

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

KEYSTONE INSURANCE COMPANY
Philadelphia, Pennsylvania

**AS OF
May 13, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 1, 2005

VERIFICATION

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

M. Katherine Sutton

M. Katherine Sutton

Sworn to and Subscribed Before me

This 17th Day of March, 2005

Theresa M. Seneca

Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL

THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2006

KEYSTONE INSURANCE COMPANY

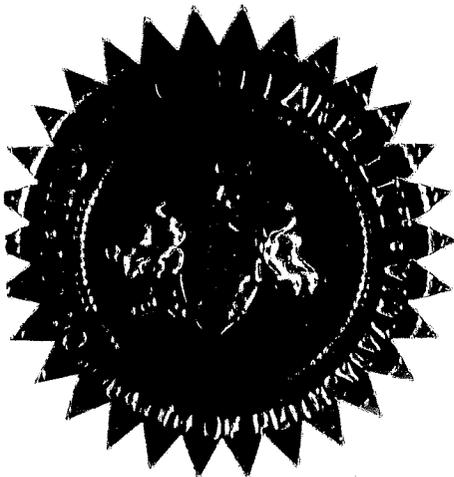
TABLE OF CONTENTS

Order	
I.	Introduction..... 1
II.	Scope of Examination..... 3
III.	Company History/Licensing..... 4
IV.	Underwriting Practices and Procedures..... 5
V.	Underwriting
	A. Private Passenger Automobile..... 7
	B. Homeowners..... 10
	C. Dwelling Fire..... 13
VI.	Rating
	A. Private Passenger Automobile..... 18
	B. Homeowners..... 21
	C. Dwelling Fire..... 22
VII.	Claims..... 24
VIII.	Forms..... 28
IX.	Consumer Complaints..... 29
X.	Licensing..... 33
XI.	Recommendations..... 35
XII.	Company Response..... 37

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
KEYSTONE INSURANCE	:	Section 671-A of Act 147 of 2002
COMPANY	:	(40 P.S. §310.71)
One River Place	:	
Wilmington, DE 19801	:	Section 903(a) of the Insurance
	:	Department Act, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 323.3)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Act 1990-6, Sections 1738(d)(1) and
	:	(2), and 1799.3(a) (Title 75, Pa.C.S.
	:	§§ 1738 and 1799)
	:	
	:	Sections 3(a)(1), 3(a)(2), 3(a)(6) and
	:	4(b) of the Act of July 3, 1986, P.L.
	:	396, No. 86 (40 P.S. §§ 3403 and
	:	3404)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii)
	:	and 5(a)(9)(iv) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Sections 2002(c)(3), 2003(a)(13),
	:	2003(a)(14), 2004, 2006 and 2006(2)
	:	of Act 68 of 1998 (40 P.S.
	:	§§991.2002, 991.2003, 991.2004 and
	:	991.2006)
	:	
	:	Section 506.1 of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 636.1)
	:	

Respondent. : Title 31, Pennsylvania Code, Sections
: 59.9(b), 67.33(b)(1), 69.22(c), 146.3,
: 146.5(a), 146.5(d) and 146.6
:
:
:
: Docket No. MC05-05-011

CONSENT ORDER

AND NOW, this 1st day of July, 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 Keystone Insurance Company, and maintains its address at One River Place, Wilmington, DE 19801.
- (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 May 13, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on June 9, 2005.
- (e) The Examination Report notes violations of the following:
 - (i) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

- (ii) 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;

- (iii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

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

- (v) Section 1799.3(a) of Act 1990-6, Title 75, Pa.C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1050 in excess of any self insured retention or deductible applicable to the named insured;

- (vi) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires the mid-term cancellation notice to be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds;

- (vii) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination;

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

- (ix) Section 4(b) of Act 86 (40 P.S. § 3404), which requires the unearned premium to be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured;
- (x) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;
- (xi) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of

credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

- (xii) Section 5(a)(9)(ii) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice state the date, not less than 30 days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;
- (xiii) Section 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires that a cancellation notice advise the insured of his right to request, in writing, within ten days, that the Insurance Commissioner may review the action of the insurer;
- (xiv) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. § 991.2003), which states that this article applies to any policy of automobile insurance which has been in effect less than 60 days, unless it is a renewal policy, except that no insurer shall decline to continue in force such a policy of automobile insurance on the basis of the grounds set forth in Section 2003(a) and except that if an insurer cancels a policy in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation;

- (xv) Section 2003(a)(13) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the reasons stated in this section;
- (xvi) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Any claim under the comprehensive portion of the policy unless intentionally caused by the insured;
- (xvii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;
- (xviii) 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;

- (xix) 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;
- (xx) Section 506.1 of the Insurance Company Law, Act No. 284 (40 P.S. § 636.1), 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;
- (xxi) Title 31, Pennsylvania Code, Section 59.9(b), which provides an insurer may cancel a policy in the first 60 days but must provide a notice of cancellation to the insured;
- (xxii) Title 31, Pennsylvania Code, Section 67.33(b)(1), which prohibits an insurer from assessing a premium surcharge for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident;
- (xxiii) Title 31, Pennsylvania Code, Section 69.22(c), which states if first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first-party limits have been exhausted;

- (xxiv) Title 31, Pennsylvania Code, Section 146.3, which states the claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;
- (xxv) Title 31, Pennsylvania Code, Section 146.5(a), which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;
- (xxvi) Title 31, Pennsylvania Code, Section 146.5(d), which requires every insurer, upon receiving notification of a claim, to provide within 10 working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer; and
- (xxvii) 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 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

(i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;

(ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(d) Respondent's violations of Sections 3(a)(1), 3(a)(2), 3(a)(6) and 4(b) of Act 86 (40 P.S. §§ 3403 and 3404), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

(i) Order that the insurer cease and desist from the violation.

(ii) Impose a fine or not more than \$5,000 for each violation.

(e) Respondent's violations of Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii) and 5(a)(9)(iv) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

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

- (f) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (g) Respondent's violations of Sections 2002, 2003, 2004 and 2006 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).

- (h) Respondent's violations of Title 31, Pennsylvania Code, Section 146.3, 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), as stated above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Thirty-Five Thousand Dollars (\$35,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

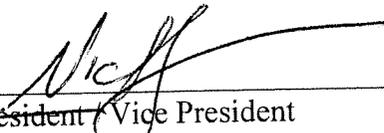
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

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

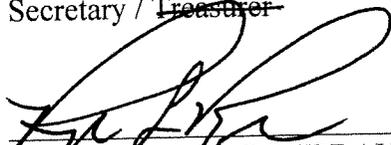
BY: KEYSTONE INSURANCE COMPANY,
Respondent



~~President /~~ Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted at Keystone Insurance Company's offices located in Philadelphia, Pennsylvania, from November 8, 2004, to December 2, 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. The Examination Report may also include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine potential impact upon Company operations or future compliance issues. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in this Report may result in the imposition of penalties.

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

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

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

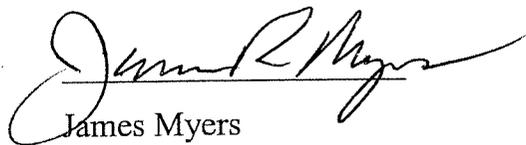
The undersigned participated in this Examination and in preparation of this Report.



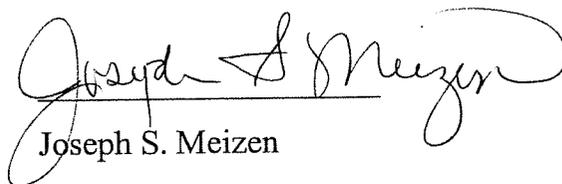
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



M. Katherine Sutton, AIC
Examiner In Charge



James Myers
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Keystone Insurance Company hereinafter referred to as “Company,” at their offices located in Philadelphia, 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 compliance by the Company with Pennsylvania insurance laws and regulations. The examination included, but was not limited to, the following areas:

1. Private Passenger Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, mid-term cancellations and 60-day cancellations.
 - Rating – Proper use of all classifications, rating plans and procedures.
2. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, mid-term cancellations and 60-day cancellations.
 - Rating – Proper use of all classifications, rating plans and procedures.
3. Claims
 - Standards for prompt, fair and equitable settlements.
 - Use of proper Peer Review procedures.
4. Forms
5. Consumer Complaints
6. Producer Licensing

III. COMPANY HISTORY

Keystone Insurance Company was incorporated May 16, 1928, under the laws of the Commonwealth of Pennsylvania to take over the automobile casualty lines written by the Insurance Exchange of Keystone Auto Club. It began business June 1, 1928, as the Keystone Automobile Club Casualty Company. The Keystone Automobile Club Fire Company, Philadelphia, Pennsylvania, was absorbed on January 12, 1950, after the charter was amended to authorize multiple line operations. The present title was adopted on September 1, 1958. The Company is a wholly owned subsidiary of AAA Mid-Atlantic, Inc. of Philadelphia, which is a not for profit auto club affiliate of the American Automobile Association (AAA).

LICENSING

Keystone Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on May 16, 1928. The Company is domiciled in Pennsylvania and licensed in Connecticut, Delaware, Kentucky, Maryland, Maine, New Jersey, Ohio, Virginia and the District of Columbia.

The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$46,332,052. Premium volume related to the areas of this review were: Fire and Allied Lines \$160,345; Homeowners' Multiple Peril \$17,352,658; Private Passenger Automobile Written Premium was reported as Private Passenger Auto Liability \$15,034,202 and Private Passenger Auto Physical Damage \$9,262,526.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, dwelling fire and private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following violations were noted.

1 Violation Act 205, Section 5(a)(4) [40 P.S. §1171.4(a)(4)] – Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance.

Requiring primary homeowners supporting coverage is prohibited.

Dwelling Fire – Not owner occupied

1 Violation Title 75, Pa. C.S. §1799.3(a) No insurer shall cancel or refuse to renew a policy or apply any surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to be less than \$1,050 (effective 7/1/02) in excess of any self-insured retention or deductible applicable to the named insured.

Reinstatement requirements – An automobile policy will not be considered for reinstatement if: (7) There were two (2) or more at-fault losses within the past three (3) years, under the threshold, policy level.

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

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

(13) Any accident which occurred under the following circumstances: (not-at-fault)

Reinstatement requirements – An automobile policy will not be considered for reinstatement if: (8) There were two (2) comprehensive and/or non-fault losses within the past three (3) years.

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

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

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

Reinstatement requirements – An automobile policy will not be considered for reinstatement if: (8) There were two (2) comprehensive and/or non-fault losses within the past three (3) years.

V. UNDERWRITING

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. The files were also reviewed for compliance with Act 68, Section 2002(c)(3), (40 P.S. §991.2002(c)(3)), which requires an insurer who cancels a policy of automobile insurance in the first 60-Days, to supply the insured with a written statement of the reason for cancellation.

A. Private Passenger Automobile

1. 60 Day Cancellations

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

From the universe of 171 private passenger automobile policies cancelled within the first 60 days after being issued as new business, 50 files were selected, received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 6%.

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

cancels a policy of automobile insurance in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation. The violations resulted from failure to supply insured with a written statement of the reason for cancellation.

2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates after the first 60 days of initial issue, and 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 1,309 private passenger automobile policies which were cancelled mid-term during the experience period, 50 files were selected, received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

1 Violation Act 68, Section 2006 [40 P.S. §991.2006] - Proper Notification of Intention to Cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The violation resulted from failure to send a cancellation notice to the insured.

1 Violation Act 68, Section 2004 [40 P.S. §991.2004] - Valid reasons to cancel policy. An insurer may not cancel a policy except for one or more of the following specified reasons:

(1) Nonpayment of premium.

(2) The driver's license or motor vehicle registration of the named insured has been under suspension or revocation during the policy period; the applicability of this reason to one who either is a resident in the same household or who customarily operates an automobile insured under the policy shall be proper reason for the insurer thereafter excluding such individual from coverage under the policy, but not for cancelling the policy.

(3) A determination that the insured has concealed a material fact, or has made a material allegation contrary to fact, or has made a misrepresentation of a material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted contained a cancellation notice with a reason that was not permitted by this statute.

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.

From the universe of 129 private passenger automobile policies which were nonrenewed during the experience period, 50 files were selected, received and reviewed. The violation noted resulted in an error ratio of 2%.

1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)] - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a

policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:

(2) State the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. The violation resulted from failure to provide 60 days notice as required.

4. Declination of Coverage/Refusal to Write

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

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

The Company reported 16 private passenger automobile refusals during the experience period. Upon review of these 16 files, it was determined the policies were issued and subsequently cancelled within the 60 days. No violations were noted.

B. Homeowners

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, Section 5(a)(9) [40 P.S. 1171.5 (a)(9)] which establishes conditions under which action by the insurer is prohibited and the requirements which must be met regarding the form and conditions of the cancellation notice and Title 31, Pa. 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.

1. 60 Day Cancellations

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

From the universe of 117 homeowner policies, which were cancelled within the first 60 days of new business during the experience period, 69 files were selected for review. The files consisted of 35 homeowner and 34 tenant policies. The 5 violations noted were based on 5 files, resulting in an error ratio of 7%.

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

1 Violation Insurance Department Act, Section 903 (40 P.S. § 323.3) Authority, Scope and Scheduling of Examinations. (a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other

recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The file noted was missing and compliance could not be determined.

2. Mid-term Cancellations

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

From the universe of 1,379 homeowner policies, cancelled mid-term during the experience period, 85 files were selected, received and reviewed. The files consisted of 50 homeowner and 35 tenant policies. The 48 violations noted were based on 48 files, resulting in an error ratio of 56%.

41 Violations Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)] - No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. Such notice shall: (iv) Advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The violations resulted from cancellation notices which stated the insured must request a review within 30 days.

7 Violations Insurance Department Act, Section 903 (40 P.S. §323.3) Authority, Scope and Scheduling of Examinations. (a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The files noted were not presented for review and compliance could not be determined.

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.

From the universe of 54 homeowner policies, which were nonrenewed during the experience period, all 54 files were selected and received for review. No violations were noted.

C. Dwelling Fire

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

1. 60 Day Cancellations

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

The Company identified 5 dwelling fire tenant occupied policies which were cancelled within the first 60 days. All 5 policies were selected, received and reviewed. The violation noted resulted in an error ratio of 20%.

1 Violation Act 205, Section 5(a)(4) (40 P.S. §1171.5(a)(4)) - Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined.
Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company cannot require supporting coverage for issuance of a policy.

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 Company reported 44 dwelling policies, noted to be tenant occupied and cancelled during the experience period. All 44 files were selected, received and reviewed. The policies included 32 policies cancelled at the insured's request. The 29 violations noted were based on 12 policies cancelled by the Company, resulting in an error ratio of 27%.

6 Violations Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)] - Written notice of nonrenewal in the manner prescribed in this section must be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination. The violations resulted from failure to provide 60 days notice of nonrenewal.

8 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)] - A mid-term cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The violations resulted from failure to offer loss information to the insured.

7 Violations Act 205, Section 5(a)(4) (40 P.S. §1171.5(a)(4)) - Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company cannot require supporting business to continue coverage.

3 Violations Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)] - The mid-term cancellation notice shall be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds. The violations resulted due to failure to send a cancellation notice to the insured.

5 *Violations Act 86, Section 4(b) (40 P.S. § 3404(b))* require the unearned premium must be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The files noted did not reflect the unearned premium was returned to the insured within 30 days.

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 Company reported 20 dwelling policies, which were nonrenewed during the experience period. All 20 policies were selected, received and reviewed. The dwellings were all tenant occupied. The 55 violations noted were based on 20 files, resulting in an error ratio of 100%.

20 *Violations Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]* - Written notice of nonrenewal in the manner prescribed in this section must be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination. The violations resulted from failure to provide 60 days notice of nonrenewal.

20 *Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]* A mid-term cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The violations resulted from failure to offer to provide loss information to the insured.

15 Violations Act 205, Section 5(a)(4) (40 P.S. §1171.5(a)(4)) Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined.

Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company cannot cancel due to lack of supporting business.

VI. RATING

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with provisions of Title 75, Pennsylvania Consolidated Statutes and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

A. Private Passenger Automobile

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

1. New Business – Standard Rates

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

From the universe of 1,734 new private passenger automobile policies reported by the Company, 50 were selected, received and reviewed. No violations were noted.

2. New Business – with surcharges

From the universe of 227 new private passenger automobile policies, written with surcharges, reported by the Company, 50 were selected for review. All 50 policy files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

1 Violation Title 75, Pa. C.S. §1799.3(a) Damage claims. No insurer shall cancel or refuse to renew a policy or apply any surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1050 in excess of any self-insured retention or deductible applicable to the named insured.

AND

Title 31, Pa. Code 67.33(b)(1) An insurer may not assess a premium surcharge for the payment of a claim arising from one or more accidents where the insured was not at-fault in causing or contributing to the accident. The violation resulted due to a lack of documentation to support the surcharge.

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

(1) The named insured shall be informed that he may exercise the waiver of the stacked limits of uninsured motorist coverage by signing the written rejection form.

(2) The named insured shall be informed that he may exercise the waiver of the stacked limits of underinsured motorist coverage by signing the written rejection form. The violation resulted from initial issuance of a policy with rejection of stacked limits, absent a signed request to do so.

3. Renewals - without surcharges.

From the universe of 13,155 personal automobile policies identified as renewals without surcharges by the Company during the experience period, 50 files were selected for review. All 50 policy files requested were received and reviewed. No violations were noted.

4. Renewals – with surcharges.

From the universe of 1,624 personal automobile policies identified by the Company as renewals with surcharges during the experience period, 75 files were selected, received and reviewed. The violation noted resulted in an error ratio of 1%.

1 Violation Act 246, Section 4(h) Beginning ninety (90) days after the effective date of this Act, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect for said insurer as provided in this Act or in accordance with subsections (f) or (g) of this section. The violation resulted from failure to use proper territory.

B. Homeowners

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

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

1. New Business

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

From a universe of 3,659 homeowner policies reported by the Company as new business within the experience period, 50 files were selected, received and reviewed. No violations were noted.

2. Renewals

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

From a universe of 27,953 homeowner policies reported as renewals written during the experience period, 50 files were selected, received and reviewed. No violations were noted.

C. Dwelling Fire

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

1. New Business

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

From the universe of 89 dwelling fire policies written as new business during the experience period, 25 files were selected, received and reviewed. The 89 violations noted were based on the universe of 89 files, resulting in an error ratio of 100%.

89 Violations Act 246, Section 4(h) [40 P.S. §1184] - Beginning ninety (90) days after the effective date of this Act, no insurer shall make or issue a contract or policy except in accordance with filings or rates which

are in effect for said insurer as provided in this Act or in accordance with subsections (f) or (g) of this section. The violations resulted from failure to use the correct rating procedures in calculation of rates for new policies issued during the experience period. The Company is requested to re-rate all new dwelling fire policies issued during the experience period and refund all overcharges to the policyholder.

2. Renewal Business

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

From the universe of 432 dwelling fire policies written as new business during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 432 violations noted were based on the universe of 432 files, resulting in an error ratio of 100%.

432 Violations Act 246, Section 4(h) [40 P.S. §1184] - Beginning ninety (90) days after the effective date of this Act, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect for said insurer as provided in this Act or in accordance with subsections (f) or (g) of this section. The violations resulted from failure to use the correct rating procedures in calculation of rates for renewal policies issued during the experience period. The Company is requested to re-rate all renewal dwelling fire policies issued during the experience period and refund all overcharges to the policyholder.

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

The primary purpose of the review was to determine compliance with Title 31, Pa. 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 Comprehensive

From the universe of 433 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected, received and reviewed. No violations were noted.

B. Automobile Collision

From the universe of 1,538 private passenger automobile collision claims reported during the experience period, 50 files were selected, received and reviewed. No violations were noted.

C. Automobile Property Damage Liability

From the universe of 1,167 private passenger automobile property damage liability claims reported during the experience period, 25 files were selected, received and reviewed. The violation noted resulted in an error ratio of 4%.

1 Violation Title 31, Pa. Code, Section 146.5(a)

Standards for prompt investigation of claims.

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 file noted did not document that contact was made within 10 days.

D. Automobile Total Losses

From a universe of 366 total loss claims reported by the Company, 50 files were selected, received and reviewed. No violations were noted.

E. Automobile First Party Benefit Claims

From the universe of 1,069 private passenger automobile first party benefit claims reported during the experience period, 25 files were selected, received and

reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

1 Violation Title 31, Pa. Code, Section 146.3 The claim files of an insurer shall be subject to examination by the Commissioner or by duly appointed designees. Such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. The violation resulted due the file not containing documentation sufficient to determine compliance.

1 Violation Title 31, Pa. Code, Section 146.5(d) Every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer. The violation resulted from failure to send the claim form within 10 working days from notice of injury.

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

F. First Party Benefits referred to a PRO

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

The Company was requested to provide copies of all contracts with Peer Review Organizations. The contract was provided.

From the universe of 48 automobile first party benefit claims referred to a Peer Review Organization, reported during the experience period, 25 files were selected and received for review. No violations were noted.

G. Property

From the universe of 3,541 homeowner, inland marine and dwelling fire claims reported during the experience period, 78 files were selected, received and reviewed. No violations were noted.

VIII. FORMS

Throughout the course of the examination, 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 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. Underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. C.S. § 4117(k) (1)] and 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. CONSUMER COMPLAINTS

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

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

From the universe of 213 consumer complaints, 54 were selected, received and reviewed. Of these, 5 were listed on both claims and underwriting logs, resulting in 49 actual complaints reviewed. The following violations were noted.

1 Violation Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)] State the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The cancellation notice did not provide 30 days notice.

4 Violations Act 205 Unfair Insurance Practices, Section 5(a)(9) [40P.S. § 1171.5(a)(9)] Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. (a) “Unfair Methods of Competition” and Unfair or Deceptive Acts or Practices” in the business of insurance means: (9) Canceling any policy of insurance

covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. The policies noted were cancelled mid-term for reasons not permitted.

1 Violation Insurance Company Law, Section 506.1(40 P.S. §636.1). – After-Death Continuation of Basic Property Insurance. (a) Basic property insurance shall be continued one hundred and eighty (180) 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 policy was cancelled mid-term following the death of the name insured without continuation for 180 days.

1 Violation Title 31, Pa. Code Section 69.22(c) - If an insured's first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first-party limits have been exhausted.

1 Violation Title 31, Pa. Code Section 146.6 - Standards for prompt investigation of claims. Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The violation resulted due to lack of evidence of follow up and status to insured regarding replacement cost reimbursement of contents.

1 Violation Insurance Department Act, Section 903 (40 P.S. §323.3) Authority, Scope and Scheduling of Examinations. (a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily ascertain whether the company or person has complied with the laws of this Commonwealth. The violation resulted from failure to provide a response to a complaint.

The following synopsis reflects the nature of the 49 complaints that were selected and reviewed.

•	13	Cancellations/Nonrenewal	27%
•	28	Claims Related	57%
•	2	Premium Related	4%
•	<u>6</u>	Service	<u>12%</u>
	49		100%

X. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Insurance Department Act, No. 147, Section 641-A (40 P.S. §310.41) and 671-A (40 P.S. §310.71) the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. In addition to the lists provided by the Company, underwriting files and rating files were checked to verify proper licensing and appointment.

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

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the

appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

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

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

2 Violations The following individuals were designated by the Company as the producer on policy declaration pages, but could not be verified as having a valid appointment at any time during the effective dates on the policies. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Joseph Ryba

Diane Newman

XI. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] with reference to supporting business, and remove such requirements from underwriting guidelines.
2. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 205, Section 5 (a)(9), (40 P.S. §1171.5(a)(9)), so that the violations noted in the Report do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003, 2004 and 2006 [40 P.S. §991.2003, 2004 and 2006] so that the violations noted in the Report do not occur in the future.
4. The Company must review 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, to ensure that violations of the types noted in the Report do not occur in the future.

5. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 86, Sections 3 and 4 [40 P.S. §§3403 and 3404], so that the violations noted in the Report do not occur in the future.

6. The Company must review all Dwelling Fire policies to ensure filed and approved rates are applied. All identified overcharges must be refunded to insureds. Proof of refunds must be provided to the Department within 30 days of the Report issue date.

7. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations noted in the Report do not occur in the future.

7. The Company must ensure all producers are properly appointed, as required by Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71a), prior to accepting any business.

XII. COMPANY RESPONSE



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June 8, 2005

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Pennsylvania Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, PA 17120

Re: Examination Warrant Number: 04-M17-026
Keystone Insurance Company

Dear Mr. Derk:

We wish to acknowledge receipt of the Insurance Department's Report of Examination of the above captioned company, covering the period of July 1, 2003 through June 30, 2004. The company will comply with each recommendation set forth on pages 35 and 36 in the Market Conduct Examination Report.

With regards to Recommendation #1, we have removed any requirements for supporting business from our underwriting guidelines. Our associates have received instructions on the new guidelines.

As to Recommendation #2, we have reviewed and revised our cancellation notice requirements consistent with the Department's direction.

With respect to Recommendation # 3, pursuant to the recent direction from the Department, we have reviewed and revised our internal control procedures to insure compliance with the cancellation notice requirements. Moreover, our imminent conversion of our system to an imaged file system will alleviate further issues in locating documentation.

As to Recommendation #4, we have developed a PC based rating procedure for all new and renewal business which will eliminate any manual rating errors.

With regards to Recommendation # 5, we have reviewed and revised our internal control procedures in order to be consistent with the Department's recent direction on this issue.

As to Recommendation # 6, we have reviewed the Dwelling Fire policies to ensure that filed and approved rates are applied. Additionally, we identified insureds to whom refunds for overages

were due. We provided refunds to those insureds. Attached please find an Excel spreadsheet which indicates the names of the insureds and the amount of the payment made to them.

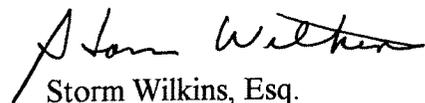
With respect to Recommendation # 7, we continue our ongoing procedures to ensure compliance with claims best practices. Prior to the examination, Claims associates completed a minimum of two compliance sessions in 2004. These training sessions are an annual requirement and will be continued in the future. All Unit Managers continue to complete monthly regulatory compliance reviews on files within their units. The results of the compliance reviews are discussed monthly with the associates to ensure compliance in the future.

With respect to the final Recommendation, we have reviewed our internal procedures in order to ensure that all producers appearing on the declarations pages are currently appointed.

We wish to thank you and the examiners for the courtesy extended during the market conduct examination process.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,


Storm Wilkins, Esq.
Counsel
Keystone Insurance Company