

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

MILLERS CAPITAL INSURANCE COMPANY
Harrisburg, Pennsylvania

**AS OF
April 13, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 10, 2004

MILLERS CAPITAL INSURANCE COMPANY

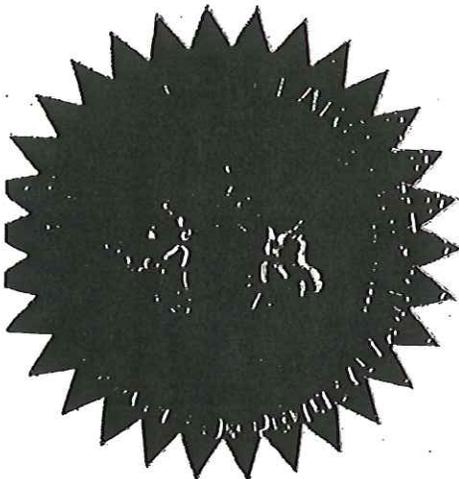
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
MILLERS CAPITAL INSURANCE	:	Sections 605, 623 and 903(a) of the
COMPANY	:	Insurance Department Act, Act of
805 North Front Street	:	May 17, 1921, P.L. 789, No. 285
Harrisburg, PA 17108	:	(40 P.S. §§ 235, 253 and 323.3)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. § 1184)
	:	
	:	Sections 1, 3(a)(1), 3(a)(2), 3(a)(3)(ii),
	:	3(a)(5), 3(a)(6), 4(a), 4(b), and 7(c)
	:	of the Act of July 3, 1986, P.L. 396,
	:	No. 86 (40 P.S. §§ 3401, 3403, 3404
	:	and 3407)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii) and
	:	5(a)(11) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Section
	:	113.88
	:	
Respondent.	:	Docket No. MC04-04-032

CONSENT ORDER

AND NOW, this 10th day of May, 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 Millers Capital Insurance Company, and maintains its address at 805 North Front Street, Harrisburg, Pennsylvania 17108.

(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 April 13, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on April 22, 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: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Department, certify to the Department the names of all agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;
 - (ii) Section 623 of the Insurance Department Act (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 subject to examination 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 as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;

- (iv) 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;
- (v) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering commercial property or casualty risks in this commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in premium;
- (vi) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded by registered mail 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)(3)(ii) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination;

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

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

- (xi) Section 4(a) of Act 86 (40 P.S. § 3404(a)), which requires that unearned premium to be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in midterm by the insurer;

- (xii) Section 4(b) of Act 86 (40 P.S. § 3404(b)), which requires that unearned premium 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;

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

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

(xv) Section 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits cancellation of any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued;

(xvi) Section 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which 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;

(xvii) Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires a complete record of all complaints received during the preceding four years; and

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

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) 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.

(iii) issue an order to cease and desist.

(iv) impose such other conditions as the department may deem 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 Section 1, 3(a)(1), 3(a)(2), 3(a)(3)(ii), 3(a)(5), 3(a)(6), 4(a), 4(b), 5(a)(4) and 7(c) of Act 86 (40 P.S. §§ 3403), 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)(11) 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).

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 Fifteen Thousand Dollars (\$15,000.00) 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.

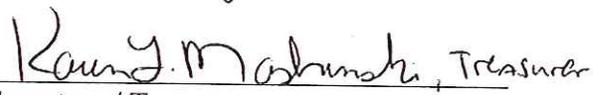
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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.

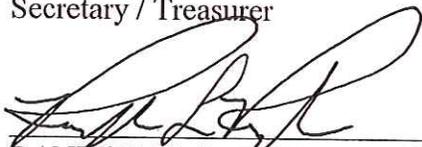
BY: MILLERS CAPITAL INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. KOHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Millers Capital Insurance Company's office located in Harrisburg, Pennsylvania, from November 5, 2003, through December 4, 2003. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

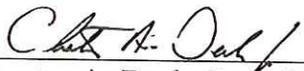
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was 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.

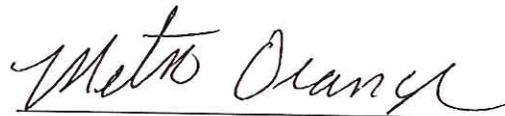
The undersigned participated in this examination and in preparation of this Report.



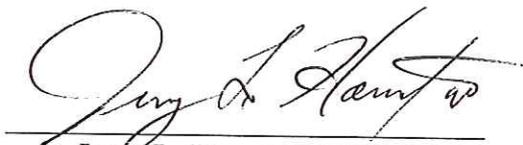
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Constance L. Arnold
Market Conduct Examiner



Metro Orange
Market Conduct Examiner



Jerry L. Houston, CPCU
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Millers Capital Insurance Company, hereinafter referred to as "Company," at their office located in Harrisburg, 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, 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 nonrenewals, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Dwelling Fire
 - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations, declinations and renewals.
4. Commercial Automobile
 - Underwriting – Appropriate and timely notices of midterm cancellations, 60-day cancellations, declinations and renewals.

5. Workers' Compensation

- Underwriting – Appropriate and timely notices of nonrenewals and midterm cancellations.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Millers Capital Insurance Company was incorporated March 26, 1890, under the laws of Pennsylvania as the State Mutual Fire Insurance Company. The title was changed to The Millers Mutual Fire Insurance Company in 1895, and to its present form on March 10, 1969. Charter amendments adopted in 1952 permit multiple line underwriting. On January 1, 1999, Paradise Mutual Insurance Company, established March 28, 1854, was consolidated into Millers Mutual. Effective January 1, 2000, Millers Mutual demutualized to form a mutual holding company. Under the new structure, Millers Mutual Group owns 100% of the stock of Millers Holding Corporation, which owns 100% of the stock of Millers Capital Insurance Company.

LICENSING

Millers Capital Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on March 28, 1854. The Company is licensed in Delaware, Georgia, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia and the District of Columbia. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$30,101,861. Premium volume related to the areas of this review were: Fire \$1,282,607; Farm owners' Multiple Peril \$362,663; Homeowners' Multiple Peril \$2,915,569; Commercial Multiple Peril (non-liability portion) \$14,212,626; Commercial Multiple Peril (liability portion) \$5,882,935; Inland Marine \$227,368; Workers' Compensation \$1,958,009; Commercial Automobile No-fault \$12,998; Other Commercial Automobile Liability \$244,434 and Commercial Automobile Physical Damage \$116,603.

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 commercial lines including property, general liability, inland marine, workers' compensation, commercial automobile, business owners, personal lines property, homeowners and dwelling fire. 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.

The universe of 85 property policies, which were cancelled within the first 60 days of new business, was selected for review. All 85 files selected were received and reviewed. The property policies consisted of homeowners, owner occupied dwelling fire and inland marine. No violations were noted.

2. Midterm Cancellations

A midterm 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 885 personal lines property policies, which were cancelled midterm during the experience period, 157 files were selected for review. The property policies consisted of homeowners, owner occupied dwelling fire and farm owners. All 157 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 1%.

The following findings were noted:

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

Requires that a cancellation notice 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 2 violations were due to cancellation notices being issued that did not provide the required thirty days.

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.

The universe of 21 homeowner policies, which was nonrenewed during the experience period, was selected for review. All 21 files requested were

received and reviewed. The 12 violations were based on 12 files, resulting in an error ratio of 57%.

The following findings were made:

12 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. Of the 12 files noted, 11 were the result of policies nonrenewed for an improper reason. The remaining file noted did not have any evidence that a nonrenewal notice was mailed to the insured.

4. 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.

The universe of 9 homeowner files, identified as declinations by the Company was selected for review. All 9 files selected were received and reviewed. No violations were noted.

B. Commercial 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 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

The universe of 38 commercial property policies, which was cancelled within the first 60 days, was selected for review. The commercial property files consisted of commercial package and tenant occupied dwelling fire. All 38 files selected were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 13%.

The following findings were made:

5 Violations Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The 5 files noted did not give at least 30 days' notice of termination to the insured.

2. Midterm Cancellations

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

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 and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

From the universe of 506 commercial property policies, which were cancelled during the experience period, 150 files were selected for review. The commercial property files consisted of commercial package and tenant occupied dwelling fire. All 150 files selected were received and reviewed. The 36 violations were based on 34 files, which resulted in an error ratio of 23%.

The following findings were made:

1 Violation Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a cancellation notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The file noted was absent any evidence this requirement was complied with.

5 Violations Act 86, Section 3(a)(3)(ii) [40 P.S. §3403(a)(3)(ii)]

Requires that a Midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The 5 files noted were the result of the cancellation notice not providing the required 15 days notice for nonpayment of premium.

8 Violations Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 8 files noted were absent any evidence this requirement was complied with.

7 Violations Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than ten business days after the effective date of termination where commercial property or casualty risks are cancelled in midterm by the insurer. The 7 files noted were absent any evidence that this requirement was complied with.

15 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium 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 15 files noted were absent any evidence that this requirement was complied with.

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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

The universe of 61 commercial package policies identified as nonrenewals by the Company was selected for review. All 61 files selected were received and reviewed. The 4 violations were based on 4 files, resulting in an error ratio of 7%.

The following findings were made:

1 Violation Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The file noted was absent any evidence this requirement was complied with.

1 Violation Act 86, Section 3(a)(5) [40 P.S. §3403(a)(5)]

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify the condition, factor or loss experience, which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency.

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for nonrenewal. The file noted was absent any evidence this requirement was complied with.

2 Violations Act 86, Section 3(a)(3)(ii) [40 P.S. §3403(a)(3)(ii)]

Requires that a Midterm cancellation notice shall be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination unless one or more of the following exist: The insured has failed to pay a premium when due, whether the premium is payable directly to the company or its agents or indirectly under a

premium finance plan or extension of credit, in which case, the prescribed written notice of cancellation shall be forwarded directly to the named insured at least 15 days in advance of the effective date of termination. The 2 files noted were the result of the nonrenewal notice not providing the required 60 days notice.

4. Renewals

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

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 3,019 commercial property policies, which were renewed during the experience period, 150 files were selected for review. The commercial property policies consisted of commercial package and tenant occupied dwelling fire. All 150 files selected were received and reviewed. The 27 violations were based on 27 files, resulting in an error ratio of 18%.

The following findings were made:

27 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named

insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The 27 files noted were absent any evidence this requirement was complied with.

4. 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, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 219 commercial package files identified as declinations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. The following concern was noted.

Concern: It is important to keep complete records and to respond to agents who submit applications for quotations. In the period reviewed, 15 files had no record of declination. The application was imaged, but no response from the Company was evident.

C. Commercial Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

The universe of 1 commercial automobile policy, which was cancelled within the first 60 days, was selected for review. The file selected was received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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 and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

The universe of 11 commercial automobile policies, which were cancelled during the experience period, was selected for review. All 11 files selected were received and reviewed. No violations were noted.

3. Renewals

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

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

The universe of 57 commercial automobile policies, which were renewed during the experience period, was selected for review. All 57 files selected were received and reviewed. The 13 violations were based on 13 files, resulting in an error ratio of 23%.

The following findings were made:

13 Violations Act 86, Section 1 [40 P.S. §3401]

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The 13 files noted were absent any evidence this requirement was complied with.

4. 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, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 219 commercial automobile files identified as declinations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. The following concern was noted.

Concern: It is important to keep complete records and to respond to agents who submit applications for quotations. In the period reviewed, 15 files had no record of declination. The application was imaged, but no response from the Company was evident.

D. Workers Compensation

1. Midterm Cancellations

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

The purpose of the review was to determine compliance with Insurance Company Law, Section 653 (40 P.S. §813), which prohibits midterm cancellation with exceptions for nonpayment of premium or by request of the insured.

The universe of 44 workers' compensation policies, which were cancelled during the experience period, was selected for review. All 44 files selected was received and reviewed. No violations were noted.

2. 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes notice requirements for nonrenewals.

The universe of 13 workers' compensation policies, which were nonrenewed during the experience period, was selected for review. All 13 files selected were received and reviewed. The 4 violations were based on 3 files, resulting in an error ratio of 23%.

The following findings were made:

1 Violation Act 86, Section 3(a)(1) [40 P.S. §3403(a)(1)]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The file noted was absent any evidence this requirement was complied with.

1 Violation Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]

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. The file noted was absent any evidence this requirement was complied with.

2 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 2 files noted contained a nonrenewal notice, which required supporting business.

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 1,283 homeowner policies written as new business without surcharges during the experience period, 150 files were selected for review. All 150 files selected were received and reviewed. The 4 violations were based on 4 files, resulting in an error ratio of 3%.

The following findings were made:

*4 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

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 of issue. The 4 violations were the result of incorrect premiums. This resulted in overcharges of \$10 and undercharges of \$35.

Homeowners - New Business With Surcharges

The universe of 6 homeowner policies written as new business with surcharges during the experience period was selected for review. All 6 files selected were received and reviewed. The 4 violations were based on 4 files, resulting in an error ratio of 67%.

The following findings were made:

4 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)

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 of issue. The 4 violations were the result of incorrect surcharges applied to the premiums. This resulted in overcharges of \$763.

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 8,043 homeowner policies written as renewals without surcharges during the experience period, 150 files were selected for review. All 150 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 3%.

The following findings were made:

*4 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

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 of issue. The 4 violations noted were due to improper rates, which resulted in overcharges of \$8 and undercharges of \$25.

Homeowners – Renewals With Surcharges

The universe of 67 homeowner policies written as renewals with surcharges during the experience period was selected for review. All 67 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 6%.

The following findings were made:

4 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)

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 of issue. The 4 violations noted were due to improper rates, which resulted in undercharges of \$16.

B. Dwelling Fire

1. New Business

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

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.

From the universe of 345 dwelling fire policies written as new business during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 7 violations were based on 7 files, resulting in an error ratio of 9%.

The following findings were made:

*7 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

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 of issue. The 7 violations were due to improper rates, which resulted in overcharges of \$45 and undercharges of \$141.

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 is 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.

From the universe of 2,001 dwelling fire policies renewed during the experience period, 115 files were selected for review. All 115 files selected were received and reviewed. The 30 violations were based on 30 files, resulting in an error ratio of 26%.

The following findings were made:

*30 Violations Act 246, The Casualty and Surety Rate Regulatory Act,
Section 4 (40 P.S. §1184)*

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 of issue. The 30 violations were due to improper rates, which resulted in overcharges of \$383 and undercharges of \$462.

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 647 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

B. Dwelling Fire Claims

From the universe of 91 dwelling fire claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

VIII. FORMS

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

IX. ADVERTISING

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

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

The Company provided 24 pieces of advertising, which appeared in various media. All 24 advertisements were reviewed, including the Company's Internet site. 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 8 consumer complaints received during the experience period. All 8 complaints reported were selected for review.

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

The following findings were made:

7 Violations Insurance Department Act, Section 903(a) [40 P.S. §323.3]

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The 7 complaint files noted did not appear in the Company's complaint records, but were identified through Departmental complaint records.

4 Violations Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]

Requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint. The 4 violations noted was the result of the Company not maintaining required complaint records for the preceding four years.

The following synopsis reflects the nature of the 8 complaints that were reviewed.

• 2	Cancellation/Nonrenewal	25%
• 6	Claims Related	75%
<hr/>		<hr/>
8		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 violations were noted.

*3 Violations 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 producers were found to be writing policies and were not found in the Insurance Department records as having an appointment by the Company.

The Insurance People, Inc.
Ruthhart-Smith
Lyons Insurance Agency, Inc.

1 Violation The Insurance Department Act, Section 623 (40 P.S. §253)

Doing Business With Unlicensed Brokers

Any entity or the appointed agent of an 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 producer was found to be writing policies and was not found in the Insurance Department records as having a broker's license or a certificate of qualification.

Brown-McMahon Insurance Agency, Inc.

XII. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5 [40 P.S. §1171.5] to ensure that violations relative to property midterm cancellations and nonrenewals noted in the Report do not occur in the future.
2. The premium overcharges noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.
3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
4. The Company must review Act 86, Sections 1, 3 and 4 [40 P.S. §3401, §3403 and §3404] to ensure that violations relative to commercial midterms and nonrenewals noted in the Report do not occur in the future.
5. The Company must review Act 86, Section 7(c) [40 P.S. §3407(c)] to ensure that violations relative to commercial 60-day cancellations noted in the Report do not occur in the future.

6. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)] to ensure that violations relative to complaint records noted in the Report do not occur in the future.

XIII. COMPANY RESPONSE



MILLERS MUTUAL GROUP

April 22, 2004

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

Re: Examination Warrant Number: 03-M08-022

Dear Mr. Derk:

Thank you for providing a prompt report for the Millers Capital Insurance Company Market Conduct Exam. We appreciate the efficiency of the Department and the open communications of our examiners.

Our primary strategic goal as a company is to provide unrivaled service to our customers. With that in mind, the recommendations suggested and other issues discussed with our examiners will help us move closer to that point.

I will address the present status of each recommendation.

Recommendation #1

The Company must review Act 205, Section 5 [40 P.S. §1171.5] to ensure that violations relative to property midterm cancellations and nonrenewals noted in the Report do not occur in the future.

Status

All current activities have been corrected to comply with Act 205, Section 5 [40.P.S. §1171.5]. Effective 3/1/04, the Pennsylvania Insurance Department approved our personal lines withdrawal plan.

Recommendation #2

The premium overcharges noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.

Status

Checks were processed 2/24/04 to all insureds that were overcharged. Documentation enclosed.

Recommendation #3

The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.

Status

Our underwriting staff has been advised of the Act and our violation. This violation should not occur again.

Recommendation #4

The Company must review Act 86, Sections 1, 3 and 4 [40 P.S. § 3401, §3403 and §3404] to ensure that violations relative to commercial midterms and nonrenewals noted in the Report do not occur in the future.

Status

We have reviewed the findings in the Report and have identified three areas of immediate improvement. They are cancellations for non payment, nonrenewals/cancellations of fire dwelling policies and return premium time lines for mid term cancellations.

The time lines for cancellations for non payment have been corrected and additional mailing time has been added to the notice.

We had considered all fire dwelling policies as personal lines accounts and we were not sending the proper nonrenewal/cancellation notices. This has been corrected so those insureds can now request loss information.

Concerning the return of unearned premiums for those initiated by us, the insurer, we have now corrected our cancellation system program to return the unearned premium in five days. When the insured requests a mid-term cancellation, the Rating Department has been informed to process the request immediately so the 30 day time line will be met.

Recommendation #5

The Company must review Act 86, Section 7(c) [40 P.S. §3407(c)] to ensure that violations relative to commercial 60-day cancellations noted in the Report do not occur in the future.

Status

Four of the five violations were new business tenant occupied fire dwelling risks. We are no longer writing this class of business since withdrawing from personal lines.

Recommendation #6

The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)] to ensure that violations relative to complaint records noted in the Report do not occur in the future.

Chester A. Derk, Jr., AIE, HIA
April 22, 2004
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Status

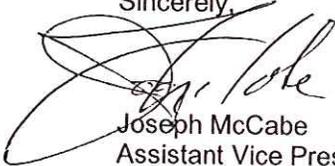
We plan to meet with the Insurance Department and discuss proper format for the complaint records. We will have our state filing employee contact the Department and set up a date.

In conclusion, we would like you to know that we have written over 30M in new business, of which 60% is habitational over the last three years. We are trying to provide a niche market for our customers and service to our agents in a cooperative business manner. In some cases our resources have been stretched by the amount of submissions, particularly habitational, which come across our desks. We know the Department is concerned about non-responses to declination and we are now trying to answer all inquiries. We are also adding a new underwriter and rater to the staff which will help this situation.

We have also put in place a procedure to make sure our agents are returning unearned premiums to their insureds in a timely manner.

We take all of the criticism seriously and will do our best to improve our operation. Please thank our examiners for their professional review of our company.

Sincerely,



Joseph McCabe
Assistant Vice President/Underwriting.

JM/sib

Enclosures