

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**MUNICIPAL MUTUAL INSURANCE COMPANY
OF WEST VIRGINIA**

Wellsburg, West Virginia

**AS OF
May 1, 2006**

COMMONWEALTH OF PENNSYLVANIA

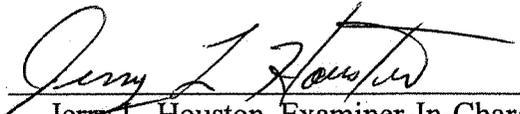


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 31, 2006

VERIFICATION

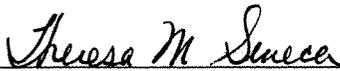
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Jerry L. Houston, Examiner-In-Charge

Sworn to and Subscribed Before me

This 24 Day of April, 2006



Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2008

MUNICIPAL MUTUAL INSURANCE COMPANY OF WEST VIRGINIA

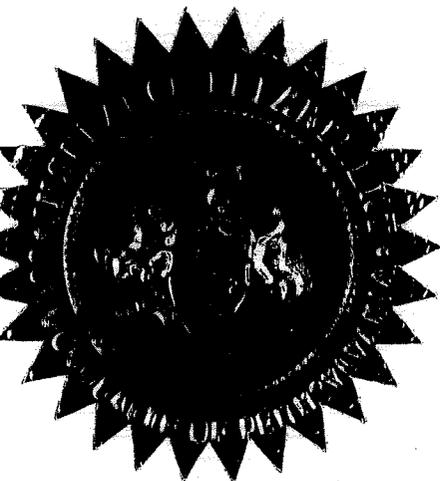
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
MUNICIPAL MUTUAL INSURANCE :	:	Sections 641.1-A and 671-A of
COMPANY OF WEST VIRGINIA :	:	Act 147 of 2002 (40 P.S. §§ 310.41
10 th and Charles Street :	:	and 310.71)
Wellsburg, WV 26070 :	:	
	:	Sections 2, 3(a)(2), 3(a)(3),
	:	3(a)(3)(ii) and 3(a)(6) of the Act of
	:	July 3, 1986, P.L. 396, No. 86 (40 P.S.
	:	§§ 3402 and 3403)
	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. §§ 1184)
	:	
	:	Sections 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(ii), 5(a)(9)(iv), 5(a)(9)(v) 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, Sections
	:	146.4, 146.6, and 146.7(a)(1)
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)(1)
	:	
	:	
	:	
Respondent.	:	Docket No. MC06-05-014

CONSENT ORDER

AND NOW, this 31st day of *MAY*, 2006, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

(a) Respondent is Municipal Mutual Insurance Company of West Virginia, and maintains its address at 10th and Charles Street, Wellsburg, West Virginia 26070.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2004 through June 30, 2005.

- (c) On May 1, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on May 4, 2006.
- (e) The Examination Report notes violations of the following:
- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 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).
 - (iii) Section 2 of Act 86 (40 P.S. § 3402), 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 termination;
 - (iv) 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;

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

- (vi) 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;

- (vii) 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 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;

- (viii) 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;

(ix) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines an unfair act or practice as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;

(x) 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;

- (xi) 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;
- (xii) Section 5(a)(9)(iv) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within 10 days of receipt of the notice of cancellation or intention not to renew, that the Commissioner review the action of the insurer;
- (xiii) Section 5(a)(9)(v) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the Act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”;

- (xiv) Section 5(a)(11) of Act 205 (40 P.S. § 1171.5), which 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;

- (xv) Title 31, Pennsylvania Code, Section 146.4, which states an insurer or agent may not fail to fully disclose to first-party claimants pertinent benefits, coverages or other provisions of an insurance policy or insurance contract under which a claim is presented or when the benefits, coverages or other provisions are pertinent to a claim;

- (xvi) 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;

- (xvii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of

the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and

- (xviii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)(1), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

(b) Respondent's violations of Sections 641.1-A and 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 Act 86 (40 P.S. §§ 3402 and 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.

(d) 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.
- (e) Respondent's violations of Sections 5(a)(7) and 5(a)(9) 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 Title 31, Pennsylvania Code, Sections 146.4, 146.6 and 146.7(a)(1) 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 Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 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.

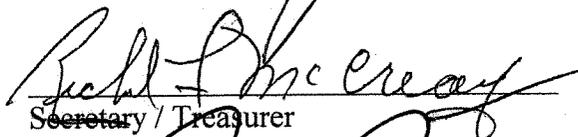
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

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

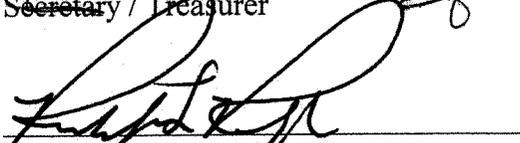
BY: MUNICIPAL MUTUAL INSURANCE
COMPANY OF WEST VIRGINIA,
Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. RAHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Municipal Mutual Insurance Company of West Virginia's office located in Wellsburg, West Virginia, from January 16, 2006, through February 1, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

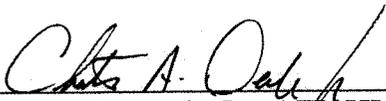
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

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

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

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

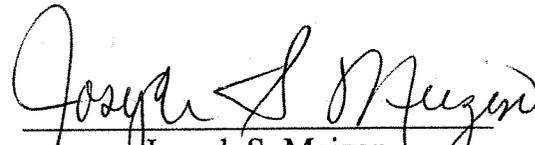
The undersigned participated in this examination and in preparation of this Report.



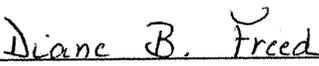
Chester A. Derk, Jr., A/E, HIA
Market Conduct Division Chief



Jerry L. Houston
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Municipal Mutual Insurance Company of West Virginia, hereinafter referred to as "Company," at their office located in Wellsburg, West Virginia. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2004, through June 30, 2005, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property
 - Underwriting – Appropriate and timely notices of nonrenewal, 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. Mobile Homeowners
 - 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. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Municipal Mutual Insurance Company of West Virginia was incorporated February 16, 1910, under the laws of West Virginia and began business April 1, 1910. All policy contracts, since amended bylaws were adopted on March 13, 1958, have been non-assessable.

LICENSING

Municipal Mutual Insurance Company of West Virginia's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in Ohio, Pennsylvania and West Virginia. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$863,817. Premium volume related to the areas of this review were: Fire \$307,249; Farm Owners Multiple Peril \$20,492 and Homeowners Multiple Peril \$510,214.

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 personal lines property and commercial business. 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 findings were made:

2 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The underwriting guidelines indicated discrimination by marital status in 2 different instances.

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 8 homeowner policies cancelled within the first 60 days of new business was selected for review. All 8 files selected were 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 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 185 personal lines property policies, which were cancelled midterm during the experience period, 94 files were selected for review. The property policies consisted of homeowners, mobile homeowners and owner occupied dwelling fire. All 94 files requested were received and reviewed. The 99 violations noted were based on 76 files, resulting in an error ratio of 81%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The reason for cancellation, "Agent/Agency No Longer Represents Company", is not a proper reason for cancellation.

21 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.

AND

*Adjudication: Pursell/Goschenhoppen Mutual,
PH91-11-24 (1992)*

When computing the thirty-day time period required for notice of cancellation under Act 205, the first and thirtieth terminal days must be excluded from the calculation. The Company did not provide the required 30 days notice of cancellation for the 21 files noted.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as "The PA Fair Plan Act".

AND

*Adjudications: Donegal v. Hunt, P87-4-15 (1987)
PA National v. Herron, PI 87-3-5 (1987)*

The Company did not advise the insured of his possible eligibility under the Fair Plan for the 2 files noted.

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

Requires that a cancellation notice shall 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.

AND

Adjudication: Allstate v. Cassidy, P87-7-14 (1987)

Notice of cancellation of homeowner's policy in effect for more than 60 days must include an explanation of the insured's right to have the matter reviewed by the Insurance Commissioner and the procedures to pursue a review. The Company did not provide the required information on the notice of cancellation for the 2 files noted.

3. Nonrenewals

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

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

From the universe of 194 personal lines property policies which were nonrenewed during the experience period, 101 files were selected for review. The property policies consisted of homeowners, mobile homeowners and owner occupied dwelling fire. All 101 files requested were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 3%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 2 violations noted were nonrenewed for an improper reason.

1 Violation 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 Company did not provide the required thirty days notice of cancellation.

Concern: The Company has a practice of sending the insured a non-payment of premium notice of cancellation shortly after the renewal date. These insureds have not paid their renewal premium after having been sent the renewal offer at least 30-45 days before the policy renews. The effect is to extend coverage until the termination on the notice and the Company

does not receive payment for coverage extended. No cancellation notice is required in these situations as the policy has lapsed and the insured chose not to pay the renewal premium. The Company should consider additional wording on the renewal premium statement that indicates if payment is not received by the due date then coverage ceases. If payment is not received, a follow-up “confirmation of termination notice” could be sent to the insured indicating coverage was terminated on a specific date due to nonpayment. This would avoid the extension of free coverage as provided by the current nonpayment of premium notices.

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 36 personal lines property files identified as declinations by the Company was selected for review. The property policies consisted of homeowners, tenant homeowners and mobile homeowners. All 36 files selected were received and reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

*1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]
Unfair Methods of Competition and Unfair or Deceptive Acts
or Practices Defined. “Unfair Methods of Competition” and*

“Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. Declination due to age or occupation is not permitted.

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 2 tenant occupied dwelling fire policies which were cancelled within the first 60 days of new business was selected for review. The 2 files selected were 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.

From the universe of 151 commercial property policies, which were cancelled during the experience period, 33 files were selected for review. The policies consisted of commercial fire, farm owner and tenant occupied dwelling fire. All 33 files selected were received and reviewed. Of the 33 files reviewed, 23 policies were nonrenewals. The 39 violations noted were based on 27 files, resulting in an error ratio of 82%.

The following findings were made:

2 Violations Act 86, Section 2 [40 P.S. §3402]

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The 2 files noted were cancelled for other than permitted reasons.

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 Company did not provide the required 15 days notice for nonpayment of premium for the 2 files noted.

22 Violations 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 Company did not provide at least 60 days notice of nonrenewal for the 22 files noted.

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

Requires that a cancellation notice must be forwarded to the named insured or insureds at least 60 days in advance of the effective date of termination. The Company did not provide at least 60 days notice of cancellation for the file noted.

12 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 12 files noted contained a cancellation notice which did not provide the required information.

Concern: Notice of Cancellation or Refusal to Renew Form C 62f (Ed 5-04) – Uniform. This form provides a section for offering loss information; however, the appropriate box needs to be checked. Of the files reviewed, no notices had the check mark. These notices provide the proper wording regarding offer of loss information; however the appropriate box needs to be checked.

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.

From the universe of 105 commercial property policies nonrenewed during the experience period, 56 files were selected for review. The files consisted of tenant occupied dwelling fire policies, commercial fire and farm owner policies. All 56 files selected were received and reviewed. No violations were noted.

Concern: The Company has a practice of sending the insured a non-payment of premium notice of cancellation shortly after the renewal date. These insureds have not paid their renewal premium after having been sent the renewal offer at least 30-45 days before the policy renews. The effect is to extend coverage until the termination on the notice and the Company does not receive payment for coverage extended. No cancellation notice is

required in these situations as the policy has lapsed and the insured chose not to pay the renewal premium. The Company should consider additional wording on the renewal premium statement that indicates if payment is not received by the due date then coverage ceases. If payment is not received, a follow-up “confirmation of termination notice” could be sent to the insured indicating coverage was terminated on a specific date due to nonpayment. This would avoid the extension of free coverage as provided by the current nonpayment of premium notices.

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 4 commercial property files identified as declinations was selected for review. All 4 files selected were received and reviewed. No violations were noted.

5. 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 615 commercial property policies renewed during the experience period, 97 files were selected for review. All 97 files selected were received and reviewed. The commercial property files consisted of commercial fire, tenant occupied dwelling fire and farm owner policies. Four of the files were actually nonrenewed at the renewal date within the experience period. The 4 violations noted were based on 4 files, resulting in an error ratio of 4%.

The following findings were made:

4 Violations 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 Company did not provide at least 60 days notice of nonrenewal on the 4 files noted.

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.

From the universe of 69 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

*3 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 3 files noted were not rated in accordance with the filed and approved rating plan. The policies did not have the additional premium for increased Coverage C added to the base premium before calculating the personal property replacement cost premium, which resulted in undercharges of \$12.

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.

From the universe of 888 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 2%.

The following findings were made:

*2 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 2 files noted were not rated in accordance with the filed and approved rating plan. The policies did not have the additional premium for increased Coverage C added to the base premium before calculating the personal property replacement cost premium, which resulted in undercharges of \$11.

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.

The universe of 1 dwelling fire policy written as new business during the experience period was selected for review. The file selected was received and reviewed. No violations were noted.

2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which 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 universe of 25 dwelling fire policies renewed during the experience period was selected for review. All 25 files requested were received and reviewed. No violations were noted.

C. Mobile Homeowners

1. 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 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 universe of 18 mobile homeowner policies renewed during the experience period was selected for review. All 18 files requested were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Dwelling Fire Claims
- C. Mobile Homeowner 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 114 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 18 violations noted were based on 17 files, resulting in an error ratio of 34%.

The following findings were made:

11 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 11 claims noted.

6 Violations Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 6 violations noted resulted from failure to properly deny the claim. Of the 6 violations noted, 5 claims were denied in writing but there was not any specific policy provisions provided. The remaining violation was due to failure to deny the claim in writing.

1 Violation Title 31, Pa. Code, Section 146.4

An insurer or agent may not fail to fully disclose to first-party claimants pertinent benefits, coverages or other provisions of an insurance policy or insurance contract under which a claim is presented or when the benefits, coverages or other provisions are pertinent to a claim. The Company failed to properly apply the deductible which resulted in an underpayment of \$250.

B. Dwelling Fire Claims

From the universe of 52 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

1 Violation Title 31, Pa. Code, Section 146.7(a)(1)

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company did not properly deny the claim in writing.

C. Mobile Homeowner Claims

The universe of 2 mobile homeowner claims reported during the experience period was selected for review. The 2 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.

The following finding was made:

1 Violation Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on the Sworn Statement in Proof of Loss.

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 11 pieces of advertising which included brochures and a yearly calendar. The Company does not advertise via the Internet. 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 4 consumer complaints received during the experience period. All 4 complaint files reported were requested, received and reviewed.

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

The following findings were made:

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 years 2005, 2004, 2002 and 2001.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The file noted was cancelled for an improper reason. The reason for cancellation was "Agency no longer represents the Company".

1 Violation 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.

AND

Adjudication: J.C. Penney v. Insurance Department, 402 A.2d 558 (Pa. Cmwlth. 1979)

The Insurance Commissioner may order an insurance company found to be in violation of the Unfair Insurance Practices Act to reinstate the policy. The Company cancelled the policy due to agent no longer represents the policy. The Insurance Department requested reinstatement of this policy on November 17, 2004, in a letter to the insured and a copy to the Company. The records of the Company do not indicate the Company reinstated this homeowner's policy. Failure to comply with this request is a violation of Act 205.

1 Violation 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 Company did not provide the required thirty days notice of cancellation.

The following synopsis reflects the nature of the 4 complaints that were reviewed.

•	3	Cancellation/Nonrenewal	75%
•	1	Claims Related	25%
•	<hr/>		<hr/>
	4		100%

XI. LICENSING

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

The following findings were made:

2 Violations Insurance Department Act, No. 147, Section 641.1A

[40 P.S. §310.41a]

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

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

Loreno Insurance Agency
Thomas Brothers Insurance, Inc.

*5 Violations 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.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment.

The Company failed to file a notice of appointment and submit appointment fees to the Department.

All American Insurance, Inc.
Robert A. Cozad
CNB Insurance Services, Inc.
Dunkard Valley Insurance Agency, Inc.
Gaitens 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(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2 and 3 [40 P.S. §§3402 and 3403], so that the violations noted in the Report do not occur in the future.
3. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the homeowner rating violations listed in the report do not occur in the future.
4. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and claim denials as noted in the Report do not occur in the future.
5. The Company must maintain a complete record of all the complaints, which it has received during the preceding four years to ensure the violations listed in the Report do not occur in the future. The 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.

6. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1-A [40 P.S. §310.41a] and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from a producer.

XIII. COMPANY RESPONSE

Municipal Mutual Insurance Company
Of West Virginia

MUNICIPAL MUTUAL BUILDING
10TH & CHARLES STREET
WELLSBURG, WV 26070

TELEPHONE 304-737-3371 •• FAX 304-737-3391

May 2, 2006

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

Re: Examination Warrant No: 05-M19-082
XIII. Company Response

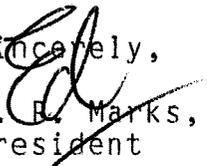
I am writing in reply to your letter of May 1, 2006, received this date, concerning the market conduct examination of Municipal Mutual Insurance Company of West Virginia.

I have reviewed the examination report and I want to advise you that we do not wish to file any written submissions or rebuttals to the examination report. I did review the 189 violations and the recommendations of the audit staff and I can report to you that 145 of the violations were corrected during the examination, 33 violations were corrected since the staff completed their work here in Wellsburg and 11 violations (4-Complaint Log, 7 licensing) will be corrected.

The majority of our violations were due to our not being aware of Pennsylvania regulations and laws, which your audit staff was very helpful in calling our attention to and helping us correct. We have taken steps to correct these violations and hopefully they will not be an issue in the future.

Please thank the staff for their courteous, professional manner in which the examination was conducted.

Sincerely,


E. B. Marks, Jr.
President

ERM/s