

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**GE AUTO & HOME ASSURANCE COMPANY**  
Fort Washington, Pennsylvania

**AS OF  
July 22, 2005**

**COMMONWEALTH OF PENNSYLVANIA**

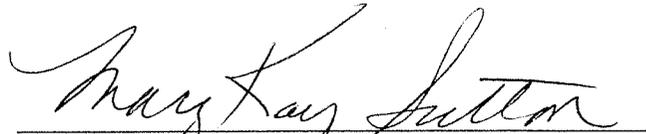


**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: September 13, 2005**

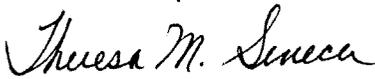
VERIFICATION

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).

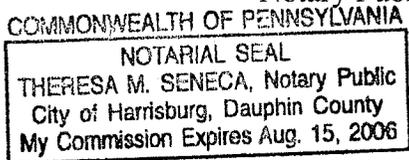
  
Mary Kay Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This 22 Day of June, 2005



Notary Public



# GE AUTO & HOME ASSURANCE COMPANY

## TABLE OF CONTENTS

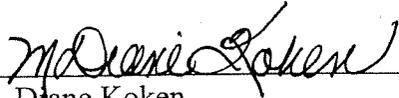
Order		
I.	Introduction.....	1
II.	Scope of Examination.....	3
III.	Company History/Licensing.....	4
IV.	Underwriting Practices and Procedures.....	6
V.	Underwriting	
	A. Private Passenger Automobile.....	7
	B. Assigned Risk.....	10
VI.	Rating	
	A. Private Passenger Automobile.....	12
	B. Assigned Risk.....	22
VII.	Claims.....	27
VIII.	Forms.....	33
IX.	Advertising.....	34
X.	Consumer Complaints.....	35
XI.	Licensing.....	37
XII.	Recommendations.....	38
XIII.	Company Response.....	41

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:
	:	
GE AUTO AND HOME	:	Section 641.1-A of Act 147 of 2002
ASSURANCE COMPANY	:	(40 P.S. § 310.41)
One AIG Center	:	
Wilmington, DE 19803	:	Act 1990-6, Sections 1705(a)(1) and
	:	(4), 1716, 1734, 1791, 1791.1(a) and
	:	(b), 1792(b)(1) and 1793(b) (Title 75,
	:	Pa.C.S. §§ 1705, 1716, 1734, 1791,
	:	1792 and 1793)
	:	
	:	Sections 2006, 2006(2) and 2008(b)
	:	of Act 68 of 1998 (40 P.S. §991.2006
	:	and 991.2008)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	62.3(e)(4), 69.52(b), 69.52(e),
	:	146.5(a), 146.5(d) and 146.6
	:	
Respondent.	:	Docket No. MC05-07-019

CONSENT ORDER

AND NOW, this 13<sup>th</sup> day of *September*, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

#### FINDINGS OF FACT

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

- (a) Respondent is GE Auto and Home Assurance Company, and maintains its address at One AIG Center, Wilmington, Delaware 19803.
- (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 July 22, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on August 22, 2005.

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

- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
- (ii) Section 1705(a)(1) and (4) of Act 1990-6, Title 75, Pa.C.S. § 1705(a)(1) and (4), which requires each insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy, shall provide each applicant with the notice required under paragraph (1);
- (iii) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of 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;

- (iv) 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 amount equal to or less than the limits of liability for bodily injury;
- (v) 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;
- (vi) 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;

(vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

(viii) 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 \$500.00 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;

(ix) Section 1793(b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall deliver the plan to each insured at least once annually. Additionally, the surcharge information plan shall be given

to each prospective insured at the time application is made for motor vehicle insurance coverage;

- (x) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2006), which requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;
- (xi) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;
- (xii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of the refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;
- (xiii) Title 31, Pennsylvania Code, Section 62.3(e)(4), which requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value;

- (xiv) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;
- (xv) Title 31, Pennsylvania Code, Section 69.52(e), which requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within five days of receipt;
- (xvi) Title 31, Pennsylvania Code, Section 146.5(a), requires 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;
- (xvii) Title 31, Pennsylvania Code, Section 146.5(d), requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer; and
- (xviii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30

days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected.

#### 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 641.1-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
  - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
  - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
  - (iii) an order to cease and desist; and
  - (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 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).

(d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(e) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

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

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

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-Two Thousand, Five Hundred Dollars (\$22,500.00) 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

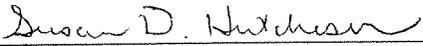
Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: GE AUTO AND HOME ASSURANCE  
COMPANY, Respondent



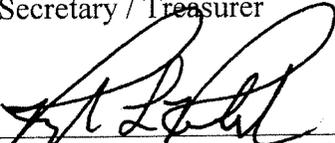
---

President / Vice President



---

Secretary / Treasurer



---

RANDOLPH L. ROHRBAUGH  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## *I. INTRODUCTION*

The market conduct examination was conducted at GE Auto & Home Assurance Company's office located in Fort Washington, Pennsylvania, from December 13, 2004, through January 5, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

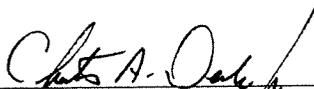
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

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

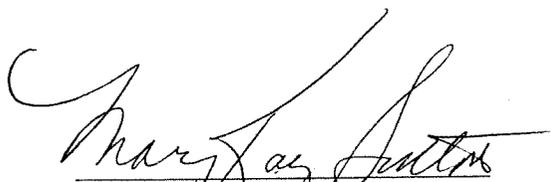
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

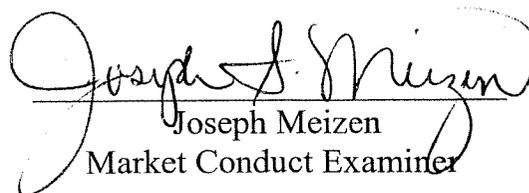
The undersigned participated in this examination and in preparation of this Report.



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



Mary Kay Sutton  
Market Conduct Examiner



Joseph Meizen  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on GE Auto & Home Assurance Company, hereinafter referred to as “Company,” at their office located in Fort Washington, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2003, through June 30, 2004, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Automobile
  - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
  - Rating - Proper use of all classification and rating plans and procedures.
  
2. Assigned Risk Automobile
  - Underwriting – Appropriate and timely notices of midterm cancellations.
  - Rating – Proper use of all classification and rating plans and procedures.
  
3. Claims
  
4. Forms
  
5. Advertising
  
6. Complaints
  
7. Licensing

### III. COMPANY HISTORY AND LICENSING

GE Auto & Home Assurance Company was originally incorporated in California on August 19, 1971, as Insurance Company of the Pacific Coast. The Company was issued a Certificate of Authority by the Insurance Department of the State of California on December 27, 1971. On March 31, 1986, Colonial Penn Insurance Company acquired all of the issued and outstanding stock of the Company and on October 15, 1986, the Company's name was changed to Colonial Penn Heritage Insurance Company.

In 1991, all of the shares of common stock of Colonial Penn Group, Inc., a parent company of Colonial Penn Insurance Company, were acquired by Charter National Life Insurance Company, a wholly-owned subsidiary of Leucadia National Corporation. Leucadia was the ultimate controlling person. It is a New York corporation which was formed in 1968 and operated under the name of Talcott National Corporation until 1979. At that time, the corporation was acquired by Unitah National Corporation and its name was changed. In 1989, Unitah became a wholly-owned subsidiary of Leucadia. On dissolution of TLC Associates on May 31, 1990, the interest of the partners became direct ownership shares of Leucadia shares.

The Company's name was again changed on November 14, 1994, to Bay Colony Insurance Company. The redomestication of Bay Colony to the Commonwealth of Pennsylvania was approved by the Pennsylvania Insurance Department on June 16, 1995.

On November 4, 1997, 100% of the issued and outstanding stock of Colonial Penn Insurance Company, the parent of Bay Colony Insurance Company, Colonial Penn Franklin Insurance Company, Colonial Penn Madison Insurance Company and

Bayside Casualty Insurance Company, was sold to General Electric Capital Corporation, which acquisition was approved by the Pennsylvania Insurance Department. On the closing date, GE Capital contributed all of the issued and outstanding stock of Colonial Penn Insurance Company to its affiliate, GE Financial Assurance Holdings, Inc. GE Capital is ultimately owned by General Electric Company.

Effective September 2, 1999, the Company's name was changed to GE Auto & Home Assurance Company.

On August 29, 2003, GE Auto & Home Assurance Company was acquired by Lexington Insurance Company, a subsidiary of American International Group, Inc.

Effective April 1, 2004, the Company changed its name to AIG Preferred Insurance Company.

### LICENSING

GE Auto & Home Assurance Company's Certificate of Authority to write business in the Commonwealth was issued on October 29, 1987. The Company is licensed in Arizona, California, Connecticut, Delaware, Florida, Illinois, Maryland, New Jersey, New York, Oregon, Pennsylvania, Texas and Washington. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$20,946,857. 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) \$3,445,496; Private Passenger Auto Liability \$11,527,669 and Private Passenger Auto Physical Damage \$5,973,692.

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

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

## V. UNDERWRITING

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

#### 1. 60-Day Cancellations

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

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

The universe of 39 personal automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 39 files selected were received and reviewed. No violations were noted.

#### 2. Midterm Cancellations

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

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

From the universe of 1,228 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 2%.

The following findings were made:

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

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The file noted did not contain any documentation to indicate if a cancellation notice was mailed to the insured.

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

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

### 3. Nonrenewals

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

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

The universe of 65 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 65 files selected were received and reviewed. No violations were noted.

#### 4. Declinations

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

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

From the universe of 345 automobile declinations reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 16%.

The following findings were made:

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

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or

reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. Of the 8 violations noted, 4 were the result of not providing a specific reason for the declination. The remaining 4 violations were the result of the Company's failure to send a notice declining to write the applicant.

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

GE Auto & Home Assurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, GE Auto & Home Assurance Company receives all assignments from the Pennsylvania Assigned Risk Plan.

### 1. Midterm Cancellations

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

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

From the universe of 2,589 private passenger automobile assigned risk policies cancelled during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

## 2. Nonrenewals

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

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

The Company did not report any private passenger automobile assigned risk nonrenewals during the experience period.

## VI. RATING

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

#### 1. New Business

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

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

#### Private Passenger Automobile – New Business Without Surcharges

From the universe of 363 personal automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 files requested were received and reviewed. The 1,818 violations were based on the universe of 363 files, resulting in an error ratio of 100%.

The following findings were made:

*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 violations noted did not contain a written request for lower limits of liability.

*363 Violations Title 75, Pa. C.S. §1705(a)(1)&(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). The 363 violations noted resulted from failure to provide the applicant with the required notice prior to the issuance of the policy.

*363 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 notice at the time of application.

*363 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 363 violations noted resulted from failure to provide an itemized invoice at the time of application.

*363 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.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 363 violations were the result of the Company not providing the

insured with a copy of a surcharge disclosure plan at the time of application.

The following concern was noted:

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

Private Passenger Automobile – New Business With Surcharges

The universe of 6 personal automobile policies identified as new business with surcharges by the Company was selected for review. All 6 files requested were received and reviewed. The 32 violations noted were based on the universe of 6 files, resulting in an error ratio of 100%.

The following findings were made:

*6 Violations Title 75, Pa. C.S. §1705(a)(1)&(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). The 6 violations noted resulted from failure to

provide the applicant with the required notice prior to the issuance of the policy.

*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 violation noted did not contain a written request for lower limits of liability.

*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.

*6 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 notice at the time of application.

*6 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 6 violations noted resulted from failure to provide the itemized invoice at the time of application.

*6 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.

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge

disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 6 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application.

The following concern was noted:

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

## 2. Renewals

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

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

proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

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

#### Private Passenger Automobile – Renewals Without Surcharges

From the universe of 5,618 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 5,618 violations were based on the universe of 5,618, resulting in an error ratio of 100%.

The following findings were made:

*5,618 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 5,618 violations noted resulted from failure to itemize the invoice for minimum coverages.

The following concern was noted:

The Company is using the fraud warning described in Title 18, Pa. C.S. §4117(k)(1). The Company should use the fraud warning statement that is associated with private passenger personal automobile insurance in accordance with Title 75, Pa. C.S. §1822. The following statement should be incorporated on all applications for insurance, renewals and claim forms:

“Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.”

#### Private Passenger Automobile – Renewals With Surcharges

From the universe of 375 private passenger automobile policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 375 violations noted were based on the universe of 375 files, resulting in an error ratio of 100%.

The following findings were made:

#### *375 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 375 violations noted resulted from failure to itemize the invoice for minimum coverages.

The following concern was noted:

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

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

GE Auto & Home Assurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

### **1. New Business**

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

The primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean

From the universe of 5,505 assigned risk private passenger automobile new business policies written as clean during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

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

From the universe of 142 assigned risk private passenger automobile new business policies written as other than clean during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – Renewals – Clean

From the universe of 1,367 assigned risk private passenger automobile renewal policies written as clean during the experience period, 75 files were

selected for review. All 75 files selected were received and reviewed. The 1,367 violations noted were based on the universe of 1,367, resulting in an error ratio of 100%.

The following findings were made:

*1,367 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 1,367 violations noted resulted from failure to itemize the invoice for minimum coverages.

The following concern was noted:

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

Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

The universe of 7 assigned risk private passenger automobile renewal policies written as other than clean during the experience period was selected for review. All 7 files selected were received and reviewed. The 7 violations noted were based on the universe of 7 files, resulting in an error ratio of 100%.

The following findings were made:

*7 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 7 violations noted resulted from failure to itemize the invoice for minimum coverages.

The following concern was noted:

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

## VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

### **A. Automobile Property Damage Claims**

From the universe of 1,115 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 2%.

The following findings were made:

*1 Violation 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 Company did not acknowledge the claim within 10 working days.

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

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

**B. Automobile Comprehensive Claims**

From the universe of 823 private passenger automobile comprehensive claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

*2 Violations Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 2 claims noted.

**C. Automobile Collision Claims**

From the universe of 1,822 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 12 violations noted were based on 9 files, resulting in an error ratio of 18%.

The following findings were made:

*4 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 Company did not acknowledge the claim within 10 working days on the 4 files noted.

*8 Violations Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 8 claims noted.

**D. Automobile Total Loss Claims**

From the universe of 554 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 10%.

The following findings were made:

*2 Violations Title 31, Pa. Code, Section 62.3(e)(4)*

Requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value. The 2 files noted did not have sales tax included in the replacement value of the vehicle.

*3 Violations Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the

claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 3 claims noted.

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

From the universe of 643 private passenger automobile first party medical claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. The 7 violations noted were based on 6 files, resulting in an error ratio of 12%.

The following findings were made:

##### *2 Violations Title 31, Pa. Code, Section 69.52(b)*

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The 2 violations noted resulted because the bill was not paid within 30 days.

##### *1 Violation 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 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 Company did not pay interest on a claim that was not paid within 30 days.

*4 Violations Title 31, Pa. Code, Section 146.5(d)*

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The 4 violations noted were the result of not providing claimants with the necessary claim forms within ten working days.

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

The universe of 2 automobile first party medical claims that were referred to a peer review organization by the Company was selected for review. Both files selected were received and reviewed. The Company was also asked to provide a copy of the all peer review contracts in place during the experience period. The violation noted resulted in an error ratio of 50%.

The following finding was made:

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

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The violation noted was absent any evidence this requirement was complied with.

### VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted.

## *IX. ADVERTISING*

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

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

The Company provided 3 direct mailers and although they preceded the experience period, they were reviewed to ascertain compliance. No violations were noted.

## X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 16 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 16 complaints reported were selected and reviewed.

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

The following finding was made:

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

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

The following synopsis reflects the nature of the 16 complaints that were reviewed.

• 8	Cancellation/Nonrenewal	50%
• 4	Premium Related	25%
• 4	Claims Related	25%
<hr/>		<hr/>
16		100%

## *XI. LICENSING*

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

The following finding was made:

*1 Violation Insurance Department Act, No. 147, Section 641.1A  
[40 P.S. §310.41a]*

(a) Any insured entity or licensee accepting applications or orders for insured or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5,000.00 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

The following producer was found to be writing and /or soliciting policies but was not found in Insurance Department records as holding a Pennsylvania producer license.

Louis Laconte

## *XII. RECOMMENDATIONS*

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2006 [40 P.S. §991.2006], so that the violations noted in the Report do not occur in the future.
2. The Company must review and revise internal procedures to ensure compliance with notice requirements of Act 68, Section 2008 [40 P.S. §991.2008], so that the violations regarding declinations as noted in the Report 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 with the notice required under Title 75, Pa. C.S. §1705(a)(1), prior to the first issuance of a policy. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.
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) to ensure that violations of providing an itemized invoice listing minimum coverages

at the time of application and every renewal thereafter as noted in the Report do not occur in the future.

6. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that violations of providing the notice of tort options at the time of application as noted in the Report do not occur in the future.
7. 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.
8. 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.
9. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, claim acknowledgement and providing claim forms as noted in the Report do not occur in the future.
10. 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.
11. The Company must review the first party medical claim, which has 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 as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

12. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor vehicle. The Company must review all claims where sales tax was not included in the replacement value of a motor vehicle. The sales tax must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

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

**XIII. COMPANY RESPONSE**



One AIG Center  
Wilmington, DE 19803  
302.252.4937 Phone  
302.252.4943 Fax

**Pamella J. Raison**  
*Assistant General Counsel*  
Legal Department

August 22, 2005

**Via Overnight Mail**

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

RE: Response of GE Auto & Home Assurance Company  
Market Conduct Examination  
Examination Warrant Number: 04-M17-031  
Experience Period: July 1, 2003 through June 30, 2004

Dear Mr. Derk:

We are in receipt of the Final Report and Exit Summary for the GE Auto & Home Assurance Company ("Company") for the period of July 1, 2003 through June 30, 2004. While we appreciated the opportunity to review these findings with the Department prior to the issuance of this Final Report, we nonetheless wanted to express the Company's ongoing and continuance objections to the criticisms citing the following violations:

*Act 1990-6, Section 12. §1738(d)(1) & (2)- failure to provide signed rejection of stacked limits for UM/UIM*

*Act 1990-6, Section 18 § 1734. Request for lower limits of coverage.*

*Act 1990-6, Section 16, Title 75, Pa. C.S. §1791)*

*Act 6, Section 17, §1791.1(a) – Invoice*

*Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(b)*

*Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)*

*Act 1990-6, Section 9 § 1731 (b) and (c) - Uninsured and underinsured motorist coverage*

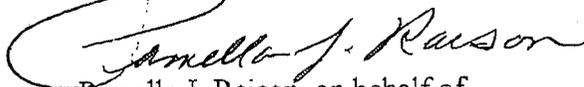
*Act 6, Section 8. §1705(a)(4) – Election of Tort options*

Each of these violations pertains to insurer obligations under Act 6 which are required to be discharged "at the time of application." The Company has previously submitted argument to the Department that, as a direct writer of automobile insurance, these disclosures are made at the time of the initial telephone call and through the "fulfillment" materials forwarded to the applicants immediately at the close of the call. We do not intend to continue writing new business in this Company, so we do not expect to have to address this issue in the future.

We have apparently reached an impasse with the Department on these issues and as a result, agree to this Final Report subject to the reservations set forth above.

Thank you for your courtesies in accepting this Company Response and making this part of any public file.

Very truly yours,



Pamella J. Raison, on behalf of

Maura C. Popp, Esquire

For: GE Auto & Home Assurance Company (n/k/a AIG Preferred Insurance Company)