY COMPANY	Section 903(a) of the Insurance
OF WISCONSIN	Department Act, Act of May 17, 1921,
One General Drive	P.L. 789, No. 285 (40 P.S. § 323.3)
Sun Prairie, WI 53596	
	Act 1990-6, Sections 1705(a)(1) and (4),
	1716, 1731(b)(c), 1734, 1738(c)(d)(1)
	and (2), 1791.1(a), 1791.1(b),
	1792(b)(1), and 1799.3(d) (Title 75,
	Pa.C.S. §§ 1705, 1716, 1731, 1734,
	1738, 1791, 1792 and 1799)
	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9)
	and 5(a)(9)(i), (ii), (iv) and (v) of the
	of the Unfair Insurance Practices Act,
	Act of July 22, 1974, P.L. 589, No. 205
	(40 P.S. §§ 1171.5)
	Sections 2002(c)(3), 2003(a)(1),
	2003(a)(11), (13) and (14), 2004,
	2006(1), 2006(2), 2006(4), 2006(5),
	2006(6), and 2008(b) of Act 68 of 1998
	(40 P.S. §§ 991.2002, 2003, 2006 and 2008)
	Sections 2, 3(a)(5), 3(a)(6) and 7(c) of
	the Act of July 3, 1986, P.L. 396, No.
	86 (40 P.S. §§ 3402, 3403 and 3407)
	Title 31, Pennsylvania Code, Sections
	59.9(b), 69.52(b), 69.53(a), 113.88,
	146.5(a), 146.5(d), 146.6 and 146.7(a)(1)
	Title 75, Pennsylvania Consolidated
	Statutes, Section 1822
Respondent.	Docket No. MC05-06-022

CONSENT ORDER

AND NOW, this 8th day of August, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is General Casualty Company of Wisconsin, and maintains its address at One General Drive, Sun Prairie, Wisconsin 53596.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2003 through June 30, 2004.
- (c) On June 13, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on July 13, 2005.
- (e) After consideration of the July 13, 2005 response, the Insurance Department has modified the Examination Report as attached.
- (f) The Examination Report notes violations of the following:
 - (i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;
 - (ii) Section 1705(a)(1) and (4) of Act 1990-6, Title 75, Pa.C.S. § 1705(a)(1) and (4), which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy, to provide each applicant

an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

(iii) Section 1716 of Act 1990-6, Title 75, Pa.C.S. § 1716, which states benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of the benefits. If reasonable proof is not supplied, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

(iv) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires uninsured and underinsured motorist coverage to provide protection for persons who suffer injury arising out of the maintenance or use of a motor vehicle and are legally entitled to recover damages therefore from owners or operators of uninsured or underinsured motor vehicles. The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;

- (v) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731, in amounts equal to or less than the limits of liability for bodily injury;

- (vi) Section 1738(c)(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;

- (vii) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage 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;

- (viii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (ix) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;
- (x) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799.3, which states if an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the termination and shall specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

- (xi) Section 5(a)(4) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;

- (xii) Section 5(a)(7)(iii) of Act 205 (§ 1171.5), which prohibits unfair discrimination of individuals of the same class and 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;

- (xiii) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which prohibits cancellation of 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 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;

- (xiv) Section 5(a)(9)(i) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use.
- (xv) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (xvi) Section 5(a)(9)(iv) of Act 205 (40 P.S. § 1171.5) requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of receipt of the notice of cancellation or intention not to renew, that the Insurance Commissioner review the action of the insurer;
- (xvii) Section 5(a)(9)(v) of Act 205 (40 P.S. § 1171.5) requires that a cancellation notice advise the insured of his possible eligibility for insurance under the Act of July 31, 1968 (P.L. 738, No. 233), known as “The Pennsylvania Fair Plan Act”, or The Pennsylvania Assigned Risk Plan.
- (xviii) Section 2002(c)(3), of Act 68 of 1998 (40 P.S. § 991.2002), which provides nothing in this article shall apply to any policy of automobile insurance which has been in effect for less than 60 days, unless it is a renewal policy, except that no insurer shall decline to continue in force such a policy of automobile

insurance on the basis of the grounds set forth in Section 2003(a) and except that if an insurer cancels a policy of automobile insurance in the first 60 days, the insurer shall supply the insured with a written statement of the reason for cancellation;

- (xix) Section 2003(a)(1) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Age;
- (xx) Section 2003(a)(11) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: The refusal of another insurer to write a policy, or the cancellation or refusal to renew an existing policy by another insurer;
- (xxi) Section 2003(a)(13) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13);
- (xxii) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Any claim under

the comprehensive portion of the policy unless intentionally caused by the insured;

- (xxiii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;
- (xxiv) Section 2006(1) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice be in a form acceptable to the Commissioner;
- (xxv) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for nonpayment of premium, the effective date may be 15 days from the date of mailing or delivery;

- (xxvi) Section 2006(4) of Act 68 of 1998 (40 P.S. § 991.2006), which requires a cancellation notice advise the insured of his right to request in writing within 30 days of receipt of the notice of cancellation that the Insurance Commissioner review the action of the insurer;
- (xxvii) Section 2006(5) of Act 68 of 1998 (40 P.S. § 991.2006), which states a cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy, a written notice of the cancellation or refusal to renew. The notice shall (5) Either in the notice or in an accompanying statement, advise the insured of his possible eligibility for insurance through the automobile assigned risk plan;
- (xxviii) Section 2006(6) of Act 68 of 1998 (40 P.S. § 991.2006), which requires that a cancellation notice advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth and that the insurer is notifying the Department of Transportation that the insurance is being cancelled and the insured must notify the Department of Transportation that he has replaced said coverage;
- (xxix) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the

specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

(xxx) Section 2 of Act 86 (40 P.S. § 3402), which states canceling in mid-term a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following: (1) A condition, factor or loss experience material to insurability has changed substantially, (2) Loss of reinsurance or a substantial decrease in reinsurance has occurred, which loss or decrease shall, at the time of cancellation, be certified to the Commissioner as directly affecting in-force policies, (3) The insured has made a material misrepresentation which affects the insurability of the risk, (4) The policy was obtained through fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company, (5) The insured has failed to pay the premium when due, (6) The insured has requested cancellation, (7) Material failure to comply with policy terms, conditions or contractual duties, or (8) Other reasons the Commissioner may approve;

(xxxii) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying the condition, factor or loss experience which caused the nonrenewal. The notice

shall provide sufficient information or data for the insured to correct the deficiency;

(xxxii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation 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;

(xxxiii) Section 7(c) of Act 86 (40 P.S. § 3407), which states that this act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

(xxxiv) Title 31, Pennsylvania Code, Section 59.9(b), which states the period of 60 days referred to in the Unfair Insurance Practices Act, Section 5(a)(9) and (c)(3), is intended to provide the insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day

period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act;

(xxxv) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to make a referral to a PRO within 90 days of the insurer's receipt of sufficient documentation supporting the bill. An insurer shall pay bills for care that are not referred to a PRO within 30 days after the insurer receives sufficient documentation supporting the bill. If an insurer makes its referral after the 30th day and on or before the 90th day, the provider's bill for care shall be paid;

(xxxvi) Title 31, Pennsylvania Code, Section 69.53(a), which requires a peer review organization to contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter;

(xxxvii) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as "losses" or "underwriting reasons" are not sufficiently specific reasons for cancellation;

(xxxviii) Title 31, Pennsylvania Code, Section 146.5(a), which requires every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice;

(xxxix) Title 31, Pennsylvania Code, Section 146.5(d), which requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer;

(xxxx) Title 31, Pennsylvania Code, Section 146.6, which requires complete investigation of a claim within thirty days after notification of a claim. If such investigation cannot reasonably be completed within such time, provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected, within thirty days and every forty-five days thereafter;

(xxxxi) Title 31, Pennsylvania Code, Section 146.7(a)(1), regarding acceptance or denial of a claim, which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy revision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and

(xxxxii) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires a fraud warning notice on all new applications, claim forms and renewals: “Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, shall be subject to imprisonment for up to seven years and payment of a fine up to \$15,000.”

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Section 5(a)(4), 5(a)(7) and 5(a)(9) 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.

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

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

- (d) Respondent's violations of Sections 2002, 2003, 2004, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

- (e) Respondent's violations of Sections 2, 3 and 7 of Act 86 (40 P.S. §§ 3402, 3403 and 3407), 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.

- (f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5, 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

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Fifty-Five Thousand Dollars (\$55,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square,

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

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

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

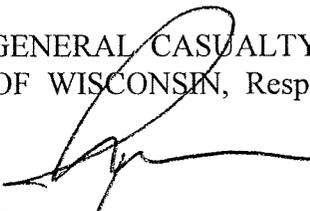
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

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

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

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

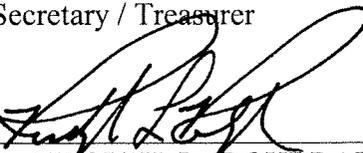
BY: GENERAL CASUALTY COMPANY
OF WISCONSIN, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted at General Casualty Company of Wisconsin's offices located in Simsbury, Connecticut, from September 20, 2004, to October 29, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

The Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. The Examination Report may also 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 these areas of concern in order to determine potential impact upon Company operations or future compliance issues. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in this Report may result in the 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%.

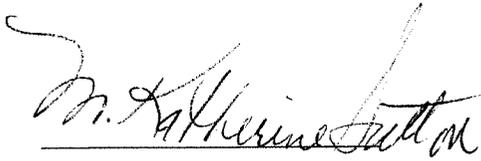
Throughout the course of the examination, Company officials were provided with written summaries, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company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

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

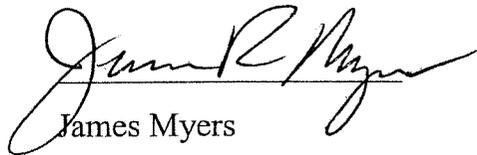
The undersigned participated in this Examination and in preparation of this Report.



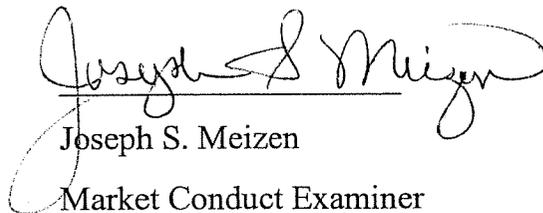
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



M. Katherine Sutton, AIC
Examiner In Charge



James Myers
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on General Casualty Company of Wisconsin, hereinafter referred to as “Company,” at their offices located in Simsbury, Connecticut. 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 July 1, 2003 through June 30, 2004, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations. The examination included, but was not limited to, the following areas:

1. Private Passenger Automobile

- Underwriting - Appropriate and timely notices of non-renewal, mid-term cancellations and 60-day cancellations.
- Rating – Proper use of all classifications, rating plans and procedures.

2. Property

- Underwriting – Appropriate and timely notices of non-renewal, mid-term cancellations and 60-day cancellations.
- Rating – Proper use of all classifications, rating plans and procedures.

3. Claims

- Standards for prompt, fair and equitable settlements.
- Use of proper Peer Review procedures.

4. Forms

5. Advertising

6. Consumer Complaints

7. Licensing

III. COMPANY HISTORY

General Casualty Company was incorporated on May 12, 1925, under the laws of Wisconsin and consists of three groups, the largest being General Casualty Company of Wisconsin. The Company began business on May 29, 1925. Reliance Insurance Company of Philadelphia purchased all outstanding stock in 1956. During the first half of 1990, the Company was purchased from Reliance by Winterthur Swiss Group, the U.S. operations of a Winterthur, Switzerland, based international insurance group.

LICENSING

The General Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in all states except New Hampshire, New Jersey, Vermont 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 \$25,122,303. Premium volume related to the areas of this review were: Fire and Allied Lines \$219,213; Homeowners' Multiple Peril \$3,350,110; Commercial Multiple Peril \$2,026,064; Workers' Compensation \$4,184,543; Private Passenger Automobile Written Premium was reported as Private Passenger Auto Liability \$2,270,282 and Private Passenger Auto Physical Damage \$1,648,231.

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 homeowners, dwelling fire and private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following violations were noted upon review of the Company's underwriting guidelines.

Personal Automobile Underwriting Guidelines

1 Violation Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)] – Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

The Company's guidelines require supporting coverage from parents if the owner or principal operator has been licensed for less than 5 years.

1 Violation Act 68, Section 2003(a)(1) [40 P.S. §991.2003(a)(1)] – Discrimination Prohibited. - (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:

(1) Age

Underwriting guidelines which require an insured to have 5 years of driving experience unfairly discriminate against youthful operators and are

impermissible. *Aetna Casualty and Surety Companies*, MC90-03-24 (1991).

An insurer's termination of policy due to insured's "inexperience" is a subterfuge for impermissible age discrimination. *Travelers/Koch*, P79-7-2 (1979) *affirmed Travelers v. Insurance Department*, 440 A.2d 645 (Pa. Cmwlth. 1981).

The Company requires 5 years driving experience for an owner or principle operator to have their own policy.

1 Violation Act 68, Section 2003(a)(11) [40 P.S. §991.2003(a)(11)] – Discrimination Prohibited. - (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:
(11) The refusal of another insurer to write a policy, or the cancellation or refusal to renew an existing policy by another insurer.

The Company's guidelines state: "Do not Submit: Previous policy was declined, cancelled or nonrenewed in the past 3 years".

1 Violation Act 68, Section 2003(a)(13) [40 P.S. §991.2003(a)(13)] – Discrimination Prohibited. - (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13).

The Company's guidelines reflect refusal to write if the driving record exceeds 2 not-at-fault accidents.

1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)] – Discrimination Prohibited. - (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:
(14) Any claim under the comprehensive portion of the policy unless intentional by caused by the insured.
The Company’s guidelines reflect refusal to write if the driving record exceeds 2 Comprehensive Losses.

Personal Property Underwriting Guidelines

1 Violation Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)] – Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

The Company requires supporting business under Dwelling Fire for tenant occupied dwellings. (Page 1 and 4, Dwelling Fire Submission Guidelines)

1 Violation Act 205, Section 5(a)(7) [40 P.S. 1171.5(a)(7)(iii)] 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 Company cannot refuse to accept applications from high profile individuals (professional entertainer or athlete, member of the journalistic media, public office holder). (Page 3, Dwelling Fire Submission Guidelines - Liability Exposures).

The Company cannot refuse to accept applications from high profile individuals (professional entertainer or athlete, member of the journalistic media, public office holder). (Page 4, Homeowners Submission Guidelines, Personal).

V. UNDERWRITING

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

A. Private Passenger Automobile

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days after initial issue.

From the universe of 238 private passenger automobile policies cancelled within the first 60 days of being issued as new business, 50 policies were selected, received and reviewed. The 15 violations noted were based on 10 files, resulting in an error ratio of 20%.

5 Violations Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)] Nothing in this article shall apply: (3) To any policy of automobile insurance which has been in effect less than sixty (60) days, unless it is a renewal policy, except that no insurer shall decline to continue in force such a policy of automobile insurance on the basis of the grounds set forth in Section 2003(a) and except that if an insurer cancels a policy of automobile insurance in the first 60 days, the insurer shall supply the insured with a written statement of the reason for cancellation.

The Company must provide 15 days notice. Two adjudications, *Tampa v. State Farm* (P91-06-01, 1992) and *Gorba v. Allstate* (P92-02-92 1993) uphold the 15 day notice requirement. The files noted contained notices which provided less than 15 days notice.

10 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] Request for Review.

Any applicant for a policy who is refused a policy by an insurer shall be given a written notice of refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within thirty (30) days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that the Insurance Commissioner review the action of the insurer in refusing to write a policy for the applicant. The files noted contained notices which did not provide the appeal information as required.

2. Mid-Term Cancellations

A mid-term 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 (40P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 187 private passenger automobile policies which were cancelled mid-term during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. Of the 50 selected for review, 14 were cancelled at the insureds' request. The 146 violations noted were based on 36 files, resulting in an error ratio of 72%.

36 Violations Act 68, Section 2006(1) [40 P.S. §991.2006(1)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:
(1) Be in a form acceptable to the Insurance Commissioner. The cancellation notices are not in an acceptable form.

2 Violations Act 68, Section 2006(2) [40 P.S. §991.2006(2)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:
(2) State the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for the reasons set forth in Section 2004(1) and (2), however, the effective date may be fifteen (15) days from the date of mailing or delivery. The violations resulted from failure to provide 15 days mailing for nonpayment of premium.

36 Violations Act 68, Section 2006(4) [40 P.S. §991.2006(4)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:
(4) Advise the insured of his right to request in writing, within thirty (30) days of the receipt of the notice of cancellation or intention not to renew and of the receipt of the reason or reasons for the cancellation or refusal to renew as stated in the notice of cancellation or of intention not to renew, that the insurance commissioner review the action of the insurer. The

violations resulted from failure to advise the insured of his right to request a review by the Insurance Commissioner.

36 Violations Act 68, Section 2006(5) [40 P.S. §991.2006(5)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:
(5) Either in the notice or in an accompanying statement, advise the insured of his possible eligibility for insurance through the automobile assigned risk plan. The violations resulted from failure to advise the insured of his possible eligibility for insurance through the automobile assigned risk plan.

36 Violations Act 68, Section 2006(6) [40 P.S. §991.2006(6)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:
(6) Advise the insured that he must obtain compulsory automobile insurance coverage if he operates or registers a motor vehicle in this Commonwealth, that the insurer is notifying the Department of Transportation that the insurance is being cancelled or not renewed, and that the insured must notify the Department of Transportation that he has replaced said coverage. The violations resulted from failure to advise the insured that he must obtain compulsory automobile insurance coverage.

3. Non-Renewals

A non-renewal 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 that must be met regarding the form and conditions of the cancellation notice.

The Company reported one private passenger automobile policy was non-renewed during the experience period. The policy was received and reviewed. No violations were noted.

4. Declination of Coverage/Refusal to Write

A refusal to write is any application that is received by the Company and was declined or refused and no policy was issued.

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.

The Company reported 98 private passenger automobile refusals during the experience period. The policies reviewed were cancelled within the first 60 days. The 28 violations noted were based on 27 files, resulting in an error ratio of 28%.

1 Violation Act 68, Section 2003 [40 P.S. §991.2003] - Discrimination Prohibited.

(A) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:

(1) Age.

Underwriting guidelines which require an insured to have 5 to 9 years of driving experience unfairly discriminate against youthful operators and are impermissible. *Aetna Casualty and Surety Companies*, MC90-03-24 (1991).

An insurer's termination of policy due to insured's "inexperience" is a subterfuge for impermissible age discrimination. *Travelers/Koch*, P79-7-2

(1979) affirmed *Travelers v. Insurance Department*, 440 A.2d 645 (Pa. Cmwlth. 1981).

The file noted was cancelled because: “The named insured does not have the required five years driving experience as stipulated in our new business eligibility”.

27 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] Request for Review.

Any applicant for a policy who is refused a policy by an insurer shall be given a written notice of refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within thirty (30) days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that the Insurance Commissioner review the action of the insurer in refusing to write a policy for the applicant. The violations resulted from failure to provide the 30 day appeal information as required.

B. Personal Property

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) (40P.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.

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.

From the universe of 934 property policies, which were cancelled within the first 60 days of new business during the experience period, 163 files were selected for review. The property

policies consisted of homeowner, tenant homeowner and owner occupied dwelling fire. All 163 files requested were received and reviewed. The 132 violations noted were based on 62 files, resulting in an error ratio of 38%.

8 Violations Title 31, Chapter 59.9(b) The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. § 1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The violations resulted from failure to provide 30 days notice of cancellation as required.

62 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] - 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 either at the address shown in the policy or at a forwarding address. Such 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 violations resulted from failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.

62 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)] - 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 either at the address shown in the policy or at a forwarding address. Such notice shall:

Advise the insured of his possible eligibility for insurance under the act of July 31, 1968, known as the "The Pennsylvania Fair Plan Act".

AND

2 Adjudications--Donegal v. Hunt P87-4-15 (1987) and PA Nat'l v. Herron PI 87-3-5 (1987) affirmed 551 A. 2nd 368 (Pa Cmwlt. 1988)]

The violations resulted from failure to advise the insured of his possible eligibility for insurance under the Pennsylvania Fair Plan.

2. Mid-term Cancellations

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

From the universe of 356 homeowners, tenant homeowners, and dwelling fire policies which were reported as cancelled mid-term during the experience period, 123 files were selected for review. Of the 123 files selected, 3 were identified as 60 day cancellations. All 123 files requested were received and reviewed. The 75 violations noted were based on 24 files, resulting in an error ratio of 20%.

24 Violations Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)] - 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 either at the address shown in the policy or at a forwarding address. Such notice shall (i) Be approved as to form by the Insurance Commissioner prior to use. The Company's Notice of Cancellation for non-payment of premium has not been approved.

3 Violations Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)] - 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 either at the address shown in the policy or at a forwarding address. Such notice shall:

(ii) 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 violations resulted from failure to provide 30 days notice of cancellation.

24 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] - 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 either at the address shown in the policy or at a forwarding address. Such notice shall: (iv) 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 violations resulted from failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.

24 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)] - 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 either at the address shown in the policy or at a forwarding address. Such notice shall: (v) Advise the insured of his possible eligibility for insurance under the act of July 31, 1968, known as the “The Pennsylvania Fair Plan Act”.

AND

2 Adjudications--Donegal v. Hunt P87-4-15 (1987) and PA Nat'l v. Herron PI 87-3-5 (1987) affirmed 551 A. 2nd 368 (Pa Cmwltth. 1988)]

The violations resulted from failure to advise the insured of his possible eligibility for insurance under the Pennsylvania Fair Plan.

3. Non-Renewals

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

The Company reported one homeowner policy which was non-renewed during the experience period. The file was received and reviewed. The violation noted resulted in an error ratio of 100%.

1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] - 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 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. "Agent no longer represents the Company" is not a permitted reason for non-renewal.

C. Commercial Property

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

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 Company reported 18 dwelling fire tenant occupied policies cancelled within the first 60 days, during the experience period. All 18 files were selected, received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 17%.

2 Violations Act 205, Section 5(a)(4) [P.S. § 1171.5(a)(4)] Unfair Methods of Competition and Unfair or Deceptive Acts or Practices defined.

(4) Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The policies noted contained notices reflecting the policies were cancelled due to lack of supporting business.

1 Violation Act 86, Section 7(c) (40 P.S. § 3407(c)) This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The violation resulted from failure to provide 30 days notice as required.

2. Mid-term Cancellations

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

The universe of 40 property policies, which were cancelled mid-term during the experience period, was selected for review. The property policies consisted of tenant occupied dwelling fire, dwelling fire package, commercial fire, and commercial property packages. All 40 files requested were received and reviewed. The 8 violations noted were based on 7 files, resulting in an error ratio of 18%.

7 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)] - A mid-term cancellation 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 violations resulted from failure to offer to provide loss information to the insured.

1 Violation Act 86, Section 2 [40 P.S. §3402] – Grounds for cancellation. Canceling in mid-term a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than the following.

- (1) A condition, factor or loss experience material to insurability has changed substantially or a substantial condition, factor or loss experience material to insurability has become known during the policy term.*
- (2) Loss of reinsurance or a substantial decrease in reinsurance has occurred, which loss or decrease shall, at the time of cancellation, be certified to the Insurance Commissioner as directly affecting in-force policies.*
- (3) The insured has made a material misrepresentation which affects the insurability of the risk.*
- (4) The policy was obtained through fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company.*
- (5) The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit.*
- (6) The insured has requested cancellation.*
- (7) Material failure to comply with policy terms, conditions or contractual duties.*
- (8) Other reasons that the Insurance Commissioner may approve.*

The notice stated increase in hazard, which was not supported by the file.

3. Non-renewals

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

The universe of 8 commercial property policies reported by the Company as non-renewed during the experience period was selected, received and reviewed. The 8 violations noted were based on 4 files, resulting in an error ratio of 50%.

4 Violations Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5) - A non-renewal shall state the specific reasons for the non-renewal. The reasons shall identify the condition, factor or loss experience which caused the non-renewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, §113.88 – The reason given for non-renewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for non-renewal. The violations resulted from failure to provide a specific reason.

4 Violations Act 86, Section 3(a)(6) (40 P.S. §3403(a)(6) - A non-renewal 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 violations resulted from failure to provide offer of loss information.

D. Workers Compensation

1. Non-renewals

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

The universe of 34 Workers Compensation policies reported by the Company as non-renewed during the experience period was selected, received and reviewed. The 26 violations noted were based on 13 files, resulting in an error ratio of 38%.

13 Violations Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5)) - A non-renewal shall state the specific reasons for the non-renewal. The reasons shall identify the condition, factor or loss experience which caused the non-renewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code §113.88 – The reason given for non-renewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for non-renewal or cancellation. The Company failed to provide a specific reason for non-renewal.

13 Violations Act 86, Section 3(a)(6) (40 P.S. §3403)(a)(6) - A non-renewal 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 notices failed to provide an offer of loss information.

VI. RATING

A. Private Passenger Automobile

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 provisions of Title 75, Pa. Consolidated Statutes and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

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

1. New Business – Standard Rates

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

From the universe of 2,331 new private passenger automobile policies reported by the Company, 50 were selected, received and reviewed. The 2,334 violations noted were based on the universe of 2,331 files, resulting in an error ratio of 100%.

2,331 Violations Title 75, Pa. C.S. §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages. The required itemized invoices were not provided at the time of application.

3 Violations Title 75, Pa. C.S. § 1705 (a) Election of tort options. Each insurer, not less than 45 days prior to the first renewal of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort and insurance and limited tort insurance described in subsections (c) and (d). The notice shall be standardized form adopted by the commissioner.

AND

Title 75, Pa. C.S. 1791.1 (b) Notice of tort options. In addition to the invoice required under subsection (a), an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the notice

of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d) (relating to election of tort options). The policies noted were written with the Limited Tort Option, but did not contain a signed option.

2. New Business – with surcharges

From the universe of 120 new private passenger automobile policies reported by the Company, 50 were selected, received and reviewed. The 266 violations noted were based on the universe of 120 files, resulting in an error ratio of 100%.

120 Violations Title 75, Pa. C.S. §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages. The required itemized invoices were not provided at the time of application.

120 Violations Title 75, Pa. C.S. §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall 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 violations resulted from failure to provide a surcharge disclosure statement, listing the dates of accidents, violations and the amount of surcharge, on the premium notice.

25 Violations Title 75, Pa. C.S. § 1705 (a) Election of tort options. Each insurer, not less than 45 days prior to the first renewal of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall notify in writing each named insured of the availability of two alternatives of full tort and insurance and limited tort insurance described in subsections (c) and (d). The notice shall be standardized form adopted by the commissioner.

AND

Title 75, Pa. C.S. § 1791.1 (b) Notice of tort options. In addition to the invoice required under subsection (a), an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the following notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d) (relating to election of tort options). The files noted contained the Notice of Tort Options, but did not contain the comparison premiums to assist the insured in making an informed decision.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The file noted was absent any evidence of compliance with this requirement.

3. Renewals - without surcharges.

From the universe of 1,102 personal automobile policies identified as renewals without surcharges by the Company, 30 files were selected, received and reviewed. The 1,106 violations noted were based on the universe of 1,102 files, resulting in an error ratio of 100%.

1,102 Violations Title 75, Pa. C.S. §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages. The required itemized invoices were not provided at renewal.

1 Violation Title 75, Pa. C.S. §1705(a)(4) – Each insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy on and after July 1, 1990, shall provide each applicant with the notice required by paragraph (1). A policy may not be issued until the applicant has been provided an opportunity to elect a tort option. The policy was issued with limited tort without a signed election of tort option in file.

1 Violation Title 75, Pa. C.S. § 1731(b)&(c) - Uninsured and underinsured motorist coverage. Uninsured and underinsured motorist coverage shall provide protection for persons who suffer injury arising out of the maintenance or use of a motor vehicle and are legally entitled to recover damages therefore from owners or operators of uninsured or underinsured motor vehicles. The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The file noted evidenced Uninsured Motorist and Underinsured Motorist coverage was rejected absent a signed rejection form.

1 Violation Title 75, Pa. C.S. § 1734. Request for lower limits of coverage. A named insured may request in writing the issuance of coverages under section 1731 (relating to availability, scope and amount of coverage) in amounts equal to or less than the limits of liability for bodily injury. The violation noted was the result of policy not having a signed request for lower limits.

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

(1) Every private passenger automobile insurance policy providing collision coverage issued or renewed on or after the effective date of this subsection shall provide a deductible in an amount of \$500 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible, and the insured agrees to accept it. The file did not contain a request for a lower deductible.

CONCERN: Although the company is providing a fraud statement with each renewal, it was recommended that the notice required by Title 75, Pa.C.S. § 1822 be used for automobile coverages.

"Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon

conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000."

4. Renewals – with surcharges.

From the universe of 97 private passenger automobile renewal policies reported by the Company, 25 were selected for review. All 25 policy files requested were received and reviewed. The 197 violations noted were based on the universe of 97 files, resulting in an error ratio of 100%.

97 Violations Title 75, Pa. C.S. §1791.1(a) - Invoice. 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 that you purchase liability and first-party medical benefit coverages. Any additional coverages 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 premium for the insured's existing coverages.

This invoice must be provided to the insured indicating the minimum coverage premium for that insured, rated according to the territory and class, including surcharges, if any, applicable to the insured. The required itemized invoices were not provided at renewal.

97 Violations Title 75, Pa. C.S. §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall 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 violations resulted from failure to provide a surcharge disclosure statement, listing the dates of accidents, violations and the amount of surcharge, on the premium notice.

2 Violations Title 75, Pa. C.S. §1734 Request for lower limits of coverage. A named insured may request in writing the issuance of coverages under section 1731 (relating to availability, scope and amount of coverage) in amounts equal to or less than the limits of liability for bodily injury. The violations were the result of policies not having a signed request for lower limits.

1 Violation Insurance Department Act, Section 903(a) (40 P.S. §323.3) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The file noted was missing the signed application and required Act 6 forms. Compliance could not be determined.

B. Homeowners

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

The Company processes and issues personal property 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 territory assignments, fire protection classifications, dwelling construction and base premiums, the examiners were able to determine compliance with the Company's filed and approved rating plans.

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.

From a universe of 4,789 homeowner policies reported by the Company as new business within the experience period, 50 files were selected, 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.

From a universe of 2,968 Homeowner policies reported as renewals written during the experience period, 50 files were selected, received and reviewed. No violations were noted.

3. Renewals with surcharges

The Company reported 6 homeowner policies renewed with surcharges during the experience period. All 6 files selected were received and reviewed. No violations were noted.

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.

From the universe of 214 dwelling fire policies written as new business during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

2. Renewals

From the universe of 167 dwelling fire policies written as renewal business during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

D. Commercial Automobile

1. Renewals

The Company identified one policy as a commercial automobile renewal during the experience period. The policy was received and reviewed. No violations were found.

E. Commercial Property

1. Renewals

From the universe of 153 policies identified as commercial property renewals during the experience period, 50 files were selected. The policies consisted of commercial package policies. All 50 files requested were received and reviewed. No violations were noted.

VII. 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 (40P.S. §1171.4) and Section 5(a)(10)(vi) (40P.S. §1171.5(a)(10)(vi), Unfair Insurance Practices Act.)

A. Automobile Comprehensive

From the universe of 252 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. Of the 50 files selected and received, 28 claims were towing and glass claims which were not reviewed. The remaining 22 files were reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

1 Violation Title 31, Pa. Code, Section 146.6 – Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violations resulted from failure to provide the status as required.

1 Violation Title 31, Pa. Code, Section 146.7(a)(1) – Acceptance or denial of a claim shall comply with the following: (1) Within 15 workings days after receipt by the insurer of properly executed proofs of loss, the first-party shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy revision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The violation noted

resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

B. Automobile Collision

From the universe of 465 private passenger automobile collision 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 4 files, resulting in an error ratio of 8%.

4 Violations Title 31, Pa. Code, Section 146.6 – Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violations resulted from failure to provide the status as required.

C. Automobile Property Damage Liability

From the universe of 521 private passenger automobile property damage liability claims reported during the experience period, 50 files were selected, received and reviewed. The 6 violations noted were based on 3 files, resulting in an error ratio of 6%.

2 Violations Title 31, Pa. Code, Section 146.5(a) - Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the

insurer, dating from the time the insurer receives notice. The violations resulted from failure to acknowledge within 10 days.

3 Violations Title 31, Pa. Code, Section 146.6 – Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot 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 files noted did not contain the required status notices.

1 Violation Title 31, Pa. Code Section 146.7(a)(1) – Acceptance or denial of a claim shall comply with the following: (1) Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall 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 must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The file noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

D. Automobile Total Losses

The total loss claim files were also reviewed to determine compliance with Title 31, Pa. Code Chapter 62, Motor Vehicle Physical Damage Appraisers and Title 75, Pa. C.S. § 1161, Salvage Vehicles.

From a universe of 71 total loss claims reported by the Company, 40 files were selected, received and reviewed. No violations were noted.

E. Automobile First Party Benefit Claims

The universe of 107 private passenger automobile first party benefit claims reported during the experience period, was selected, received and reviewed. The 7 violations noted were based on 4 files, resulting in an error ratio of 4%.

3 Violations Title 31, Pa. Code, Section 69.52(b) – An insurer shall make a referral to a PRO within 90 days of the insurer’s receipt of sufficient documentation supporting the bill. An insurer shall pay bills for care that are not referred to a PRO within 30 days after the insurer receives sufficient documentation supporting the bill. The violations resulted from failure to pay medical bills within 30 days.

3 Violations Title 75, Pa. C.S. §1716 - Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of the benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The violations resulted from failure to pay interest on bills that were not paid within 30 days.

1 Violation Title 31, Pa. Code, Section 146.5(d) - Every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions, and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer. Compliance with this subsection within ten working days of notification of a claim shall constitute compliance with subsection (a).

The violation resulted from failure to provide first-party claimant with necessary claim forms within 10 working days.

F. First Party Benefits files referred for Peer Review

The purpose of this review was to determine compliance with Title 75, Pa. C.S. 1797(b)(1) Peer review plan for challenges to reasonableness and necessity of treatment which states that insurers shall contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. The Company was requested to provide copies of any contracts with the Peer Review Organization they have contracted.

1 Violation Title 31, Pa. Code, Section 69.53(a) - A Peer Review Organization shall contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter. The Company did not have a written contract with a Peer Review Organization.

From a review of the universe of 107 First Party Benefits claims, no referrals for Peer Review were identified.

G. Personal Property

From the universe of 304 homeowner and dwelling fire claims reported during the experience period, 63 files were selected for review. All 63 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

1 Violation Title 31, Pa. Code, Section 146.7(a)(1) – Acceptance or denial of a claim shall comply with the following: (1) Within 15 workings days after receipt by the insurer of properly executed proofs of loss, the first-party shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy revision, condition, or exclusion unless reference to such provision, condition or exclusion is

included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The violation resulted from failure to provide written denial to insured.

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 (40P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 (18 Pa. CS §4117)(k)(1) and Title 75, Pa. C.S. §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and renewals of coverage. The following violations were noted.

2 Violations Title 75, Pa. C.S. §1822 Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: “Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.” The files noted evidenced claim documents that did not contain the required fraud notice.

IX. CONSUMER COMPLAINTS

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 which 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. In the course of the review, compliance with Act 205, Unfair Insurance Practices, Section 5(a)(9) (40 P.S. §1171.5) Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined was also determined.

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company provided the consumer complaint logs as requested. No violations were noted.

The universe of 32 consumer complaints was selected, received and reviewed. There was one complaint sent to the Company in error.

The following violations were noted upon review of the complaint files.

2 Violations Act 68, Section 2004 [40 P.S. §991.2004] - Valid reasons to cancel policy.

An insurer may not cancel a policy except for one or more of the following specified reasons:

- (1) Nonpayment of premium.
- (2) The driver's license or motor vehicle registration of the named insured has been under suspension or revocation during the policy period; the applicability of this reason to one who either is a resident in the same household or who customarily operates an automobile insured under the

policy shall be proper reason for the insurer thereafter excluding such individual from coverage under the policy, but not for cancelling the policy. (3) A determination that the insured has concealed a material fact, or has made a material allegation contrary to fact, or has made a misrepresentation of a material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The violations resulted from cancellation for reasons not permitted.

3 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] - Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The cancellation notices did not contain notice of the appeal process whereby the insured may request a review by the department.

1 Violation Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)] - 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 resulted from failure to provide 30 days notice.

1 Violation Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5)) - A non-renewal shall state the specific reasons for the non-renewal. The reasons shall identify the condition, factor or loss experience which caused the non-renewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code §113.88 – The reason given for non-renewal or cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for non-renewal or cancellation.

1 Violation Act 86. Section 3(a)(6) (40 P.S. §3403(a)(6)) - A non-renewal 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 Company did not make the offer to provide loss information.

1 Violation Title 31, Pa. Code Section 146.7(a)(1) - Acceptance or denial of a claim shall comply with the following: (1) Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall 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 must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The violation resulted from failure to issue the denial within the required time.

The following synopsis reflects the nature of the 31 complaints that were reviewed.

•	24	Underwriting	77%
•	5	Claims	17%
•	2	Rates	6%
	<hr/>		<hr/>
	31		100%

X. ADVERTISING

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 51.61. The Company was requested to provide copies of all advertising and marketing materials used during the experience period.

The four items of advertising material provided by the Company consisted of advertising in two monthly publications, annual report and corporate relations booklet sent to their agents and a reference guide sent to their agents. No violations were noted.

XI. PRODUCER LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Insurance Department Act, No. 147, Section 641-A (40 P.S. §310.41) and 671-A (40 P.S. §310.71) 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. In addition to the lists provided by the Company, underwriting files and rating files were checked to verify proper licensing and appointment. No violations were noted.

XII. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that violations regarding supporting business as noted in the Report do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] so that the violations noted in the report do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003, 2004, 2006 and 2008 [40 P.S. §991.2003, 2004, 2006 and 2008] so that the violations noted in the Report do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 86, Sections 3(a)(3)(ii) and 3(a)(6) [40 P.S. §3403(a)(3)(ii) and §3403(a)(6)] so that the violations noted in the Report do not occur in the future.
5. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.

6. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(1) do not occur in the future.
7. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(c)(d)(1) and (2) do not occur in the future.
8. The Company must revise underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an itemized minimum limits invoice to the insured in conjunction with the declaration of coverage limits and premium for the insured's existing coverages at the time of application and at each renewal in order to be in compliance with Title 75, Pa. C.S. §1791.1(a).
9. When a surcharge is imposed on a private passenger automobile policy, the Company must identify the dates of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date.
10. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations noted in the Report do not occur in the future.
11. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.

12. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due. The interest amount must be paid to the insureds and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1716 do not occur in the future.

13. The Company must contract with a PRO for the purpose of evaluating treatment, health care services, products or accommodations, provided to any injured person when confirming that such treatment, products, services or accommodations conform to professional standards of performance and are medically necessary. This is to ensure that the violation noted under Title 31, Pa. Code, Section 69.53(a) does not occur in the future.

14. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 of Act 68 [40 P.S. §991.2003].

XIII. COMPANY RESPONSE

General Casualty

Home Office

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(800) 362-5448
Fax (608) 825-5899

July 11, 2005

Chester A. Derk
Market Conduct Division Chief
Pennsylvania Insurance Department
1321 Strawberry Square
Harrisburg, PA 17120

Re: Market Conduct Examination – General Casualty Company of Wisconsin
Warrant Number 04-M17-018

Dear Mr. Derk:

We received the Market Conduct Examination Report ("Report") of General Casualty Company of Wisconsin ("General Casualty"). We thank you for the cooperation and courtesies shown to us during the examination process. As I indicated during the exit interview, I was impressed with the hard work and professionalism demonstrated by your staff throughout the exam.

The following contains our responses to the concerns and violations contained in the Report. Our response tracks with the order and sequence of the Report findings, and includes, where appropriate, a description of the procedures we intend to implement or revise in order to come into compliance with the Department's recommendations.

Neither the comments contained in this response nor any remedial measures implemented constitute admissions on our part of any violation, wrongdoing or fault and should not be interpreted by the Department as such. We are providing the following comments and taking corrective action voluntarily and without waiver of any defense, and without waiver of any applicable privilege in connection with the information provided.

Please note that the audit period commences fairly close in time to when General Casualty first commenced the active solicitation of business in Pennsylvania. Clearly there are some areas of concern. However, we are working proactively to revise current procedures and to implement additional controls to ensure that we are in full compliance with applicable Pennsylvania law.

Underwriting Practices and Procedures -- Personal Automobile Underwriting Guidelines

1 Violation Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)] -- Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

The Company's guidelines require supporting coverage from parents if the owner or principal operator has been licensed for less than 5 years.

Company Response

Based on the anti-trust & restraint of trade case law in several jurisdictions, we were of the belief that unless a carrier has "market power" in the tying product (in this case, private passenger automobile coverage for youthful drivers), as a matter of law, there can be no coercion or intimidation to purchase the tied product. With respect to the Pennsylvania market, General Casualty does not have "market power" in any lines of insurance.

Nonetheless, in response to the Department's finding, General Casualty will remove this requirement from its private passenger automobile underwriting guidelines.

1 Violation Act 68, Section 2003(a)(1) [40 P.S. §991.2003(a)(1)] -- Discrimination Prohibited.
(a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: (1) Age

The Company requires 5 years driving experience for an owner or principle operator to have their own policy.

Company Response

General Casualty accepts this finding and will remove this requirement from its private passenger automobile underwriting guidelines.

1 Violation Act 68, Section 2003(a)(11) [40 P.S. §991.2003(a)(11)] -- Discrimination Prohibited.

(a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:

(11) The refusal of another insurer to write a policy, or the cancellation or refusal to renew an existing policy by another insurer.

The Company's guidelines state: "Do not Submit: Previous policy was declined, cancelled, or non-renewed in the past 3 years."

Company Response

General Casualty accepts this finding and will remove this requirement from its private passenger automobile underwriting guidelines.

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

(a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13).

The Company's guidelines reflect refusal to write if the driving record exceeds 2 not-at-fault accidents.

Company Response

General Casualty accepts this finding and will remove this requirement from its private passenger automobile underwriting guidelines.

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

(a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:

(14) Any claim under the comprehensive portion of the policy unless intentionally caused by the insured.

The Company's guidelines reflect refusal to write if the driving record exceeds 2 Comprehensive Losses.

Company Response

General Casualty accepts this finding and will remove this requirement from its private passenger automobile underwriting guidelines.

Underwriting Practices and Procedures -- Personal Property Underwriting Guidelines

1 Violation Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)] -- Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

The Company requires supporting business under Dwelling Fire for tenant occupied dwellings. (Page 1 and 4, Dwelling Fire Submission Guidelines)

Company Response

Based on the anti-trust & restraint of trade case law in several jurisdictions, we were of the belief that unless a carrier has "market power" in the tying product, (in this case, dwelling fire coverage) as a matter of law, there can be no coercion or intimidation to purchase the tied product. With respect to the Pennsylvania market, General Casualty does not have "market power" in any lines of insurance.

Nonetheless, in response to the Department's finding, General Casualty will remove this requirement from its dwelling fire underwriting guidelines.

1 Violation Act 205, Section 5(a)(7) [40 P.S. 1171.5(a)(7)(iii)] -- 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 Company cannot refuse to accept applications from high profile individuals (professional entertainer or athlete, member of the journalistic media, public office holder). (Page 3, Dwelling Fire Submission Guidelines - Liability Exposures.).

The Company cannot refuse to accept applications from high profile individuals (professional entertainer or athlete, member of the journalistic media, public office holder). (Page 4, Homeowners Submission Guidelines, Personal).

Company Response

General Casualty accepts this finding.

We did not believe that the application of these guidelines was unfairly discriminatory as individuals employed in these occupations are not "of the same risk class or essentially the same hazard."

Nonetheless, in response to the Department's finding, General Casualty will remove these requirements from its Dwelling Fire and Homeowners' submission guidelines.

Underwriting – Private Passenger Automobile; 60-Day Cancellations

5 Violations Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)] -- The files noted contained notices which provided less than 15 days notice.

Company Response

Two of the 5 violations involved policy files that did not document that a notice was sent. General Casualty accepts these two findings. We will endeavor to improve our procedures to ensure that policy files contain all necessary documentation regarding cancellations.

With respect to the remaining 3 violations – all three of these policies were cancelled within 60 days of inception for non-payment of premium. General Casualty is not opposed to providing 15 days advance notice to policyholders cancelled for non-payment of premium – even if the cancellation occurs within 60 days of the policy inception date.

We provided documentation to the Department showing that all three policyholders received 15 days advance notice measured from the date of mailing through the effective date of cancellation. In response to the Department's finding, we will modify our procedures to ensure that at least 15 days passes between the date on which the warning notice is mailed and the date of cancellation. (i.e., we will calculate this 15 day period by excluding the date of mailing and the date of expiration from the count.)

In our defense, we point out that 40 P.S. §991.2002 does not impose a statutory time frame for providing notice of cancellation within the first 60 days of coverage. Reference 40 P.S. §991.2002 (c)(3) which provides in relevant part that: "Nothing in this article (§§991.2001 through 991.2013) shall apply: [t]o any policy of automobile insurance which has been in effect less than 60 days ..."

Also, in Liberty Mutual Insurance Company v. Maleski, 658 A.2d 463 (PA.1995) the court acknowledged that the "Act does not apply to any policy in effect for less than 60 days." The court further acknowledged that "the Act does not impose a statutory time frame for

providing notice of cancellation within the first 60 days of coverage." The court further indicated that the Act "is satisfied where the notice provides adequate time prior to cancellation to prevent an insured from unknowingly operating without insurance."

10 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] -- Request for Review.

The files noted contained notices that did not provide the appeal information as required.

Company Response

We do not agree with this finding. However, we are not opposed to including appeal process information in cancellation notices issued within 60 days of inception.

All of the policies cited by the Department were cancelled within 60 days of inception. Please reference 40 P.S. §991.2002(c)(3) which in relevant part provides that: "Nothing in this article (991.2001 through 991.2013) shall apply: [t]o any policy of automobile insurance which has been in effect less than 60 days ... except that if an insurer cancels a policy ... in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation."

Under the plain language of the statute, 40 P.S. §991.2008(b) is not applicable to cancellations that occur within the first 60 days following inception.

In response to the concerns of the Department, we have strengthened our internal controls and procedures to ensure that all cancellation notices issued within 60 days of policy inception include the appeal process information referenced in 40 P.S. §991.2008(b).

Underwriting – Private Passenger Automobile; Mid-Term Cancellations

The Department cited us for the following violations:

- **36 Violations Act 68, Section 2006(1) [40 P.S. §991.2006(1)]** -- Failure to provide proper notification of intention to cancel. The cancellation notices were not in a form acceptable to the insurance Commissioner.
- **2 Violations Act 68, Section 2006(2) [40 P.S. §991.2006(2)]** -- Failure to provide 15 days mailing for nonpayment of premium.
- **36 Violations Act 68, Section 2006(4) [40 P.S. §991.2006(4)]** -- Failure to advise the insured of his right to request a review by the insurance Commissioner.
- **36 Violations Act 68, Section 2006(5) [40 P.S. §991.2006(5)]** -- Failure to advise the insured of his possible eligibility for insurance through the automobile assigned risk plan.
- **36 Violations Act 68, Section 2006(6) [40 P.S. §991.2006(6)]** -- Failure to advise the insured that he must obtain compulsory automobile insurance coverage.

Company Response

General Casualty accepts these findings. We will review and strengthen our controls to ensure that all midterm cancellation notices comply fully with the requirements of Act 68, Section 2006 [40 P.S. §991.2006].

Underwriting – Private Passenger Automobile; Non-Renewals

No violations were noted during the audit.

Underwriting – Private Passenger Automobile; Declination of Coverage/Refusal to Write

1 Violation Act 68, Section 2003 [40 P.S. §991.2003] -- Discrimination Prohibited.

The file noted was cancelled because "the named insured does not have the required five years driving experience as stipulated in our new business eligibility."

Company Response

General Casualty accepts this finding. As indicated above, General Casualty will to remove this requirement from its private passenger automobile underwriting guidelines.

27 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] -- The violations resulted from failure to provide the 30 day appeal information as required.

Company Response

We do not agree with this finding. However, we are not opposed to including appeal process information in cancellation notices issued within 60 days of inception.

As indicated in the Report, all of the policies cited by the Department were issued but were subsequently cancelled within 60 days of inception. Please reference 40 P.S. §991.2002(c)(3) which in relevant part provides that: "Nothing in this article (991.2001 through 991.2013) shall apply: [t]o any policy of automobile insurance which has been in effect less than 60 days ... except that if an insurer cancels a policy ... in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation."

Under the plain language of the statute, 40 P.S. §991.2008(b) is not applicable to cancellations that occur within the first 60 days following inception.

However, in response to the concerns of the Department, we have strengthened our internal controls and procedures to ensure that all cancellation notices issued within 60 days of policy inception include the appeal process information referenced in 40 P.S. §991.2008(b)

Underwriting – Personal Property; 60 Day Cancellations

The Department cited us for the following cancellation notice violations:

- **8 Violations Title 31, Chapter 59.9(b)** -- Failure to provide 30 days notice of cancellation as required.

- **62 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]** -- Failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.
- **62 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]** -- Failure to advise the insured of his possible eligibility for insurance under the act of July 31, 1968, known as the "The Pennsylvania Fair Plan Act".

Company Response

We do not agree with these findings. However, we are not opposed to including appeal process information as well as information regarding the Pennsylvania Fair Plan Act in cancellation notices issued within 60 days of inception, nor are we opposed to providing at least 30 days advance notice of cancellation.

The 30 day advance notice requirement, the right to a commissioner review, and the Fair Plan notification set out in of 40 P.S. §§1171.5(a)(9)(ii), 1171.5(a)(9)(iv), and 1171.5(a)(9)(v), respectively, are applicable to an insurer's cancellation or non-renewal of policies covering "owner occupied private residential properties ... that [have] been in effect for 60 days or more..."

Please also reference 40 P.S. §1171.5(c)(3) which provides in relevant part that: "nothing in (a)(9) shall apply ... to any policy of insurance which has been in effect less than 60 days including any notice of termination period, unless it is a renewal policy."

The case cited in the report, Pennsylvania National Mutual Casualty Insurance Company vs. The Insurance Commissioner of the Commonwealth of Pennsylvania, 121 Pa. Cmwlth 618, 551 A. 2d. 368. (1988), does not support the application of 40 P.S. §1171.5(a)(9) to policies cancelled within 60 days of inception. Because the insurance company had not raised the issue at the administrative hearing, the court specifically refused to rule on whether the Department had authority to apply the requirements of 40 P.S. §1171.5(a)(9) to cancellations occurring within 60 days of inception.

Based on the foregoing, we do not feel that it is appropriate for the Department to cite us for the noted violations. However, in response to the concerns of the Department, we have strengthened our internal controls and procedures to ensure that all 60 day cancellation notices include appeal process information as well as information regarding the Pennsylvania Fair Plan Act. Further, we will provide at least 30 days advance notice of cancellation.

Underwriting – Personal Property; Mid-Term Cancellations

The Department cited us for the following mid-term cancellation notice violations:

- **24 Violations Act 205, Section 5(a)(9)(i) [40 P.S. §1171.5(a)(9)(i)]**-- Notice of Cancellation for non-payment of premium has not been approved.
- **3 Violations Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]** -- Failure to provide 30 days notice of cancellation.

- **24 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)]** -- Failure to advise the insured of his right to request the Insurance Commissioner review the action by the insurer.
- **24 Violations Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)]** -- Failure to advise the insured of his possible eligibility for insurance under the Pennsylvania Fair Plan.

Company Response

General Casualty accepts these findings and will strengthen its internal controls and procedures to ensure that all mid-term cancellation notices comply fully with the requirements of Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)].

Underwriting – Personal Property; Non-Renewals

1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] -- “Agent no longer represents the Company” is not a permitted reason for non-renewal.

Company Response

We respectfully disagree with this finding.

Pursuant to the terms of our standard agency agreement, our agents have an unrestricted right to the use and control of their expirations. Offering to service the insured on a direct basis, or referring the insured to another contracted agent would constitute a violation of the agency agreement. Further, we believe that this non-renewal was permitted under 40 P.S. §§241.1 through 243, which governs the termination of agency agreements.

§241.1 (a) provides in relevant part that: “This act applies to all classes and kinds of insurance which may be written by ... property and casualty insurance companies...” The act further provides that in cases “where an insurer notifies an agent that its contract shall be terminated...” the insurer need only “offer to continue such agent’s policies ... through such agent for a period of 12 months from the effective date of termination, subject to the insurer’s current underwriting standards.” See 40 P.S. §243(a). If the agency contract at issue has been in effect for less than 4 years at the time of termination, the Company does not have to comply with this 12-month renewal requirement. See 40 P.S. §241.1(b) (2).

With respect to private passenger automobile insurance, Pennsylvania enacted 40 P.S. 991.2003(c). This statute provides that, subsequent to the 12 month period after termination of the agent, the insurer may not non-renew without offering the insured coverage on a direct basis or offering to renew the insured through another contracted agent.

However, 40 P.S. 991.2003(c) has no applicability to personal property coverages. Absent similar statutory authority, we are fearful that a court would find that our referral of a homeowners’ policyholder to a new agent violates the agent’s expiration rights.

Finally, this finding is not consistent with past decisions of the Department. Please reference your Department File Number 05-210-00268, where under very similar circumstances the Department held that "[our] reason for non-renewal [of a homeowners policy] 'Agent no longer represents us for this line of insurance,' is not in violation of any applicable insurance law or regulation."

Underwriting – Commercial Property; 60 Day Cancellations

2 Violations Act 205, Section 5(a)(4) [P.S. § 1171.5(a)(4)] -- Unfair Methods of Competition and Unfair or Deceptive Acts or Practices defined.

The policies noted contained notices reflecting the policies were cancelled due to lack of supporting business.

Company Response

The policies noted were both dwelling fire policies.

Based on the anti-trust & restraint of trade case law in several jurisdictions, we were of the belief that unless a carrier has "market power" in the tying product (in this case, dwelling fire coverage), as a matter of law, there can be no coercion or intimidation to purchase the tied product. With respect to the Pennsylvania market, General Casualty does not have "market power" in any lines of insurance.

Nonetheless, in response to the Department's finding, General Casualty will remove the supporting coverage requirement at issue from its dwelling fire underwriting guidelines.

1 Violation Act 86, Section 7(c) (40 P.S. § 3407(c)) -- Failure to provide 30 days notice as required.

Company Response

General Casualty accepts this finding. We will strengthen our internal controls and procedures to ensure that dwelling fire policyholders cancelled within 60 days of inception receive at least 30 days advance notice of cancellation.

Underwriting – Commercial Property; Mid-Term Cancellations

7 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)] -- Failure to offer to provide loss information to the insured.

Company Response

General Casualty accepts this finding. We have corrected our procedures to ensure that such cancellation notices include an offer to provide loss information to the insured upon request.

1 Violation Act 86, Section 2 [40 P.S. §3402] -- Grounds for cancellation. The notice stated increase in hazard, which was not supported by the file.

Company Response

We disagree with this finding. The policy at issue was cancelled because we discovered that the covered property was vacant. We believe that whether or not an insured property is occupied vs. vacant is a factor that is material to insurability.

4 Violations Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5) & AND Title 31, §113.88 -- The reason given for non-renewal or cancellation shall be clear and complete. The violations resulted from failure to provide a specific reason for non-renewal.

Company Response

General Casualty accepts this finding and we will strengthen our internal controls and procedures to ensure that all of our non-renewal notices are compliant with 40 P.S. §3403(a)(5)) and Title 31, Pa. Code §113.88.

4 Violations Act 86, Section 3(a)(6) (40 P.S. §3403)(a)(6) -- The violations resulted from failure to provide offer of loss information.

Company Response

General Casualty accepts this finding. With respect to each of the policies cited, the non-renewal notice contained the required notification regarding the availability of loss information. Unfortunately, we neglected to check the box next to this notification indicating its applicability. We will review our procedures to ensure that the check-off box is marked so that it is clear to the policyholder that they are entitled to loss information.

Underwriting – Workers’ Compensation; Non-renewals

13 Violations Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5)) AND Title 31, Pa. Code §113.88 -
- The Company failed to provide a specific reason for non-renewal.

Company Response

General Casualty accepts this finding and we will strengthen our internal controls and procedures to ensure that all of our non-renewal notices are compliant with 40 P.S. §3403(a)(5)) and Title 31, Pa. Code §113.88.

13 Violations Act 86, Section 3(a)(6) (40 P.S. §3403)(a)(6) -- The notices failed to provide an offer of loss information.

Company Response

General Casualty accepts this finding. With respect to each of the policies cited, the non-renewal notice did contain the required notification regarding the availability of loss information. Unfortunately, we neglected to check the box next to this notification indicating its applicability. We will revise our procedures to ensure that the check-off box is marked so that it is clear to the policyholder that they are entitled to loss information.

Rating – Private Passenger Auto; New Business Standard Rates

2,331 Violations Title 75, Pa. C. S. §1791.1(a) -- Invoice

Failure to provide to 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.

Company Response

General Casualty accepts this finding. We have always provided Pennsylvania insureds with our Form No. Und. 643 entitled "Notice of Minimum Required Coverage Limits" which we believed was compliant with the requirements of Title 75, Pa. C. S. §1791.1(a). We will revise our forms in order to comply fully with the invoice requirement.

3 Violations Title 75, Pa. C. S. §1705 (a) & Title 75, Section 1791.1(b) -- Election/Notice of tort options.

The policies noted were written with the Limited Tort Option, but did not contain a signed option.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

Rating – Private Passenger Auto; New Business With Surcharges

120 Violations Title 75, Pa. C. S. §1791.1(a) -- Invoice

Failure to provide to 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.

Company Response

General Casualty accepts this finding. We have always provided Pennsylvania insureds with our Form No. Und. 643 entitled "Notice of Minimum Required Coverage Limits" which we believed was compliant with the requirements of Title 75, Pa. C. S. §1791.1(a). We will revise our form in order to comply fully with the invoice requirement.

120 Violations Title 75, Pa. C. S. §1799.3(d) -- Failure to provide a surcharge disclosure statement, listing the dates of accidents, violations and the amount of surcharge, on the premium notice.

Company Response

General Casualty accepts this finding. We have always provided Pennsylvania insureds with our Form No. Und. 646 (Notice of Surcharge Personal Auto - Pennsylvania) and Form No. Und. 644 (Surcharge Plan Disclosure Notice – Pennsylvania). These forms specify the manner in which our company calculates driver record surcharge points, and identifies the rating factors associated with the point totals. In order to comply fully with Title 75, Pa. C. S. §1799.3(d), General Casualty will implement procedures to ensure that the applicable surcharge is itemized on the premium notice.

25 Violations Title 75, Pa. C. S. §1705 (a) & Title 75, Pa C. S. §1791.1 (b) -- Election/Notice of tort options.

The files noted contained the Notice of Tort Options, but did not contain the comparison premiums to assist the insured in making an informed decision.

Company Response

General Casualty accepts this finding.

The Notice of Tort Options issued with respect to these 25 policyholders was compliant with the requirements of Title 75, Pa. C. S. §1791.1(b). In response to the Department's audit finding, we will strengthen our internal controls and procedures to ensure that all Notices of Tort Options issued to new insureds also contain the comparison premiums as required by Title 75, Pa. C. S. §1705 (a)(4).

1 Violation Title 75, Pa. C. S. §1738(c)(d)(1)&(2) -- The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The file noted was absent any evidence of compliance with this requirement.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

Rating – Private Passenger Auto; Renewals Without Surcharges

1102 Violations Title 75, Pa. C. S. §1791.1(a) -- Invoice.

Failure to provide to 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.

Company Response

General Casualty accepts this finding. We have always provided Pennsylvania insureds with our Form No. Und. 643 entitled "Notice of Minimum Required Coverage Limits" which we believed was compliant with the requirements of Title 75, Pa. C. S. §1791.1(a). We will revise our form in order to comply fully with the invoice requirement.

1 Violation Title 75, Pa. C. S. §1705(a)(4) -- The policy was issued with limited tort without a signed election of tort option in file.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

1 Violation Title 75 Pa. C. S. § 1731 (b) and (c) -- Uninsured and underinsured motorist coverage.

The file noted evidenced UM & UIM coverage was rejected absent a signed rejection form.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required rejection forms are obtained and are retained in the underwriting files.

1 Violation Title 75, Pa. C. S. § 1734 -- Request for lower limits of coverage.

The violation was the result of policy not having a signed request for lower limits.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

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

The file did not contain a request for a lower deductible.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

Rating – Private Passenger Auto; Renewals With Surcharges

97 Violations Title 75, Pa. C. S. §1791.1(a) -- Invoice.

Failure to provide to 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.

Company Response

General Casualty accepts this finding. We have always provided Pennsylvania insureds with our Form No. Und. 643 entitled "Notice of Minimum Required Coverage Limits" which we believed was compliant with the requirements of Title 75, Pa. C. S. §1791.1(a). We will revise our form in order to comply fully with the invoice requirement.

97 Violations Title 75, Pa. C.S. §1799.3(d) -- Failure to provide a surcharge disclosure statement, listing the dates of accidents, violations and the amount of surcharge, on the premium notice.

Company Response

General Casualty accepts this finding. We have always provided insureds with our Form No. Und. 646 (Notice of Surcharge Personal Auto - Pennsylvania) and Form No. Und. 644 (Surcharge Plan Disclosure Notice – Pennsylvania). These forms specify the manner in which our company calculates driver record surcharge points, and identifies the rating factor associated with the point totals. In order to comply fully with Title 75, Pa. C. S. §1799.3(d), General Casualty will implement procedures to ensure that the applicable surcharge is itemized on the premium notice.

14 Violations Title 75, Pa. C. S. §1705 (a) & Title 75, Pa C. S. §1791.1 (b) -- Election/Notice of tort options.

The files noted contained the Notice of Tort Options, but did not contain the comparison premiums to assist the insured in making an informed decision.

Company Response

We would like to discuss this finding further with the Department.

Please note that with respect to the 14 files noted, General Casualty did issue a Notice of Tort Options at renewal that was compliant with the requirements of Title 75, Pa C. S. §1791.1(b). As you know, §1791.1(b) does not require insurers to provide premium differential and cost comparison information between the full tort and limited tort options.

It was our understanding that §1705 (a)(1) & §1705(a)(4) were applicable, respectively, to: 1) existing policyholders upon their first renewal *after* the July 1, 1990 effective date of the amendments to the MVFRL, and, 2) to new insureds that originally purchase their insurance policy after July 1, 1990. Reference Donnelly v. Bauer, 553 Pa. 596, 720 A.2d 447 (1998).

2 Violations Title 75. Pa. C. S. § 1734 -- Request for lower limits of coverage.

The violation was the result of policies not having a signed request for lower limits.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required election forms are obtained and are retained in the underwriting files.

1 Violation Insurance Department Act, Section 903(a) (40 P.S. §323.3) -- The file noted was missing necessary documents relative to compliance and compliance could not be determined.

Company Response

General Casualty accepts this finding. We will review and strengthen our documentation procedures to ensure that required application and election documents are obtained and are retained in the underwriting files.

Rating – Homeowners; New Business

No violations

Rating – Homeowners; Renewals

No violations

Rating – Homeowners; Renewals With Surcharges

No violations

Rating – Dwelling Fire; New Business

No violations

Rating -- Dwelling Fire; Renewals

No violations

Rating – Commercial Automobile; Renewals

No violations

Rating -- Commercial Property; Renewals

No violations

Claims

Company Response

General Casualty accepts the findings of the Department as set out in pages 34 through 39 of the Report. General Casualty will review its internal control and training procedures to ensure compliance with the claims handling requirements of Title 31, Pa. Code, Chapter 146.

With respect to the violation concerning first party medical claims referred for peer review, over the years, very few of our first party medical claims have been referred for peer review. When it is necessary to make such a referral we have utilized the PRO services of CorVel Corporation. CorVel is an approved PRO in Pennsylvania and has provided services to us upon request. In order to comply with the requirements of Title 31, Pa. Code, Section 69.53(a) we will enter into a written contract with CorVel for the provision of PRO services.

Forms

2 Violations Title 75, PA C. S. §1822 -- Files noted evidenced claim documents that did not contain the required fraud notice.

Company Response

General Casualty accepts this finding and will correct the forms at issue.

Consumer Complaints

2 Violations Act 68, Section 2004 [40 P.S. §991.2004] -- The violations resulted from cancellations for reasons not permitted.

Company Response

General Casualty accepts these findings but points out that following our receipt and review of the complaints at issue, and prior to the Department's audit, we reinstated both policies with no lapse in coverage.

3 Violations Act 68, Section 2008(b) [40 P.S. §991.2008(b)] -- The cancellation notices did not contain notice of the appeal process whereby the insured may request review by the Department.

Company Response

We disagree with this finding. However, as indicated above, we are not opposed to including appeal process information in cancellation notices issued within 60 days of inception.

Two of the three policies at issue were personal auto policies. Both of the personal auto policies were cancelled within 60 days of inception. It was our understanding, from a plain reading of the applicable statute, that we were not required to include "appeal process" information in the cancellation notices.

Please reference §991.2002 (c)(3) which in relevant part provides that "Nothing in this article (991.2001 through 991.2013) shall apply: [t]o any policy of automobile insurance which has been in effect less than 60 days ... except that if an insurer cancels a policy ... in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation."

Under the plain language of the statute, §991.2008(b) is not applicable to cancellations within the first 60 days following inception.

Based on the foregoing, we do not believe that it is appropriate for the Department to cite us for the noted violations. However, in response to the concerns of the Department, we have strengthened our internal controls and procedures to ensure that all cancellation notices issued within 60 days of policy inception include the appeal process information referenced in 40 P.S. §991.2008(b).

The remaining violation concerned a Homeowners' policy. Cancellations of Homeowners' policies are not governed by 40 P.S. §991.2008(b). The cancellation notice content requirements for Homeowners' policies are set out in 40 P.S. §1171.5(a)(9)(i) through (vii). The notice of appeal requirement at issue in this finding appears in 40 P.S. §1171.5(a)(9)(iv). However, under a plain reading of the statute, the notice of appeal requirement is not applicable to cancellations occurring within 60 days of policy inception.

Please also reference 40 P.S. §1171.5(c)(3) which provides in relevant part that: "nothing in 1171.5(a)(9) shall apply ... to any policy of insurance which has been in effect less than 60 days including any notice of termination period, unless it is a renewal policy.

Based on the foregoing, we do not feel that it is appropriate for the Department to cite us for the noted violation. However, in response to the concerns of the Department, we have modified our 60 day cancellation notices to include appeal process information.

1 Violation Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)] -- The violation resulted from failure to provide 30 days advance notice of cancellation.

Company Response

The company accepts this finding and has reviewed its procedures to ensure that it is providing at least 30 days advance notice of cancellation.

1 Violation Act 86, Section 3(a)(5) (40 P.S. §3403(a)(5)) and Title 31, §113.88 --The violation resulted from a failure to provide a sufficiently specific reason for the non-renewal.

Company Response

General Casualty accepts this finding and we will strengthen our internal controls and procedures to ensure that all of our non-renewal notices are compliant with 40 P.S. §3403(a)(5) and Title 31, Pa. Code §113.88.

1 Violation Act 86, Section 3(a)(6) (40 P.S. §3403(a)(6)) --The Company did not make the offer to provide loss information.

Company Response

General Casualty accepts this finding. With respect to the policy cited, the non-renewal notice did contain the required notification regarding the availability of loss information. Unfortunately, we neglected to check the box next to this notification indicating its applicability. We will review our procedures to ensure that the check off box is marked so that it is clear to the policyholder that they are entitled to loss information.

1 Violation Title 31, Section 146.7(a)(1) -- The violation resulted from a failure to issue the denial within the required time.

Company Response

General Casualty accepts this finding. As indicated in the Claims section of this response, General Casualty will review its internal control and training procedures to ensure full compliance with the claims handling requirements of Title 31, Pa. Code, Chapter 146.

Advertising

No violations

Producer Licensing

1 Violation Insurance Department Act, No 147, Section 671-A (40 P.S. § 310.71) – Producer was found to be writing policies but not found in Insurance Department records as having an appointment.

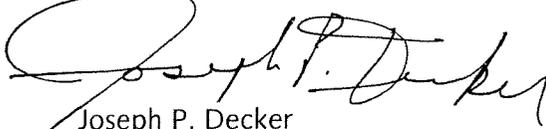
Company Response

General Casualty respectfully disagrees with this finding.

The agency at issue, the Mang Agency is the DBA name of Granite Capital Holdings, Inc. Granite Capital Holdings, Inc. was properly appointed by General Casualty effective November 1, 2002. We submitted full documentation regarding this matter to the Examiner, and she agreed to remove and, in fact, did remove this finding from the last draft version of the Report. We question why it has been reinserted.

We thank the Department for the opportunity to respond to the Report findings. We are confident that the corrective actions noted herein will provide a satisfactory resolution to the concerns and violations cited in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph P. Decker". The signature is fluid and cursive, with a large initial "J" and "D".

Joseph P. Decker
Corporate Counsel
(608) 825-5383