

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

HOMESITE INSURANCE COMPANY OF PENNSYLVANIA

Philadelphia, Pennsylvania

**AS OF
June 30, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 20, 2004

HOMESITE INSURANCE COMPANY OF PENNSYLVANIA

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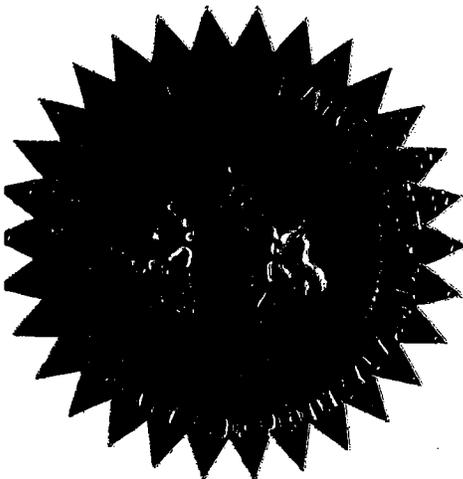
ORDER

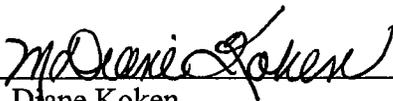
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
HOMESITE INSURANCE	:	Sections 605, 623 and 903(a) of the
OF PENNSYLVANIA	:	Insurance Department Act, Act of
99 Bedford Street	:	May 17, 1921, P.L. 789, No. 285
Boston, MA 02111	:	(40 P.S. §§ 235, 236 and 323.3)
	:	
	:	Sections 5(a)(9) and 5(a)(9)(ii) of the
	:	Unfair Insurance Practices Act, Act of
	:	July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§ 1171.5)
	:	
	:	Section 506.1 of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 635.1)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	59.6(6), 146.6, 146.7(a)(1) and
	:	146.7(b)
	:	
	:	
Respondent.	:	Docket No. MC04-07-027

CONSENT ORDER

AND NOW, this 20th day of August, 2004, 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 Homesite Insurance Company of Pennsylvania, and maintains its office at 99 Bedford Street, Boston, Massachusetts 02111.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2002 through June 30, 2003.

(c) On June 30, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on July 30, 2004.

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

(i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;

(ii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;

(iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

(iv) Section 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancelling any policy of insurance covering

owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazard insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. No cancellation or refusal to renew shall be effective unless a written notice of cancellation or refusal to renew is received by the insured;

(v) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;

(vi) Section 506.1 of the Insurance Company Law (40 P.S. § 635.1), which requires basic property insurance to be continued 180 days after the death of the named insured on the policy or until the sale of the property, whichever occurs first, provided that the premiums are paid;

(vii) Title 31, Pennsylvania Code, Section 59.6(6), which requires that notices of cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action; and if the reason is a substantial change or increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due and the date when it was due;

(viii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;

(ix) Title 31, Pennsylvania Code, Section 146.7(a)(1), which states acceptance or denial of a claim shall comply with the following: (1) No insurer shall deny a claim on the grounds of a specific policy provision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;

- (x) Title 31, Pennsylvania Code, Section 146.7(b), which states acceptance or denial of a claim shall comply with the following: If a claim is denied for reasons other than those described in (a) and is made by other means than writing, an appropriate notation shall be made in the claim file of the insurer.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 605 and 623 of the Insurance Department Act (40 P.S. §§ 235 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
- (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.

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

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

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

(d) 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).

- (e) Respondent's violations of Section 506.1 of the Insurance Company Law, No. 284 (40 P.S. § 635.1) are punishable by the following, under Section 655 of the Insurance Company Law (40 P.S. § 815), which provides that the Insurance Commissioner shall have the power to suspend or revoke the license of any insurance company which violations any provisions of this article.

- (f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6, 146.7(a)(1) and 146.7(b) are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as cited above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted

Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) 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, 1311 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.

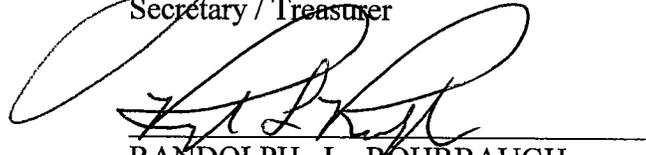
BY: HOMESITE INSURANCE COMPANY OF
PENNSYLVANIA, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Homesite Insurance Company of Pennsylvania's offices located in Boston, Massachusetts from March 15, 2004, to March 25, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

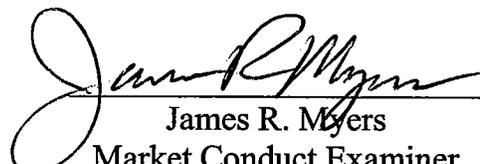
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

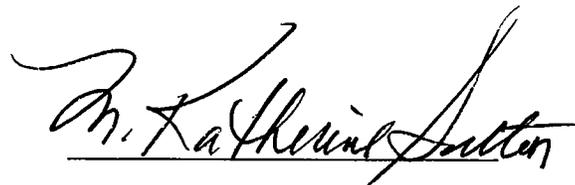
The undersigned participated in this examination and in preparation of this Report.



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



James R. Myers
Market Conduct Examiner



M. Katherine Sutton
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Homesite Insurance Company of Pennsylvania, hereinafter referred to as “Company,” at their office located in Boston, Massachusetts. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2002, through June 30, 2003, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property
 - Underwriting – Appropriate and timely notices of nonrenewal, mid-term cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Claims
3. Forms
4. Advertising
5. Complaints
6. Licensing

III. COMPANY HISTORY/LICENSING

Homesite Insurance Company of Pennsylvania, a member of the Homesite Insurance Group, commenced business in 1999, and focuses exclusively on the homeowners market. Homesite has concentrated on addressing problems long associated with the U. S. homeowners insurance business. As a relatively new company, Homesite Insurance Group carries an AM Best rating of “NR” which is typical for new insurance companies for the first five years in business. Homesite’s goal is to provide quality service and products at competitive prices.

LICENSING

Homesite Insurance Company of Pennsylvania’s Certificate of Authority to write business in the Commonwealth was last issued on June 16, 1999. The Company is licensed in Pennsylvania only. The Company’s 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$1,260,563. Premium volume related to the areas of this review were: Homeowners’ Multiple Peril \$1,260,563.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, dwelling fire and commercial lines. 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. Personal Lines Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 181 personal lines property policies, which were cancelled within the first 60 days of new business 64 files were selected for review. The property policies consisted of homeowners and tenant homeowners policies. All 64 files requested were received and reviewed. No violations were noted.

2. Mid-term Cancellations

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

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 389 personal lines property policies, which were cancelled mid-term during the experience period, 150 files were selected for review. The property policies consisted of homeowners and tenant homeowners policies. Of the 150 files requested, 149 were received and reviewed. Upon review, 25 files were identified as 60 Day Cancellations. The 50 violations noted were based on 50 files, resulting in an error ratio of 33%.

The following findings were made:

48 Violations Title 31, PA Code, §59.6(6)

Requires that notices of cancellation or refusal to renew shall meet the following requirements: The reason given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action; and if the reason is a substantial change or increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due and the date when it was due. The violations noted were for failure to provide the amount of premium due and the date it was due.

1 Violation Insurance Company Law, Section 506.1 [40 P.S. §635.1]
After-Death Continuation of Basic Property Insurance. (a)
Basic property insurance shall be continued one hundred and eighty days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid. The Company did not provide continuation of coverage 180 days after the date of death of the named insured or until the sale of the property.

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department in its discretion, may require in order that its authorized representatives may ascertain whether the company or person has complied with the laws of the Commonwealth. The violation noted was for failure to present the file for review.

3. Nonrenewals

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

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which

cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 188 personal property policies, which were nonrenewed during the experience period, 121 files were selected for review. The personal property policies consisted of homeowners and tenant homeowners. All 121 files requested were received and reviewed. The 10 violations noted were based on 8 files, resulting in an error ratio of 7%.

The following findings were made.

5 Violations Title 31, PA Code, §59.6(6)

Requires that notices of cancellation or refusal to renew shall meet the following requirements: The reason given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action; and if the reason is a substantial change or increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due and the date when it was due. The violations noted were for failure to provide the amount of premium due and the date it was due.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The violations were the result of using improper reasons to cancel a policy.

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

Requires that no cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured and shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The violations were the result of providing less than 30 days notice of nonrenewal.

4. Rescissions

A rescission is a policy that was cancelled back to the original inception date and no coverage was afforded.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the rescission notice.

The universe of 5 homeowner policies which were rescinded during the experience period was selected for review. All 5 policies were received and reviewed. No violations were noted.

5. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

From the universe of 1,182 personal lines property applications reported as declined during the experience period, 150 files were selected for review. The files consisted of homeowners and tenant homeowners. All 150 files requested were received and reviewed. No violations were found.

VI. RATING

A. Homeowners

1. New Business

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

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

Homeowners - New Business Without Surcharges

From the universe of 3,413 homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Homeowners – New Business With Surcharges

From the universe of 257 homeowner policies written as new business with surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

2. Renewals

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

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

Homeowners – Renewals Without Surcharges

From the universe of 1,547 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Homeowners – Renewals With Surcharges

From the universe of 133 homeowner policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Dwelling Fire Claims

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

A. Homeowner Claims

From the universe of 243 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 20 violations noted were based on 19 files, resulting in an error ratio of 19%.

The following findings were made:

15 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 violations noted were the result of the Company not providing the claimant with 30 day or 45 day status letters.

4 Violations Title 31, PA Code, Section 146.7(a)(1)

The acceptance or denial of a claim shall comply with the following: (1) No insurer shall deny a claim on the grounds of a specific policy provision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The violations were the result of the failure to provide proper notice of claim denial.

1 Violation Title 31, PA Code, Section 146.7(b)

The acceptance or denial of a claim shall comply with the following: (b) If a claim is denied for reasons other than those described in (a) and is made by other means than writing, an appropriate notation shall be made in the claim file of the insurer. The violation was for failure to make notation in the file regarding the denial of a claim.

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. C.S. §4117(k)(1)] and Act 6 of 1990 [75 PA. C.S. §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 17 pieces of advertising, which included brochures and direct mailing material. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 25 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 9 files 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. No violations were noted.

The following synopsis reflects the nature of the 25 complaints that were reviewed.

• 25	Cancellation/Nonrenewal	100%
<hr/>		<hr/>
25		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following findings were made:

*1 Violation Insurance Department Act, Section 605 (40 P.S. §235)
Appointment.*

- (a) No agent shall do business on behalf of any entity without a written appointment from that entity.
- (b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.
- (c) Insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
- (d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The following producer was found to be writing policies and was not found in the Insurance Department records as having an appointment by the Company or possessing a brokers license.

Maurice F Meagher, Jr.

8 Violations Insurance Department Act, Section 623 [40 P.S. §253] Doing Business with Unlicensed Brokers. Any entity or the appointed agent of any entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following producers were found to be writing policies and were not found in the Insurance Department records as having an appointment by the Company and/or possessing a brokers license or a certificate of qualification.

Thomas Byrd

Anthony Walston

Cynthia Johnson

Dale Bowry

Indira Bowen

Jerry Bryant

Tryphena Reid

David Morrissey

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 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 regarding status letters and claim denials as noted in the Report do not occur in the future.
2. The Company must ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, prior to accepting any business from an agent or broker.
3. The Company must review Act 205, Section 5(a) [40 P.S. §1171.5(a)] to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.
4. The Company must review Title 31, PA Code, 59.6 to ensure that violations regarding cancellation or refusal to renew due to failure to pay a premium, as noted in the Report, do not occur in the future.
5. The Company must review Insurance Department Act, Section 903, regarding proper documentation of files and record keeping, as noted in the report.

6. The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

XIII. COMPANY RESPONSE



July 28, 2004

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

RE: Examination Warrant Number 03-M22-030

Dear Mr. Derk,

Homesite Insurance Company of Pennsylvania (hereinafter "Homesite") is in receipt of your letter of June 30, 2004 and the examination report attached thereto. Thank you for the opportunity to respond to the findings of the report.

Please find below Homesite's responses to the Recommendations put forth in the Department's report.

1. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirement of Title 31, PA Code, chapter 146, Unfair Claims Settlement Practices, so that the violations regarding status letters and claim denials as noted in the Report to not occur in the future.

Homesite has reviewed and revised its internal control procedures to ensure compliance with the claims handling requirements of the Unfair Claims Settlement Practices Act (Title 31, P.A. Code, Chapter 146).

Beginning in the fourth quarter of 2003, Homesite has implemented a series of standardized form letters for utilization by our claims associates. One of these form letters is a 30-day status letter that is required to be mailed on all files open greater than 30 days, and every 30 days thereafter. This process is actively audited and monitored as part of Homesite's Corporate Responsibility-Claims program. Homesite is also working to automate this process. We hope to have a completely automated system for providing status letters to claimants by the beginning of 2005. We are confident that this system will prevent future violations regarding status letters.

Also beginning in the fourth quarter of 2003, Homesite implemented a process whereby all verbal denials must be followed up in writing to the policyholder. The system for this process allows the claim associate to select a standardized denial form, which is then customized based on the facts of the loss investigation and the reason for denial. Furthermore, Homesite also requires that written notification be provided to the



insured of our intent to close a claim when we do not hear from the insured within a reasonable time frame. These processes are actively audited and monitored as part of Homesite's Corporate Responsibility-Claims program. We are confident that this system will prevent future violations as noted in the Report.

2. The Company must ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 (40 P.S. §235) and Section 623 (40 P.S. §253) of the Insurance Department Act, prior to accepting any business from an agent or broker.

Homesite licenses all agents, agencies and brokers in compliance with Pennsylvania law. At the time of the Report, our process for non-resident licensing trailed the resident licensing process. Thus, although individuals were properly licensed in their resident state, they were delayed in obtaining their non-resident licenses. Beginning in February, 2004, Homesite adopted new policies and procedures regarding licensing as a part of our Corporate Responsibility program. Producer licensing is actively audited and monitored to ensure that all licensed agents and brokers fully complete the non-resident process prior to accepting any business in Pennsylvania.

3. The Company must review Act 205, Section 5(a) [40 P.S. §1171.5(a)] to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.

Homesite personnel have reviewed Act 205, Section 5(a) [40 P.S. §1171.5] regarding permissible reasons for cancellation and appropriate form of cancellation notices. Homesite personnel have been instructed on proper cancellation procedures. The violations noted in the Report have been remedied. Training on the appropriate state standards is ongoing and compliance is continually monitored and audited through the Corporate Responsibility program.

4. The Company must review Title 31, P.A. Code, 59.6 to ensure that violations regarding cancellation or refusal to renew due to failure to pay a premium, as noted in the Report, do not occur in the future.

Homesite personnel have reviewed Title 31, P.A. Code, 59.6 regarding the proper form of cancellations and non-renewal notices due to non-payment of premium. Specifically, the citation involved the proper disclosure of premium owed and due dates. Homesite personnel have been instructed on the proper cancellation form(s), and the necessary system adjustments have been made. The violations noted in the Report have been remedied. Training on the appropriate state standards is ongoing and compliance is continually monitored and audited through the Corporate Responsibility Program.



5. The Company must review Insurance Department Act, Section 903, regarding proper documentation of files and record keeping, as noted in the Report.

Homesite personnel have reviewed Insurance Department Act, Section 903 regarding proper documentation of files and record keeping. All Homesite personnel have been instructed on the proper documentation and maintenance of records regarding the company's property, assets, business and affairs, including policyholder files relative to cancellation.

6. The Company must review Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

Homesite has reviewed Insurance Company Law, Section 506.1 regarding the cancellation of property insurance after the death of the named insured. Homesite believes the violation noted in the Report was an isolated occurrence. Nonetheless, Homesite personnel have again been trained on the appropriate procedures, upon the death of a named insured, to ensure that coverage is provided for at least a 180 day period. We are confident that the single violation noted in the Report will not reoccur.

Thank you again for the opportunity to formally respond to the Recommendations raised in the report.

Sincerely,

A handwritten signature in cursive script that reads "Anthony Scavongelli" with a stylized "sga" at the end.

Anthony Scavongelli
Vice President and General Counsel
Homesite Insurance Company of Pennsylvania