

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**NEIGHBORHOOD SPIRIT PROPERTY AND
CASUALTY COMPANY**

Los Angeles, California

**AS OF
February 16, 2006**

COMMONWEALTH OF PENNSYLVANIA

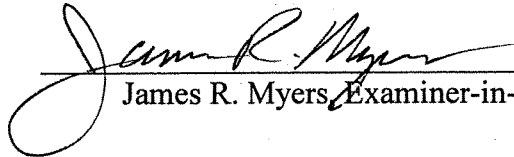


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 12, 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).


James R. Myers, Examiner-in-Charge

Sworn to and Subscribed Before me

This *24* Day of *January*, 2006



Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL

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

NEIGHBORHOOD SPIRIT PROPERTY AND CASUALTY COMPANY

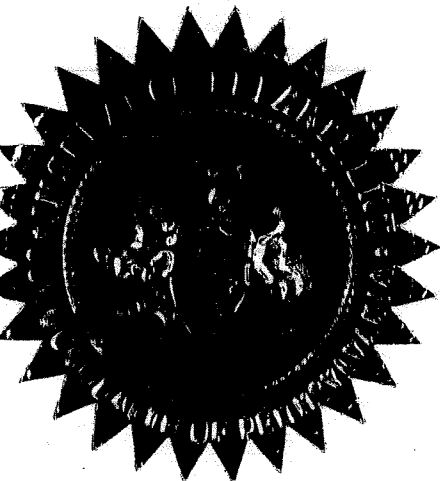
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
NEIGHBORHOOD SPIRIT	:	Sections 641.1-A and 671-A of
PROPERTY AND CASUALTY	:	Act 147 of 2002 (40 P.S. §§ 310.41
COMPANY	:	and 310.71)
4680 Wilshire Boulevard	:	
Los Angeles, CA 90010	:	Sections 2, 3(a)(2), 3(a)(3),
	:	3(a)(3)(ii), 3(a)(4), 3(a)(5) and 3(a)(6)
	:	of the Act of July 3, 1986, P.L. 396,
	:	No. 86 (40 P.S. §§ 3402 and 3403)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(i), 5(a)(9)(ii), 5(a)(9)(iii),
	:	5(a)(9)(iv) and 5(a)(9)(v) 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
	:	59.6(5), 59.9(b), 113.88, 146.6 and
	:	146.7(a)(1)
	:	
Respondent.	:	Docket No. MC06-03-009

CONSENT ORDER

AND NOW, this 12th day of April, 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 Neighborhood Spirit Property and Casualty Company, and maintains its address at 4680 Wilshire Boulevard, Los Angeles, California 90010.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.

(c) On February 16, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on March 20, 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 prohibits canceling in midterm a policy of insurance covering commercial property and casualty risks, for any reason other than those enumerated under this section;

- (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 must 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)(4) of Act 86 (40 P.S. § 3403), which requires notices of Midterm cancellation to be clearly labeled "Notice of Cancellation";
- (viii) 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 shall identify the condition, factor or loss experience, which caused the nonrenewal;

- (ix) 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;
- (x) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as 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;
- (xi) Section 5(a)(7)(iii) of Act 205 (40 P.S. § 1171.5), which defines and prohibits unfair methods of competition 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;

(xii) 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;

(xiii) Section 5(a)(9)(i) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use;

- (xiv) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall 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;
- (xv) Section 5(a)(9)(iii) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice state the specific reason or reasons for cancellation;
- (xvi) 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 the receipt of the notice of cancellation or intention not to renew, that the Insurance Commissioner review the action of the insurer;
- (xvii) Section 5(a)(9)(v) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice advise the insured of his possible eligibility for insurance under the PA Fair Plan Act;
- (xviii) Title 31, Pennsylvania Code, Section 59.6(5), which states the reasons given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement omission

or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action;

- (xix) Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day;
- (xx) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation 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 cancellation;
- (xxi) 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; and

- (xxii) 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.

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 5(a)(4), 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.
- (e) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair

Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (f) Respondent's violations of Title 31, Pennsylvania Code, Sections 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 Fifty-Five Thousand Dollars (\$55,000.00) 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.

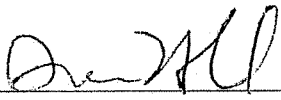
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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.

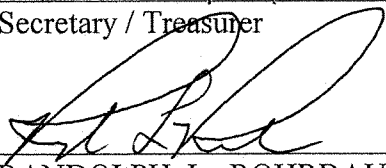
BY: NEIGHBORHOOD SPIRIT PROPERTY
AND CASUALTY COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Neighborhood Spirit Property and Casualty Company's office located in Pleasanton, California, from November 7, 2005, through November 18, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.


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

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

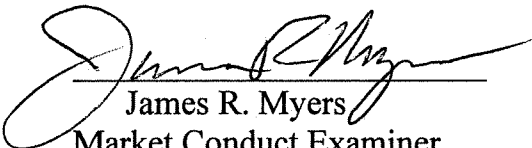
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

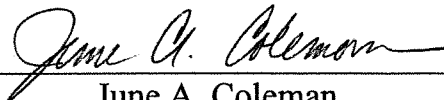
The undersigned participated in this examination and in preparation of this Report.




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



James R. Myers
Market Conduct Examiner



June A. Coleman
Market Conduct Examiner



M. Katherine Sutton, AIC
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Neighborhood Spirit Property and Casualty Company, hereinafter referred to as "Company," at their office located in Pleasanton, California. 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 January 1, 2004, through December 31, 2004, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal 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. Commercial Property

- Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations, declinations and renewals.

4. Claims

5. Forms

6. Complaints

7. Licensing

III. COMPANY HISTORY AND LICENSING

Neighborhood Spirit Property and Casualty Company was incorporated on February 17, 1995, under the laws of California. The Company received its Certificate of Authority from the California Department of Insurance on June 30, 1995, and commenced business on September 1, 1995.

LICENSING

Neighborhood Spirit Property and Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in California, Michigan, Missouri, Ohio and Pennsylvania. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,972,274. Premium volume related to the areas of this review were: Fire \$409,466 and Homeowners multiple peril \$2,334.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners 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.

The following findings were made:

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 homeowner and dwelling fire underwriting guides indicate that seasonal and secondary homes are only acceptable if the primary residence is insured.

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 62 personal lines property policies, which were cancelled within the first 60 days of new business was selected for review. The property policies consisted of homeowners and owner occupied dwelling fire. All 62 files selected were received and reviewed.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day.

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.

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.

The universe of 14 personal lines property policies, which were cancelled midterm during the experience period was selected for review. The property policies consisted of homeowners and owner occupied dwelling fire. All 14 files requested were received and reviewed. The 3 violations noted were based on 2 files, resulting in an error ratio of 14%.

The following findings were made:

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 reason for cancellation, "Does not conform with our present rules", is not a proper reason for cancellation.

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.

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.

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

Requires that a cancellation notice shall state the specific

reason or reasons of the insurer for cancellation.

AND

Title 31, Pa. Code, Section 59.6(5)

The reasons given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the acceptance of the risk, or to the hazard assumed by the Company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action. The Company did not provide a specific reason for cancellation.

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 167 personal lines property policies which were nonrenewed during the experience period, 102 files were selected for review. The property policies consisted of homeowners and owner occupied dwelling fire. All 102 files requested were received and reviewed. The 34 violations noted were based on 24 files, resulting in an error ratio of 24%.

The following findings were made:

24 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. Twenty-four violations were noted for use of an improper reason to nonrenew the policy. The reasons used were: Losses-negligence in making repairs prior to loss, agent no longer appointed with Company and does not conform with our present rules.

10 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". The Company did not advise the insured of his possible eligibility under the Fair Plan for the 10 files noted.

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 86 personal lines property files identified as declinations by the Company was selected for review. The property policies consisted of homeowners and owner occupied dwelling fire. All 86 files selected were received and reviewed. Of the 86 files reviewed, 66 files were identified as 60-day cancellations, 6 files were identified as midterm cancellations and 1 file was identified as a nonrenewal. The 17 violations noted were based on 13 files, resulting in an error ratio of 15%

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a cancellation notice which required supporting business.

3 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 Company cannot refuse to write a policy based on place of residence or territory.

5 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. Five violations were noted for use of an improper reason to cancel the policy. The reasons used were: Losses and risk assessment score.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company did not provide a specific reason of cancellation.

3 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. The 3 violations noted were the result of cancellation notices being issued without the required information.

3 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. Heron PI87-3-5 (1987)

The Company did not advise the insured of his possible eligibility under the Fair Plan for the 3 files noted.

1 Violation Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day. The Company did not provide the required 30 days notice of cancellation.

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 25 commercial property policies which were cancelled within the first 60 days was selected for review. All 25 files selected were received and reviewed. Of the 25 files reviewed, 20 were identified as tenant occupied dwelling fire policies and 5 were identified as owner occupied dwelling fire policies which were previously reviewed with the personal property 60-day cancellations. One file was identified as a midterm cancellation. The 2 violations were based on one file, resulting in an error ratio of 4%.

The following findings were made:

1 Violation 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 15 days notice for nonpayment of premium.

1 Violation 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 file noted contained a cancellation notice which did not provide the required information.

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 6 tenant occupied dwelling fire policies, which were cancelled during the experience period was selected for review. All 6 files selected were received and reviewed. The 12 violations noted were based on 6 files, resulting in an error ratio of 100%.

The following findings were made:

6 Violations 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 6 files noted.

6 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 6 files noted contained a cancellation notice which did not provide the required information.

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 19 tenant occupied dwelling fire policies identified as nonrenewals by the Company was selected for review. All 19 files selected were received and reviewed. One file was identified as a midterm cancellation. The 11 violations noted were based on 7 files, resulting in an error ratio of 37%.

The following findings were made:

1 Violation 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 file noted was cancelled for other than permitted reasons. The reason on the cancellation notice stated: "Does not conform with our present rules".

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 Company did not provide at least 60 days notice of nonrenewal.

1 Violation Act 86, Section 3(a)(4) [40 P.S. §3403(a)(4)]

Notices of midterm cancellation shall be clearly labeled "Notice of Cancellation". The cancellation notice was not clearly labeled "Notice of Cancellation".

2 Violations 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 Company did not provide a specific reason for cancellation and nonrenewal for the 2 files noted.

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

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. The 6 files noted contained a nonrenewal notice which did not provide the required information.

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.

From the universe of 40 tenant occupied dwelling fire declinations, 20 files were selected for review. All 20 files selected were received and reviewed. Of the 20 files reviewed, 19 were identified as 60-day cancellations. 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 567 tenant occupied dwelling fire policies which were renewed during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were 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.

Homeowner Rating – New Business Without Surcharges

From the universe of 330 homeowner policies written as new business without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Homeowner Rating – New Business With Surcharges

The universe of 60 homeowner policies written as new business with surcharges during the experience period was selected for review. All 60 files selected were received and reviewed. No violations were noted.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 2,540 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

The universe of 21 homeowner policies renewed with surcharges during the experience period was selected for review. All 21 files selected were received and reviewed. No violations were noted.

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 102 dwelling fire policies written as new business during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which 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 220 dwelling fire policies renewed during the experience period, 50 files were selected for review. All 50 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

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 247 homeowner claims reported during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 35 violations noted were based on 32 files, resulting in an error ratio of 32%.

The following findings were made:

32 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 32 claims noted.

3 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 3 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received and failure to provide the denial in writing.

B. Dwelling Fire Claims

The universe of 30 dwelling fire claims reported during the experience period was selected for review. All 30 files selected were received and reviewed. The 12 violations noted were based on 9 files, resulting in an error ratio of 30%.

The following findings were made:

9 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 9 claims noted.

3 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 3 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received and failure to provide the denial in writing.

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)] 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 findings were made:

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

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. Notice of nonrenewal or cancellation form #51-0532 9-95 and notice of nonrenewal or cancellation – 400 letter were not approved by the Insurance Commissioner prior to use.

IX. CONSUMER COMPLAINTS

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

7 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 7 files noted were cancelled or nonrenewed for improper reasons.

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

• 10	Cancellation/Nonrenewal	63%
• 2	Claims Related	12%
• 4	Premium Related	25%
<hr/> 16		<hr/> 100%

X. 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 violations were noted.

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.

Samuel N. Broughton
Donohue-Reynolds, Inc.

4 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.

AIA-DCAP Corp.
Nathan Kleeman
McGlawn & McGlawn, Inc.
Wilson Insurance Agency, Inc.

XI. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(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 Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.
3. 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.
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, claim acceptance and denials as noted in the Report do not occur in the future.

5. 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.

XII. COMPANY RESPONSE



FARMERS

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March 20, 2006

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

RE: Neighborhood Spirit Property and Casualty Company
Examination Warrant Number: 05-M22-005

Dear Mr. Derk:

We have received the Report of Examination of Neighborhood Spirit Property and Casualty Company. The following is our response to the findings, comments and concerns contained in the Report. First, however, we wish to thank you and your exam team for the cooperation and courtesies shown to us during the examination process.

Before we address particular areas of the Report, we wish to point out that the member Companies and Exchanges of the Farmers Insurance Group of Companies® seriously consider all insurance department examinations and the recommendations of the examiners. Therefore, we have thoroughly reviewed each of the findings and comments.

Our response includes those areas where procedures have been, or will be, amended or where we respectfully dispute the findings of the examiners. We ask that further consideration be given to any disputed items. Unless otherwise noted, the response tracks with the order and sequence of the findings in the Report.

Please note that neither these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Department or any other party as constituting any admissions. Please further note that we are providing these comments and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connection with the information provided.

Chester A. Derk, Jr. AIE, HIA
March 20, 2006

IV. UNDERWRITING PRACTICES AND PROCEDURES

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 homeowner and dwelling fire underwriting guides indicate that seasonal and secondary homes are only acceptable if the primary residence is insured.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(4) [40 P.S. 1171.5(a)(4)], we will revise our procedures accordingly.

V. UNDERWRITING

A. Personal Lines Property

1. 60-Day Cancellations

1 Violation Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day.

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.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Title 31, Pa. Code, §59.9(b) and 40 P.S. 1171.5 (a)(9) and the adjudication of Pursell/Goschenhoppen Mutual, PH91-11-24 (1992), we will revise our procedures accordingly.

2. Midterm Cancellations

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

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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, "Does not conform with our present rules", is not a proper reason for cancellation.

Company Response: We have reviewed the Department's findings and in accordance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], we will revise our procedures accordingly.

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.

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.

Company Response: We have reviewed the Department's findings and in accordance with Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)] and the following adjudications: Pursell/Goschenhoppen Mutual, PH91-11-24 (1992); Konek/Pennsylvania National, P91-05-55 (1992); Amareld/Safeco, PH95-02-087 (1997); we will revise our procedures accordingly.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation.

AND

Title 31, Pa Code, Section 59 6(5)
The reasons given for cancellation or refusal to renew shall be clear and complete. If the reason is a material misrepresentation, fraudulent statement, omission or concealment of fact material to the

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March 20, 2006

acceptance of the risk, or to the hazard assumed by the Company, made by the insured, the insurer shall specify what statements, omissions or concealments it relied on for its action. The Company did not provide a specific reason for cancellation.

Company Response: We have reviewed the Department's findings and in accordance with Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)] and Title 31, Pa. Code, Section 59.6(5); we will revise our procedures accordingly.

3. Nonrenewals

24 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 of omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Twenty-four violations were noted for use of an improper reason to nonrenew the policy. The reasons used were: Losses-negligence in making repairs prior to loss, agent no longer appointed with Company and does not conform with our present rules.

Company Response: We have reviewed the Department's findings and in accordance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], we will revise our procedures accordingly.

10 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". The Company did not advise the insured of his possible eligibility under the Fair Plan for the 10 files noted.

Company Response: We have reviewed the Department's findings and in accordance with Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)], we have revised our procedures accordingly. We immediately implemented corrective action once the issue was discovered.

Chester A. Derk, Jr., AIE, HIA
March 20, 2006

4. Declinations

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a cancellation notice which required supporting business.

Company Response: We have reviewed the Department's findings in this matter and in accordance with 40 P.S. 1171.5 (a)(4), we will revise our procedures accordingly.

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

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 Company cannot refuse to write a policy based on place of residence or territory.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(7)(iii) [40 P.S. 1171.5(a)(7) 9iii], we have revised our procedures accordingly.

5 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

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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. Five violations were noted for use of an improper reason to cancel the policy. The reasons used were: Losses and risk assessment score.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], we will revise our procedures accordingly.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company did not provide a specific reason of cancellation.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]; we will revise our procedures accordingly.

3 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. The 3 violations noted were the result of cancellation notices being issued without the required information.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(9)(iv) [40 P.S. §1171.5(a)(9)(iv)], we have revised our procedures accordingly.

3 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 Heron P187-3-5 (1987)

The Company did not advise the insured of his possible eligibility under the Fair Plan for the 3 files noted.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 205, Section 5(a)(9)(v) [40 P.S. §1171.5(a)(9)(v)] and the adjudications

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of *Donegal v. Hunt* P87-4-15 (1987) and *PA Nat'l v. Herron* PI 87-3-5 (1987) affirmed 551 A. 2nd 368 (Pa Cmwlt. 1988)]; we have revised our procedures accordingly.

1 Violation Title 31, Pa Code, Section 59 9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day. The Company did not provide the required 30 days notice of cancellation.

Company Response: We have reviewed the Department's findings and we will continue to audit our employees and internal processes to ensure that our cancellation notices are mailed in accordance with Title 31, Chapter 59.9(b).

B. Commercial Property

1. 60-Day Cancellations

1 Violation 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 15 days notice for nonpayment of premium.

Company Response: We have reviewed the Department's findings and we will continue to audit our internal processes to ensure that our cancellation notices are mailed in accordance with Act 86, Section 3(a)(3)(ii) [40 P.S. §3403(a)(3)(ii)].

1 Violation 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 file noted contained a cancellation notice which did not provide the required information.

Company Response: We have reviewed the Department's findings. It bears noting that this issue was raised in the Department's 2004 Market Conduct Exam of Civic Property and Casualty Company. We immediately implemented corrective action once the issue was discovered. Subsequently, the letters that accompany our cancellation notices were updated in November 2004 so as to include the required loss information notice to the customer.

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2. Midterm Cancellations

6 Violations 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 6 files noted.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 86, Section 3(a)(3) [40 P.S. §3403(a)(3)], we will revise our procedures accordingly.

6 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 6 files noted contained a cancellation notice which did not provide the required information.

Company Response: We have reviewed the Department's findings. It bears noting that this issue was raised in the Department's 2004 Market Conduct Exam of Civic Property and Casualty Company. We immediately implemented corrective action once the issue was discovered. Subsequently, the letters that accompany our cancellation notices were updated in November 2004 so as to include the required loss information notice to the customer.

3. Nonrenewals

1 Violation 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 file noted was cancelled for other than permitted reasons. The reason on the cancellation notice stated: "Does not conform with our present rules".

Company Response: We have reviewed the Department's findings and we will continue to audit internal processes to ensure that our cancellation notices are mailed in accordance with Act 86, Section 2 [40 P.S. §3402].

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

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termination. The Company did not provide at least 60 days notice of nonrenewal.

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)] and the adjudications of Pursell/Goschenhoppen Mutual, PH91-11-24 (1992); Konek/Pennsylvania National, P91-05-55 (1992), Amareld/Safeco, PH95-02-087 (1997), we will revise our procedures accordingly.

1 Violation Act 86, Section 3(a)(4) [40 P.S. §3403(a)(4)]

Notices of midterm cancellation shall be clearly labeled "Notice of Cancellation". The cancellation notice was not clearly labeled "Notice of Cancellation".

Company Response: We have reviewed the Department's findings in this matter and in accordance with Act 86, Section 3(a)(4) [40 P.S. §3403(a)(4)], we will revise our procedures accordingly.

2 Violations 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 Company did not provide a specific reason for cancellation and nonrenewal for the 2 files noted.

Company Response: We respectfully disagree with the Department's determination. Both policies were non-renewed as evidenced by our non-renewal letter to each insured dated August 4, 2005, (920473881) and July 1, 2004, (919337713), respectively. Both letters state that the policies were non-renewed because we did not receive a response to our previous requests for proof that repairs had been made. We have provided copies of the applicable letters to the Department with our previous response and ask that the Department re-evaluate the violations charged against these policies.

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

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

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the period of time during which the insurer has provided coverage to the insured, whichever is less. The 6 files noted contained a nonrenewal notice which did not provide the required information.

Company Response: We have reviewed the Department's findings. It bears noting that this issue was raised in the Department's 2004 Market Conduct Exam of Civic Property and Casualty Company. We immediately implemented corrective action once the issue was discovered. Subsequently, the letters that accompany our cancellation notices were updated in November 2004 so as to include the required loss information notice to the customer.

4. Declinations

No violations were noted.

5. Renewals

No violations were noted.

VI. RATING

A. Homeowners

New Business

Homeowner Rating – New Business Without Surcharges

No violations were noted.

Homeowner Rating – New Business With Surcharges

No violations were noted.

Renewals

Homeowner Rating – Renewals Without Surcharges

No violations were noted.

Homeowner Rating – Renewals With Surcharges

No violations were noted.

B. Dwelling Fire

New Business

No violations were noted.

Renewals

No violations were noted.

VII. CLAIMS

A. Homeowner Claims

32 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 32 claims noted.

Company Response: We have reviewed the Department's findings and have taken corrective actions. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system. We will also implement automated reminders in our electronic claims system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

3 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 3 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received and failure to provide the denial in writing.

Company Response: We have reviewed the Department's findings and have taken corrective actions. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system. We will also implement automated reminders in our electronic claims system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

B. Dwelling Fire Claims

9 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

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state when a decision on the claim may be expected. The Company did not provide timely status letters for the 9 claims noted.

Company Response: We have reviewed the Department's findings and have taken corrective actions. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system. We will also implement automated reminders in our electronic claims system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

3 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 3 violations noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received and failure to provide the denial in writing.

Company Response: We have reviewed the Department's findings and have taken corrective action. Claims management will continue to conduct reviews of claim files and provide ongoing training and counseling with claim representatives on an individual and group basis to emphasize the importance of utilizing effective time management skills and an appropriate diary system. We will also implement automated reminders in our electronic claims system to ensure compliance with Pennsylvania Title 31, Chapter 146 requirements for prompt advice and settlement of claims.

VIII. FORMS

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

Requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use. Notice of nonrenewal or cancellation form #51-0532 9-95 and notice of nonrenewal or cancellation – 400 letter were not approved by the Insurance Commissioner prior to use.

Company Response: We are unable to locate a copy of the approved filing for the mentioned forms. Currently, we are in the process of preparing and submitting our filings to the Department for approval.

IX. CONSUMER COMPLAINTS

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

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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 7 files noted were canceled or nonrenewed for improper reasons.

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

10	Cancellation/Nonrenewal	63%
2	Claims Related	12%
4	Premium Related	25%
<hr/> 16		<hr/> 100%

Company Response: We have reviewed the seven violations for improper reason for non-renewal and in accordance with Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], we will revise our procedures accordingly.

X. LICENSING

*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.

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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.

Samuel N. Broughton
Donohue-Reynolds, Inc.

Company Response:

Samuel N Broughton: We have reviewed the Department's findings. It bears noting that the issue for Samuel N. Broughton was raised in the Department's 2004 Market Conduct Exam of Civic Property and Casualty Company. We immediately implemented corrective action once the issue was discovered. Subsequently, the agency was terminated.

Donohue-Reynolds, Inc.: Upon review of agency license records for experience period of, we agree with the Department's findings. It was determined that Donohue-Reynolds, Inc. has been purchased by Crosstates Insurance Consultants in 2000, license #3692. The Donohue-Reynolds, Inc. record is being combined with Crosstates Insurance Consultants.

*4 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

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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.

ALA-DCAP Corp.
Nathan Kleeman
McGlawn & McGlawn, Inc.
Wilson Insurance Agency, Inc.

Company Response:

AIA-DCAP Corp: We have reviewed the Department's findings. AIA-DCAP Corp, formerly AIA Acquisition Corp, became active in 2003. All internal records were updated with purchasing agency information, with the exception of filing of notice of appointment with the Insurance Department. Filing of notice of appointment is currently being submitted with corresponding fees.

Nathan Kleeman: We have reviewed the Department's findings. We found that this agency was appointed in Civic and Exact. The appointment documentation and fees are being filed for Neighborhood Spirit for this agency.

McGlawn & McGlawn, Inc.: We respectfully disagree with the Department's findings. Effective 8/12/98, Total Risk Management, Inc. issued a policy per the insured's written request. The policy was transferred to McGlawn & McGlawn, Inc.'s book of business effective 2/26/02 (See table exhibit below). The attached annual appointment billing shows fee payment for the agency.

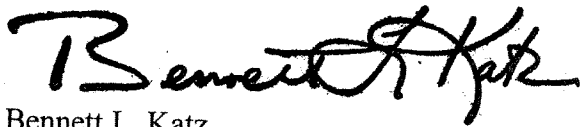
Wilson Insurance Agency, Inc: We respectfully disagree with the Department's findings. Wilson Insurance Agency, Inc. was first appointed under its owner's name Henry A. Wilson, as stated on license #82436. The agency name was changed to Wilson Insurance Agency, Inc. as stated on license #51121 (See table exhibit below). Attached is the annual appointment billing showing fees paid for Henry A. Wilson, and Wilson Insurance Agency, Inc. in 2004.

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As set forth in this letter, we have attempted to address the concerns, comments and recommendations outlined in the Market Conduct Examination Report in an expeditious and responsible manner. We ask that these comments be considered. We would hope that there is no further action anticipated by the Department in connection with this Examination. If there is, we do not waive our right to invoke any other administrative remedies.

Once again, we wish to thank you and your exam team for your professionalism throughout the examination of our market conduct practices. Please feel free to contact Jan Walker of my staff at (323) 932-3579, or me, if there is anything further you might need.

Sincerely,

A handwritten signature in black ink, appearing to read "Bennett L. Katz". The signature is stylized with a large, bold "B" and a cursive "Katz".

Bennett L. Katz
Assistant Vice President
Regulatory Affairs