REPORT OF
MARKET CONDUCT EXAMINATION
OF

GOVERNMENT EMPLOYEES INSURANCE COMPANY

Chevy Chase, Maryland

AS OF
May 9, 2006

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: June 23, 2006

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).

Jerry L. Houston, Examiner-In-Charge

Sworn to and Subscribed Before me

This 24 Day of April , 2006

Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2006

GOVERNMENT EMPLOYEES INSURANCE COMPANY

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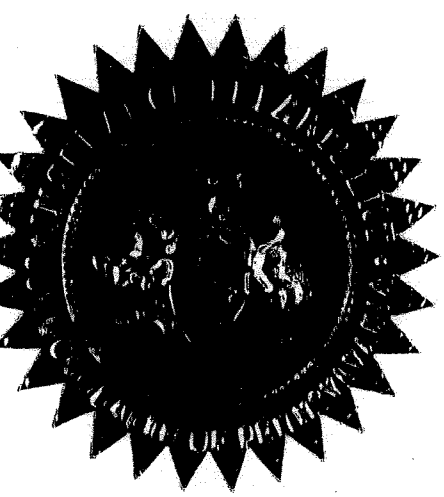
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
GOVERNMENT EMPLOYEES	:	Act 1990-6, Sections 1705(a)(1)
INSURANCE COMPANY	:	and (4), 1734, 1791, 1791.1(a),
One GEICO Plaza	:	1791.1(b), 1792(b)(1), 1793(b),
Washington, DC 20076	:	and 1799.3(d) (Title 75, Pa.C.S.
	:	§§ 1705, 1734, 1791, 1792, 1793
	:	and 1799)
	:	
	:	Title 75, Pa.C.S. Section 1822
	:	
Respondent.	:	Docket No. MC06-06-010

CONSENT ORDER

AND NOW, this 23rd day of June, 2006, 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 Government Employees Insurance Company, and maintains its address at One GEICO Plaza, Washington DC 20076.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.

(c) On May 9, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on June 8, 2006.

(e) The Examination Report notes violations of the following:

(i) 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;

(ii) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which requires a named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in amount equal to or less than the limits of liability for bodily injury:

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

(iv) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the

minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages;

(v) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires, in addition to the invoice required under subsection (a), an insured 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;

(vi) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of $500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there

is an additional cost of purchasing a lower deductible and the insured agrees to accept it;

(vii) Section 1793(b) of Act 1990-6, Title 75, Pa.C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

(viii) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

(ix) Title 75, Pa. C.S. § 1822, which requires, 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 any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to $15,000.00.

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 Act 1990-6 constitute unfair insurance practices under Section 4 of Act 205 (40 P.S. § 1171.4) and are therefore 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. §§ 1171.4), 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 the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars ($5,000.00);

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

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the 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 Twenty-Five Thousand Dollars ($25,000.00) 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: GOVERNMENT EMPLOYEES INSURANCE COMPANY, Respondent

~~President~~ / Vice President

Secretary ~~/ Treasurer~~

RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Government Employees Insurance Company's office located in Fredericksburg, Virginia, from February 7, 2006, through February 10, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

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

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

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

Jerry L. Houston
Market Conduct Examiner

Joseph S. Meizen
Market Conduct Examiner

Diane B. Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

A limited scope Market Conduct Examination was conducted on Government Employees Insurance Company, hereinafter referred to as "Company," at their office located in Fredericksburg, Virginia. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2004, through December 31, 2004, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination was limited to review of Company operations in the following area:

1. Private Passenger Automobile

- Underwriting – Review of application and renewal process

III. COMPANY HISTORY AND LICENSING

Government Employees Insurance Company (GEICO) was reincorporated and redomesticated on January 3, 1986, under the laws of Maryland to effect a change in corporate domicile from the District of Columbia to Maryland. The original Government Employees Insurance Company was formed August 1936 in Texas, and was reincorporated in the District of Columbia in 1937, and 1979. At commencement of business, December 1, 1937, the District of Columbia domiciled GEICO absorbed all of the assets and liabilities of the Texas domiciled Government Employees Insurance Company, Fort Worth, Texas. The Texas stock company had been organized as successor to the Government Employees Insurance Association, a reciprocal exchange, which was formed on March 20, 1934, under the title Government Employees Underwriters.

LICENSING

Government Employees Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except New Jersey. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as $47,175,506. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) $6,331,169; Other Private Passenger Auto Liability $22,582,297 and Private Passenger Auto Physical Damage $17,562,278.

IV. UNDERWRITING

A. Private Passenger Automobile

1. New Business

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

The primary purpose of the review was to measure compliance with all provisions of Act 6 of 1990 and Title 75, Pa. C.S. §1799.3(d), 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.

Private Passenger Automobile – New Business Without Surcharges

From the universe of 3,382 private passenger automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files requested were received and reviewed. The 20,304 violations noted were based on the universe of 3,382, resulting in an error ratio of 100%.

The following findings were made:

3,382 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an

opportunity to elect a tort option. The Company did not provide the required election of tort options prior to the issuance of the policy.

3,382 Violations Title 75, Pa. C.S. §1791

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

3,382 Violations Title 75, Pa. C.S §1791.1(b)

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

3,382 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in

excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company did not provide the itemized invoice listing minimum motor vehicle coverages and the premium charge to purchase these coverages at the time of application.

3,382 Violations Title 75, Pa. C.S. §1793(b)

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

3,382 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 Company did not provide the fraud warning at the time of application.

2 Violations *Title 75, Pa. C.S. §1792(b)(1)*

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of $500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The 2 violations noted were the result of not having the required signed statement from the insured.

3 Violations *Title 75, Pa. C.S. §1734*

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The 3 files noted did not contain a written request for lower limits of liability.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 7 violations noted were the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

Private Passenger Automobile – New Business With Surcharges

From the universe of 643 private passenger automobile policies identified as new business with surcharges, 100 files were selected for review. All 100 files requested were received and reviewed. The 4,504 violations noted were based on the universe of 643 files, resulting in an error ratio of 100%.

The following findings were made:

643 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company did not provide the required election of tort options prior to the issuance of the policy.

643 Violations Title 75, Pa. C.S. §1791

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

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

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

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company did not provide the itemized invoice listing minimum motor vehicle coverages and the premium charge to purchase these coverages at the time of application.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage.

The Company did not provide the required surcharge disclosure plan at the time of application.

643 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 Company did not provide the fraud warning at the time of application.

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

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

1 Violation *Title 75, Pa. C.S. §1734*

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 2 violations noted were the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

Private Passenger Automobile – New Business Phone Sales

The Company was asked to provide a list of 25 policy files from current phone sales. All 25 policy files were provided and reviewed. The files were from the experience period of December 1, 2005 through January 31, 2006. The 150 violations noted were based on 25 files, resulting in an error ratio of 100%.

The following findings were made:

25 Violations *Title 75, Pa. C.S. §1705(a)(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy

may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company did not provide the required election of tort options prior to the issuance of the policy.

25 Violations Title 75, Pa. C.S. §1791

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

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

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

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical

benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company did not provide the itemized invoice listing minimum motor vehicle coverages and the premium charge to purchase these coverages at the time of application.

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

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

25 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 Company did not provide the fraud warning at the time of application.

Private Passenger Automobile – New Business Internet Sales

The Company was asked to provide a list of 50 new business policy files from current internet sales. All 50 files requested were received and reviewed. The files were from the experience period of December 1, 2005 through January 31, 2006. The 156 violations noted were based on 50 files, resulting in an error ratio of 100%.

The following findings were made:

50 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company did not provide the required election of tort options prior to the issuance of the policy.

50 Violations Title 75, Pa. C.S. §1791

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

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company did not provide the itemized invoice listing minimum motor vehicle coverages and the premium charge to purchase these coverages at the time of application.

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

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of $500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The violation noted was

the result of not having the required signed statement from the insured.

3 Violations *Title 75, Pa. C.S. §1734*

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The 3 files noted did not contain a written request for lower limits of liability.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 2 violations noted were the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

2. Renewals

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

The purpose of the review was to measure compliance with Title 75, Pa. C.S. §1799.3(d), 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.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 22,310 private passenger automobile policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 2,982 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 2,982 violations noted were based on the universe of 2,982 files, resulting in an error ratio of 100%.

The following findings were made:

2,982 Violations Title 75, Pa. C.S. §1799.3(d)

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

V. 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 ensure that all applications 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 information 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." This is to ensure that violations noted under Title 75, Pa. C.S. §1822 do not occur in the future.

2. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.

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

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

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

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

7. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.

8. 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. This is to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(1) do not occur in the future.

VI. COMPANY RESPONSE

GEICO

- Government Employees Insurance Company
- GEICO General Insurance Company
- GEICO Indemnity Company
- GEICO Casualty Company

One GEICO Plaza ■ Washington, DC 20076-0001

June 7, 2006

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

BY OVERNIGHT DELIVERY & E-MAIL

Dear Mr. Derk,

This letter will constitute the response of the Government Employees Insurance Company ("GEICO") to the Pennsylvania Insurance Department's Report of Examination dated May 9, 2006 ("the Report").

The Department's findings may be divided into four basic categories: 1) Initial Disclosures/Forms; 2) Surcharge Notices; and 3) Other Errors.

I. Initial Disclosures/Forms:

The Report finds an error ratio of 100% regarding various initial disclosures/forms required under Pennsylvania law (p.5–8, 9-16).

During the experience period, GEICO provided the required disclosures/forms at the time of policy issuance, in the good faith belief that such action was compliant with applicable law. GEICO provided these documents during what GEICO understood to be the application process.

At that time, GEICO was unaware of any interpretation by the Insurance Department of the application process which would be inconsistent with GEICO's practices.

GEICO's review of recent Market Conduct Exam Reports for other direct writers in Pennsylvania indicates that GEICO's interpretation and application of the law were consistent with that of other members of the industry at that time.

GEICO is unaware of any complaint by any GEICO customer regarding the timing of the disclosures/forms, nor of any GEICO customer canceling a policy based upon information conveyed in the disclosures/forms.

As such, there is no indication that any consumer was harmed by the interpretation applied by GEICO.

Upon learning of the Insurance Department's interpretation of the relevant statutes, GEICO began modifying its procedures to conform to the Department's analysis.

II. Surcharge Notices:

The Report finds an error ratio of 100% on Renewals with Surcharge (p.18).

75 Pa.C.S. §1799.3(d) provides that an insurer shall inform the named insured of a determination to impose a surcharge and "specify the manner in which the surcharge, rate penalty or driver record point assignment was made..."

In requiring that insurers identify the "manner" in which the surcharge was made, the statute is extremely vague and provides the Insurance Department and insurers alike with little guidance as to what is expected in a surcharge notice.

GEICO provided its surcharged customers with the amount of the surcharge and stated that it was due to driving history within the applicable experience period. GEICO believed in good faith that its actions were in compliance with the statute.

Upon learning of the Insurance Department's interpretation of the relevant statute, GEICO began modifying its procedures to conform to the Department's analysis.

III. Other Errors:

The Report finds various miscellaneous errors regarding required forms not present in policy files (p.8, 12, 16–17). These instances were isolated and represented an extremely low error ratio. They do not represent systemic problems.

GEICO has reviewed the requirements with operations personnel in an effort to minimize or eliminate recurrence of these errors.

GEICO recognizes the important role Market Conduct Examinations play in protecting insurance consumers, and appreciates this opportunity to respond to the Department's report.

Sincerely,

John A. Taylor,
Counsel