

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**NATIONWIDE MUTUAL INSURANCE COMPANY
NATIONWIDE MUTUAL FIRE INSURANCE
COMPANY
Columbus, Ohio**

**AS OF
July 20, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 9, 2004

**NATIONWIDE MUTUAL FIRE INSURANCE COMPANY
NATIONWIDE MUTUAL INSURANCE COMPANY**

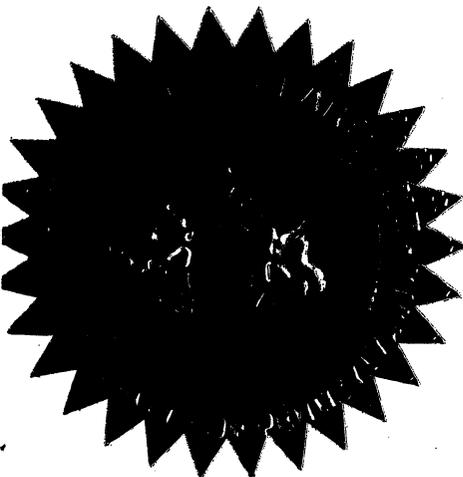
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
NATIONWIDE MUTUAL FIRE : Sections 605 and 903(a) of the
INSURANCE COMPANY : Insurance Department Act, Act of
NATIONWIDE MUTUAL : May 17, 1921, P.L. 789, No. 285
INSURANCE COMPANY : (40 P.S. §§ 235 and 323.3)
One Nationwide Plaza :
Columbus, OH 43215 : Act 1990-6, Title 75 Pennsylvania
: Consolidated Statutes, Sections
: 1704(b), 1712, 1791.1(b), 1792(b)(1),
: 1793(b), 1797(b)(2) & (5) and 1799.3(d)
: :
: Sections 1, 2, 3(a)(2), 3(a)(3), 3(a)(5),
: 3(a)(6) and 7(c) of the Act of July 3,
: 1986, P.L. 396, No. 86 (40 P.S.
: §§ 3401, 3402, 3403 and 3407)
: :
: Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii),
: 5(a)(10)(vi), 5(a)(10)(xiii) and
: 5(a)(11) of the Unfair Insurance
: Practices Act, Act of July 22, 1974,
: P.L. 589, No. 205 (40 P.S. §§ 1171.5)
: :
: Sections 2004 and 2006(2) of Act 68
: of 1998 (40 P.S. §§ 991.2004 and
: 991.2006)
: :
: Section 653 of the Insurance Company
: Law, Act of May 17, 1921, P.L. 682,
: No. 284 (40 P.S. § 813)
: :
: Pennsylvania Assigned Risk Plan,
: Section 12A.3
: :
: Act 165 of 1994 (18 Pa.C.S. §4117(k)(1))
: :
: Title 31, Pennsylvania Code, Sections
: 67.33(a)(2)(i) & (ii), 146.5(d) and
: 113.88
: :
Respondent. : Docket No. MC04-07-030

CONSENT ORDER

AND NOW, this 9th day of September, 2004, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law. Respondent neither admits nor contests the findings herein.

FINDINGS OF FACT

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

- (a) Respondent is Nationwide Mutual Fire Insurance Company and Nationwide Mutual Insurance Company, and maintains its address at One Nationwide Plaza, Columbus, Ohio 43215.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2002 through June 30, 2003.
- (c) On July 21, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on August 20, 2004.
- (e) The Examination Report notes violations of the following statutes and regulations which generally prohibit the activities described below:
 - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Department, certify to the Department the names of all

agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;

- (ii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;
- (iii) Section 1704(b) of Act 1990-6, Title 75, Pa.C.S. § 1711(a), which designates the Insurance Department to administer and enforce this chapter as to matters under its jurisdiction as determined by this chapter or other statute and may make rules and regulations necessary for the administration and enforcement of this chapter;
- (iv) Section 1712 of Act 1990-6, Title 75, Pa.C.S. § 1712, which requires an insurer issuing or delivering liability insurance policies covering any motor vehicle of the type required to be registered under this title, except recreational vehicles not intended for highway use, motorcycles, motor-driven cycles or motorized pedal cycles or like type vehicles, registered and operated in this Commonwealth, shall make available for purchase first-party benefits with respect to injury arising out of the maintenance or use of a motor vehicle as

follows: (1) Medical Benefit – Subject to the limitations of Section 1797 (relating to customary charges for treatment), coverage to provide for reasonable and necessary medical treatment and rehabilitative services, including but not limited to, hospital dental, surgical, psychiatric, psychological, osteopathic, ambulance, chiropractic, licensed physical therapy, nursing services, vocational rehabilitation and occupational therapy, speech pathology and audiology, optometric services, medications, medical supplies and prosthetic devices, all without limitation as to time, provided that, within 18 months from the date of the accident causing injury, it is ascertainable with reasonable medical probability that further expenses may be incurred as a result of the injury. Benefits under this paragraph may include any nonmedical remedial care and treatment rendered in accordance with a recognized religious method of healing;

(v) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791.1(b), which requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

(vi) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792(b)(1), which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that

there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;

(vii) Section 1793(b) of Act 1990-6, Title 75, Pa.C.S. § 1793(b), which requires all insurers to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to, a description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period, per policyholder and the number of years any surcharge will be in effect. The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

(viii) Section 1797(b)(2) and (5) of Act 1990-6, Title 75, Pa.C.S. § 1793(b), which state an insurer, provider or insured may request reconsideration by the PRO of the PRO's initial determination. Such a request for reconsideration must be made within 30 days of the PRO's initial determination. If a PRO determines that medical treatment or rehabilitative services or merchandise were medically necessary, the insurer must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending PRO review;

- (ix) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799.3, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;
- (x) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;
- (xi) Section 2 of Act 86 (40 P.S. § 3402), which states 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;
- (xii) 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 termination;

- (xiii) Section 3(a)(3) of Act 86 (40 P.S. § 3403), which 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;
- (xiv) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying 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;
- (xv) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or 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;
- (xvi) Section 7(c) of Act 86 (40 P.S. § 3407), which states this act does not apply to commercial property and casualty policies in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

- (xvii) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;
- (xviii) 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;

- (xix) Section 5(a)(9)(ii) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice state the date, not less than 30 days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;
- (xx) Section 5(a)(10)(vi) of Act 205 (40 P.S. §§ 1171.5), which states any of the following acts, if committed or performed with such frequency as to indicate a business practice, shall constitute unfair claim settlement or compromise practices: Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear;
- (xxi) Section 5(a)(10)(xiii) of Act 205 (40 P.S. §§ 1171.5), which states any of the following acts, if committed or performed with such frequency as to indicate a business practice, shall constitute unfair claim settlement or compromise practices: Failing to promptly settle claims, where liability has become reasonably clear, under one portion of the insurance policy coverage in order to influence settlements under other portions of the insurance policy coverage or under other policies of insurance;
- (xxii) Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which requires a complete record of all complaints received during the preceding four years;

- (xxiii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which states that an insurer may not cancel a policy except for specified reasons;
- (xxiv) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires a cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (2) state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for the reasons set forth in Section 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;
- (xxv) Section 653 of the Insurance Company Law, Act 284 (40 P.S. § 813), which prohibits mid-term cancellation with exceptions for nonpayment of premium, or by request of the insured.
- (xxvi) Section 12A.3 of the Pennsylvania Assigned Risk Plan Rules, which requires the assigned company to mail a take-out notice and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced;

- (xxvii) Act 165 of 1994 (18 Pa.C.S. § 4117(k)(1)), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”
- (xxviii) Title 31, Pennsylvania Code, Section 67.33(a)(2)(i) and (ii), which states insurers may assess a premium surcharge on policies where an insured has been convicted of at least two violations of an offense enumerated in Title 75, Pa. C.S. § 1535, relating to schedule of convictions and points. The two violations must have occurred in a period of time no more than 36 months in duration. The accumulation of two violations must have been committed by one individual insured in the household covered by the policy;
- (xxix) Title 31, Pennsylvania Code, Section 146.5(d), which requires an insurer, upon receiving notification of a claim, to provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer; and

- (xxx) Title 31, Pennsylvania Code, Section 113.88, which requires 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.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Violations of Section 605 (40 P.S. § 235) of the Insurance Department Act are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.

- (iii) issue an order to cease and desist.
 - (iv) impose such other conditions as the department may deem appropriate.
- (c) Violations of Sections 1, 2, 3 and 7 of Act 86 (40 P.S. §§ 3401, 3403 and 3407), 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) Violations of Sections 5(a)(4), 5(a)(9), 5(a)(10) and 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (e) In addition to any penalties imposed by the Commissioner for 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) Violations of Sections 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (g) Violation of Section 653 of The Insurance Company Law (40 P.S. §813) is punishable by the following, under Section 655 of The Insurance Company Law (40 P.S. § 815), which states the Commissioner shall have the power to suspend or revoke the license of any insurance company which violates any of the provisions of subdivision (d) of this article.

- (h) Violations of Title 31, Pennsylvania Code, Section 146.5(d) 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 Ninety-Five Thousand Dollars (\$95,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

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

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: NATIONWIDE MUTUAL FIRE
INSURANCE COMPANY, and
NATIONWIDE MUTUAL INSURANCE
COMPANY, Respondent



President / Regional Vice President



Associate Vice President - Claims



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Nationwide Mutual Fire Insurance Company and Nationwide Mutual Insurance Company's offices located in Harrisburg, Pennsylvania, from December 15, 2003, through March 2, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

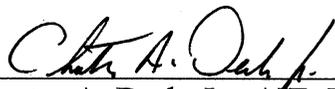
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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

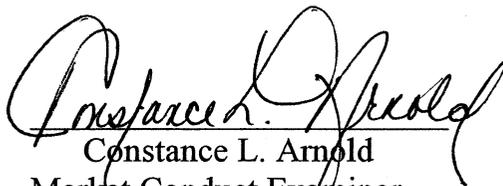
In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations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

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

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

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


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


Constance L. Arnold
Market Conduct Examiner


Metro Orange
Market Conduct Examiner


Jerry L. Houston, CPCU
Market Conduct Examiner

II. SCOPE OF EXAMINATION

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

The examination focused on Company operations in the following areas:

1. Personal Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and rescissions.
 - Rating - Proper use of all classification and rating plans and procedures.

2. Personal Lines Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.

3. Dwelling Fire
 - Rating – Proper use of all classification and rating plans and procedures.

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

5. Commercial Automobile

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

6. Workers' Compensation

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

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

III. COMPANY HISTORY AND LICENSING

Nationwide Mutual Fire was incorporated on December 27, 1933, under the laws of Ohio, and began business on April 15, 1934. Operations were conducted under the title of Farm Bureau Mutual Fire Insurance Company from inception until September 1, 1955, when the present corporate name was adopted.

Nationwide Mutual Insurance Company was incorporated on Dember 16, 1925, under the laws of Ohio, and began business on April 14, 1926, under the sponsorship of The Ohio Farm Bureau Federation to provide automobile insurance for Farm Bureau members at cost. Operations were conducted under the title Farm Bureau Mutual Automobile Insurance Company until September 1, 1955. On that date, the present corporate title was adopted.

LICENSING

Nationwide Mutual Fire Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in all states, District of Columbia, Puerto Rico and U.S. Virgin Islands. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$323,334,857.

Premium volume related to the areas of this review were: Fire \$4,914,496; Farm Owners' Multiple Peril \$10,998,073; Homeowners' Multiple Peril \$192,669,234; Commercial Multiple Peril (non-liability portion) \$10,255,379; Commercial Multiple Peril (liability portion) \$9,337,008; Inland Marine \$6,569,645; Workers; Compensation \$3,442,754; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$10,120,188; Private Passenger Auto Liability \$36,175,067 and Private Passenger Auto Physical Damage \$23,017,044; Commercial Automobile Direct Written

Premium was reported as Commercial Auto No-Fault (personal injury protection) \$338,451; Other Commercial Auto Liability \$5,690,543 and Commercial Auto Physical Damage \$2,192,523.

Nationwide Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in all states except New Jersey. It is also licensed in District of Columbia, Puerto Rico and U.S. Virgin Islands. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$664,474,094. Premium volume related to the areas of this review were: Fire \$62,142; Farm Owners' Multiple Peril \$777,515; Commercial Multiple Peril (non-liability portion) \$10,925,351; Commercial Multiple Peril (liability portion) \$10,888,479; Inland Marine \$198,796; Workers; Compensation \$13,501,352; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$74,674,385; Private Passenger Auto Liability \$289,452,483 and Private Passenger Auto Physical Damage \$236,802,443; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$778,067; Other Commercial Auto Liability \$11,933,458 and Commercial Auto Physical Damage \$5,088,574.

IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following findings were made:

Nationwide Mutual Fire Insurance Company

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 Company's personal automobile underwriting guidelines indicate supporting business is required to write motorcycles, motor homes and RV's. The Commercial guidelines require supporting business general liability coverage on apartments, dwellings or condominium risks.

Nationwide Mutual Insurance Company

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 Company's personal automobile underwriting guidelines indicate supporting business is required to write motorcycles, motor homes and RV's. The Commercial guidelines require supporting business general liability coverage on apartments, dwellings or condominium risks.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) [40 P.S. §991.2002(b)(3)], which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

Nationwide Mutual Fire Insurance Company

From the universe of 5,266 private passenger automobile policies reported by the Company as cancelled within the first 60 days of new business, 13 files were reviewed. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 783 private passenger automobile policies reported by the Company as cancelled within the first 60 days of new business, 13 files were reviewed. No violations were noted.

2. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements, which must be met regarding the form and conditions of the cancellation notice.

Nationwide Mutual Fire Insurance Company

From the universe of 6,965 private passenger automobile files identified as midterm cancellations by the Company, 21 files were reviewed. The 4 violations were based on 4 files, resulting in an error ratio of 19%.

The following findings were made:

4 Violations Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The 4 files noted were cancelled for other than permitted reasons.

Nationwide Mutual Insurance Company

From the universe of 16,603 private passenger automobile files identified as midterm cancellations by the Company, 44 files were reviewed. The 3 violations were based on 3 files, resulting in an error ratio of 7%.

The following findings were made:

1 Violation Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted was cancelled for other than permitted reasons.

2 Violations Act 68, Section 2006(2) [40 P.S. §991.2006(2)]

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The 2 files contained cancellation notices that did not provide the notice required 60 days from the date of mailing.

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 purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements, which must be met regarding the form and conditions of the cancellation notice.

Nationwide Mutual Fire Insurance Company

From the universe of 37 private passenger automobile files identified as nonrenewals by the Company, 7 files were reviewed. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 65 private passenger automobile files identified as nonrenewals by the Company, 44 files were reviewed. The Company reported a universe of 490 automobile nonrenewals during the experience period; however, 425 files were personal umbrella policies. The 4 violations noted were based on 4 files, resulting in an error ratio of 9%.

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company nonrenewed policies because they did not write the underlying automobile policy.

Concern: One of the policies indicated that the company advised an insured that they may offset a claim settlement by the amount owed on the policy. If a claim is owed under the policy, it must be paid without offset.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

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

Nationwide Mutual Fire Insurance Company

From the universe of 364 automobile declinations, 50 files were selected for review. All 50 files selected were received and reviewed. These policies were written and cancelled within the first 60 days. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 568 automobile declinations, 47 files were selected for review. All 47 files selected were received and reviewed. These policies were written and cancelled within the first 60 days. No violations were noted.

5. Rescissions

A rescission is any policy, which was void *ab initio*.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under

which action by the insurer is prohibited. The review also determined compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

Nationwide Mutual Fire Insurance Company

The universe of 5 private passenger automobile files, which were identified by the Company as rescissions, was selected for review. All 5 files were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any private passenger automobile rescissions during the experience period.

B. Private Passenger Automobile – Assigned Risk

Nationwide Insurance reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan for its companies under Nationwide Mutual Fire Insurance Company. As a result, Nationwide Mutual Fire Insurance Company receives all assignments from the Pennsylvania Assigned Risk Plan.

1. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 an 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

Nationwide Mutual Fire Insurance Company

From the universe of 1,464 private passenger automobile assigned risk policies cancelled during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

2. Nonrenewals

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

The purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743, 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

Nationwide Mutual Fire Insurance Company

The universe of 39 private passenger automobile assigned risk policies nonrenewed during the experience period, was selected for review. All 39 files selected were received and reviewed. The 10 violations were based on 10 files, resulting in an error ratio of 26%.

The following findings were made:

10 Violations PA Assigned Risk Plan, Section 12A.3.

The assigned Company shall mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced. The Company

did not provide a take-out notice to the insured at least 45 days prior to the expiration of the policy.

C. 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.

Nationwide Mutual Fire Insurance Company

From the universe of 829 personal property policies, which were cancelled in the first 60 days of new business, 55 policies were cancelled by the Company for underwriting reasons. Of these 55 policies, 28 files were reviewed. The property policies consisted of homeowners, tenant homeowners, owner occupied dwelling fire and inland marine. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any personal property policies cancelled in the first 60 days of new business.

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.

Nationwide Mutual Fire Insurance Company

From the universe of 25,802 personal property policies, which were reported by the Company as midterm cancellations, 832 policies were cancelled by the Company for underwriting reasons. Of the 832 policies, 145 files were reviewed. The property policies consisted of homeowners, tenant homeowners, inland marine, dwelling fire and farm owners. The 3 violations were based on 3 files, resulting in an error ratio of 2%.

The following findings were made:

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

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective.

The violation was due to cancellation notice being issued that did not provide the required thirty days.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 2 violations were due to no evidence of a cancellation notice being sent to the insured or that it met notice requirements.

Nationwide Mutual Insurance Company

This Company did not report any personal lines property midterm cancellations during the experience period.

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.

Nationwide Mutual Fire Insurance Company

From the universe of 943 personal property policies, which were reported by the Company as nonrenewed during the experience period, 127 files were selected for review. All 127 files selected were received and reviewed. The property policies consisted of homeowners, tenant homeowners, inland marine, dwelling fire and farm owners. The 22 violations were based on 12 files, resulting in an error ratio of 9%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Of the 11 violations noted, 10 violations were the result of an improper reason to

nonrenew the policy. The remaining violation was due to no evidence of a nonrenewal notice being sent to the insured.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company nonrenewed policies requiring supporting business.

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

Requires that a nonrenewal notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The violation was due to a nonrenewal notice being issued that did not provide the required thirty days.

Nationwide Mutual Insurance Company

This Company did not report any personal lines property nonrenewals during the experience period.

4. Rescissions

A rescission is any policy, which was void *ab initio*.

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

compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

Nationwide Mutual Fire Insurance Company

The universe of 1 personal property policy identified as a rescission by the Company during the experience period was selected for review. The file selected was received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any personal lines property rescissions during the experience period.

D. Commercial Automobile

1. 60-Day Cancellations

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 53 commercial automobile policies cancelled within the first 60 days of new business, 33 files were selected for review. All 33 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 40 commercial automobile policies cancelled within the first 60 days of new business, 32 files were selected for review. All 32 files selected were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 658 commercial automobile policies, which were cancelled during the experience period, 133 files were cancelled for underwriting reasons. Of the 133 files, 32 files were reviewed. Of the 32 files, 17 policies were cancelled within the first 60 days of new business, and 6 policies were nonrenewed. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 1,196 commercial automobile policies, which were cancelled during the experience period, 72 policies were cancelled for underwriting reasons. Of the 72 files, 40 files were reviewed. Of the 40 files reviewed, 3 policies were cancelled within the first 60 days of new business and 13 policies were nonrenewed. The 2 violations were based on 1 file, resulting in an error ratio of 3%.

The following findings were made:

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

Requires that a cancellation notice shall state the specific reasons for the cancellation. The reasons shall identify the condition, factor or loss experience, which caused the cancellation. 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 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. The file noted was absent any evidence this requirement was complied with.

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.

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.

Nationwide Mutual Fire Insurance Company

From the universe of 151 commercial automobile policies identified as nonrenewals by the Company, 73 policies were nonrenewed for underwriting reasons. Of the 73 policies, 37 files were reviewed. The violation resulted in an error ratio of 3%.

The following finding was made:

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

Requires that a cancellation notice shall state the specific reasons for the cancellation. The reasons shall identify the condition, factor or loss experience, which caused the cancellation. 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 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. The file noted was absent any evidence this requirement was complied with.

Nationwide Mutual Insurance Company

From the universe of 344 commercial automobile policies identified as nonrenewals by the Company, 76 policies were nonrenewed for underwriting reasons. Of the 76 policies, 37 files were reviewed. No violations were noted.

4. Renewals

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 1,969 commercial automobile policies, which were renewed during the experience period, 40 files were selected for review. All 40 files selected were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 15%.

The following findings were made:

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

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

The Company provides the insured 30 days advance notice before the premium is due. The 6 files noted was the result of the Company not providing 30 days advance notice to the named insured of an increase in renewal premium.

Nationwide Mutual Insurance Company

From the universe of 4,929 commercial automobile policies, which were renewed during the experience period, 45 files were selected for review. Of the 45 files selected, 44 were received and reviewed. The 5 violations were based on 5 files, resulting in an error ratio of 11%.

The following findings were made:

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

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company did not produce the missing file.

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

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

The Company provides the insured 30 days advance notice before the premium is due. The 4 files noted was the result of the Company not providing 30 days advance notice to the named insured of an increase in renewal premium.

5. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices.

Nationwide Mutual Fire Insurance Company

This Company did not report any commercial automobile declinations during the experience period.

Nationwide Mutual Insurance Company

The universe of 4 commercial automobile files identified as declinations by the Company, was selected for review. All 4 files selected were received and reviewed. No violations were noted.

6. Rescissions

A rescission is any policy, which was void *ab initio*.

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices.

Nationwide Mutual Fire Insurance Company

From the universe of 44 commercial automobile files, identified as rescissions, 14 files were selected for review. All 14 files selected were received and reviewed. All files were cancelled during the first 60 days of new business and were not considered rescissions. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 32 commercial automobile files, identified as rescissions, 23 files were selected for review. All 23 files selected were received and reviewed. All files were cancelled during the first 60 days of new business and were not considered rescissions. No violations were noted.

E. 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.

Nationwide Mutual Fire Insurance Company

From the universe of 439 commercial property policies cancelled within the first 60 days, 240 policies were cancelled by the Company for underwriting reasons. Of the 240 policies, 54 files were reviewed. The commercial

policies consisted of commercial package, tenant occupied dwelling fire and farm owners. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 130 commercial property policies cancelled within the first 60 days, 94 policies were cancelled by the Company for underwriting reasons. Of the 94 policies, 15 files were selected for review. Of the 15 files selected, 14 were received and reviewed. The commercial property policies consisted of commercial package and farm owners. The 2 violations were based on 2 files, resulting in an error ratio of 13%.

The following findings were made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company did not produce the missing file.

1 Violation Act 86, Section 7(c) [40 P.S. §3407(c)]
This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the

policy provides for a longer period of notification. The file noted did not give at least 30 days' notice of termination to the insured.

2. Midterm Cancellations

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 5,802 commercial property policies, which were cancelled during the experience period, 749 policies were cancelled by the Company for underwriting reasons. Sixty-six files were selected for review. Of the 66 files selected, 65 were received and reviewed. The 38 violations were based on 24 files, resulting in an error ratio of 36%.

The following findings were made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has

complied with the laws of this Commonwealth. The Company did not produce the missing file.

8 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 8 files noted were absent any evidence this requirement was complied with.

23 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 23 files noted were absent any evidence this requirement was complied with.

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

Grounds for cancellation. Canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section. The 4 files noted were cancelled for other than permitted reasons.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in

unreasonable restraint of, or monopoly in, the business of insurance. The 2 files noted contained a cancellation notice, which required supporting business.

Nationwide Mutual Insurance Company

From the universe of 2,275 commercial property policies, which were cancelled during the experience period, 233 files were cancelled by the Company for underwriting reasons. Forty-three files were selected for review. Of the 43 files selected, 42 were received and reviewed. The commercial policies consisted of commercial package and farm owner. The 3 violations noted were based on 2 files, resulting in an error ratio of 5%.

The following findings were made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company did not produce the missing file.

1 Violation Act 86, Section 7(c) [40 P.S. §3407(c)]
This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and

provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The file noted was cancelled in the first 60 days of new business and did not give at least 30 days' notice of termination to the insured.

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.

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.

Nationwide Mutual Fire Insurance Company

From the universe of 740 commercial property policies identified as nonrenewals by the Company, 264 policies were cancelled by the Company for underwriting reasons. Of the 264 policies, 64 files were reviewed. The commercial property policies consisted of commercial package, tenant occupied dwelling fire and farm owners. The 54 violations were based on 30 files, resulting in an error ratio of 47%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The 6 files noted were absent any evidence this requirement was complied with.

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

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

AND

Title 31, Pa. Code, Section 113.88

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

28 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 28 files noted were absent any evidence this requirement was complied with.

19 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 19 files noted contained a nonrenewal notice, which required supporting business.

Nationwide Mutual Insurance Company

From the universe of 417 commercial package policies identified as nonrenewals by the Company, 104 policies were cancelled by the Company for underwriting reasons. Of the 104 policies, 31 files were reviewed. The commercial policies consisted of commercial package and farm owners. The 3 violations were based on 3 files, resulting in an error ratio of 10%.

The following findings were made:

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

Requires that a cancellation notice shall state the specific reasons for cancellation. The reasons shall identify the condition, factor or loss experience, which caused the cancellation. 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 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. The 3 files noted were absent any evidence this requirement was complied with.

4. Renewals

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 28,863 commercial property policies, which were renewed during the experience period, 150 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial package, commercial inland marine, commercial fire and farm owners. All 150 files selected were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 5%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial

property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company provides the insured 30 days advance notice before the premium is due. The 7 files noted was the result of the Company not providing 30 days advance notice to the named insured of an increase in renewal premium.

Nationwide Mutual Insurance Company

From the universe of 7,304 commercial package policies, which were renewed during the experience period, 111 files were selected for review. The commercial policies consisted of commercial package, commercial inland marine, commercial fire and farm owners. All 111 files selected were received and reviewed. The 7 violations were based on 7 files, resulting in an error ratio of 6%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company provides the insured 30 days advance notice before the premium is due. The 7 files noted was the result of

the Company not providing 30 days advance notice to the named insured of an increase in renewal premium.

5. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices

Nationwide Mutual Fire Insurance Company

From the universe of 473 commercial package policies identified as declinations by the Company, 25 files were selected for review. All 25 files selected were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was 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 policy was declined for reason of no supporting business.

Nationwide Mutual Insurance Company

From the universe of 177 commercial package policies identified as declinations by the Company, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

F. Workers Compensation

1. Midterm Cancellations

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 268 workers' compensation policies, which were cancelled during the experience period, 48 were cancelled by the Company for underwriting reasons. Twenty-four files were reviewed. The 7 violations were based on 7 files, resulting in an error ratio of 29%.

The following findings were made:

7 Violations Insurance Company Law, Section 653 [40 P.S. §813]

Except for nonpayment of premium, no policy of insurance issued or renewed against liability under the Act of June 2, 1915 (P.L. 736, No. 338), known as the Pennsylvania Workers' Compensation Act, may be cancelled or terminated by an insurer during the term of the policy. The 7 files noted

were cancelled for reasons other than nonpayment of premium.

Nationwide Mutual Insurance Company

From the universe of 664 workers' compensation policies, cancelled during the experience period, 75 policies were cancelled by the Company for underwriting reasons. Forty-six files were reviewed. The 9 violations noted were based on 9 files, resulting in an error ratio of 20%.

The following finding was made:

9 Violations Insurance Company Law, Section 653 [40 P.S. §813]

Except for nonpayment of premium, no policy of insurance issued or renewed against liability under the Act of June 2, 1915 (P.L. 736, No. 338), known as the Pennsylvania Workers' Compensation Act, may be cancelled or terminated by an insurer during the term of the policy. The 9 files noted were cancelled for reasons other than nonpayment of premium.

2. Nonrenewals

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

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

Nationwide Mutual Fire Insurance Company

From the universe of 114 workers' compensation policies which were nonrenewed during the experience period, 33 policies were nonrenewed by the Company for underwriting reasons. Twenty-one files were reviewed. The violation noted resulted in an error ratio of 5%.

The following finding was made:

1 Violation Insurance Company Law, Section 653 [40 P.S. §813]

Except for nonpayment of premium, no policy of insurance issued or renewed against liability under the Act of June 2, 1915 (P.L. 736, No. 338), known as the Pennsylvania Workers' Compensation Act, may be cancelled or terminated by an insurer during the term of the policy. The file noted was cancelled for reasons other than nonpayment of premium.

Nationwide Mutual Insurance Company

From the universe of 283 workers' compensation policies, which were nonrenewed during the experience period, 51 policies were cancelled by the Company for underwriting reasons. Twenty-eight files were reviewed. All 28 files selected were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Insurance Company Law, Section 653 [40 P.S. §813]

Except for nonpayment of premium, no policy of insurance issued or renewed against liability under the Act of June 2, 1915 (P.L. 736, No. 338), known as the Pennsylvania Workers' Compensation Act, may be cancelled

or terminated by an insurer during the term of the policy. The file noted was cancelled for reasons other than nonpayment of premium.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

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

Private Passenger Automobile – New Business Without Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 10,294 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The 20,588 violations were based on the universe of 10,294, which resulted in an error ratio of 100%.

The following findings were made:

10,294 Violations Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company provided the notice of tort options when the policy was issued but did not provide the notice of tort options to the insured at the time of application.

10,294 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 10,294 violations were the result of the Company not providing the insured with a copy of a surcharge

disclosure plan at the time of application. The Company provided the surcharge disclosure plan when the policy was issued.

Nationwide Mutual Insurance Company

From the universe of 10,004 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files requested were received and reviewed. The 20,008 violations were based on the universe of 10,004 files, resulting in an error ratio of 100%.

The following findings were made:

10,004 Violations Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)
Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company provided the notice of tort options when the policy was issued but did not provide the notice of tort options to the insured at the time of application.

10,004 Violations Title 75, Pa. C.S. §1793(b)
Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for

motor vehicle insurance coverage. The 10,004 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application. The Company provided the surcharge disclosure plan when the policy was issued.

Private Passenger Automobile – New Business With Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 2,921 private passenger automobile policies identified as new business with surcharges by the Company, 75 files were selected for review. All 75 files selected were received and reviewed. The 8,765 violations were based on the universe of 2,921 files, resulting in an error ratio of 100%.

The following findings were made:

2,921 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 2,921 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application. The Company provided the surcharge disclosure plan when the policy was issued.

2,921 Violations Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company provided the notice of tort options when the policy was issued but did not provide the notice of tort options to the insured at the time of application.

2,921 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 2,921 files noted used a form, which did not inform the insured of specific dates for accidents/violations, which were subject to surcharge in the disclosure on the premium notice. The amount of the surcharge was disclosed.

2 Violations Title 31, Pa. Code, Section 67.33(a)(2)(i) & (ii)

Insurers may assess a premium surcharge on policies where an insured has been convicted of at least two violations of an offense enumerated in Title 75, Pa. C.S. §1535, relating to schedule of convictions and points. The two violations must have occurred in a period of time no more than 36 months in duration. The accumulation of two violations must have been

committed by one individual insured in the household covered by the policy. The 2 files noted did not show documentation to substantiate that at least 2 violations had occurred. This resulted in overcharges of \$255.

Nationwide Mutual Insurance Company

From the universe of 1,254 personal automobile policies identified as new business with surcharges by the Company, 75 files were selected for review. All 75 files requested were received and reviewed. The 3,765 violations noted were based on the universe of 1,254 files, resulting in an error ratio of 100%.

The following findings were made:

2 Violations Act 1990-6, Section 18, Title 75, Pa. C.S. §1792(b)(1)

Requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it. The 2 violations noted were the result of not having the required signed statement from the insured.

1,254 Violations Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall

be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 1,254 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan at the time of application. The Company provided the surcharge disclosure plan when the policy was issued.

1,254 Violations Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company provided the notice of tort options when the policy was issued but did not provide the notice of tort options to the insured at the time of application.

1,254 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 1,254 files noted used a form, which did not inform the insured of specific dates for accidents/violations, which were subject to surcharge in the disclosure on the premium notice. The amount of the surcharge was disclosed.

1 Violation Title 31, Pa. Code, Section 67.33(a)(2)(i) & (ii)

Insurers may assess a premium surcharge on policies where an insured has been convicted of at least two violations of an offense enumerated in Title 75, Pa. C.S. §1535, relating to schedule of convictions and points. The two violations must have occurred in a period of time no more than 36 months in duration. The accumulation of two violations must have been committed by one individual insured in the household covered by the policy. The file noted did not show documentation to substantiate that at least 2 violations had occurred. This resulted in an overcharge of \$223.80.

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

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

Private Passenger Automobile – Renewals Without Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 8,562 private passenger automobile policies renewed during the experience period, 50 files without surcharges were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

From the universe of 429,410 private passenger automobile policies renewed during the experience period, 50 files without surcharges were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 2,278 private passenger automobile policies renewed during the experience period with surcharges, 75 files were selected for review. All 75 files selected were received and reviewed. The 2,282

violations noted were based on the universe of 2,278 files, resulting in an error ratio of 100%.

The following findings were made:

2,278 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 2,278 files noted used a form, which did not inform the insured of specific dates for accidents/violations, which were subject to surcharge in the disclosure on the premium notice. The amount of the surcharge was disclosed.

4 Violations Title 31, Pa. Code, Section 67.33(a)(2)(i) & (ii)

Insurers may assess a premium surcharge on policies where an insured has been convicted of at least two violations of an offense enumerated in Title 75, Pa. C.S. §1535, relating to schedule of convictions and points. The two violations must have occurred in a period of time no more than 36 months in duration. The accumulation of two violations must have been committed by one individual insured in the household covered by the policy. The 4 files noted did not show documentation to substantiate that at least 2 violations had occurred. This resulted in overcharges of \$556.60.

Nationwide Mutual Insurance Company

From the universe of 19,284 private passenger automobile policies renewed during the experience period with surcharges, 75 files were selected for review. All 75 files selected were received and reviewed. The 19,286 violations were based on the universe of 19,284 files, resulting in an error ratio of 100%.

The following findings were made:

19,284 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 19,284 files noted used a form, which did not inform the insured of specific dates for accidents/violations, which were subject to surcharge in the disclosure on the premium notice. The amount of the surcharge was disclosed.

2 Violations Title 31, Pa. Code, Section 67.33(a)(2)(i) & (ii)

Insurers may assess a premium surcharge on policies where an insured has been convicted of at least two violations of an offense enumerated in Title 75, Pa. C.S. §1535, relating to schedule of convictions and points. The two violations must have occurred in a period of time no more than 36 months in

duration. The accumulation of two violations must have been committed by one individual insured in the household covered by the policy. The 2 files noted did not show documentation to substantiate that at least 2 violations had occurred. This resulted in overcharges of \$275.60.

B. Private Passenger Automobile – Assigned Risk

Nationwide Insurance reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan for all its companies under Nationwide Mutual Fire Insurance Company. As a result, Nationwide Mutual Fire Insurance Company receives all assignments from the Pennsylvania Assigned Risk Plan.

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 primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean
Nationwide Mutual Fire Insurance Company

From the universe of 3,469 assigned risk private passenger automobile new business policies written as clean during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. Based upon review of the 25 files sampled, the Company was subsequently requested to review the universe of new business to identify surcharged policies. The 53 violations were based on the universe of 3,469, resulting in an error ratio of 2%.

The following findings were made:

53 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 53 files were the result of the Company not providing a surcharge disclosure statement that lists the amount of surcharge on the premium notice.

Assigned Risk Private Passenger Automobile – New Business – Other Than Clean

Nationwide Mutual Fire Insurance Company

From the universe of 2,274 assigned risk private passenger automobile new business policies written as other than clean during the experience period,

50 files were selected for review. All 50 files selected were received and reviewed. Based upon the 50 files sampled, the Company was subsequently requested to review the universe of new business to identify surcharged policies. The 285 violations were based on the universe of 2,274, resulting in an error ratio of 13%.

The following findings were made:

285 Violations Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The 285 files were the result of the Company not providing a surcharge disclosure statement that lists the amount of surcharge on the premium notice.

Assigned Risk Private Passenger Automobile – Renewals – Clean

Nationwide Mutual Fire Insurance Company

From the universe of 1,132 assigned risk private passenger automobile renewal policies written as clean during the experience, 25 files were selected for review. All 25 files selected were received and reviewed. Based upon the 25 files sampled, the Company was subsequently requested to review the entire universe of renewal policies to identify how many policies were issued without the tort disclosure notice. The 1,132

violations noted were based on the universe of 1,132, resulting in an error ratio of 100%.

The following findings were made:

1,132 Violations *Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)*
Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of renewal.

Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

Nationwide Mutual Fire Insurance Company

From the universe of 364 assigned risk private passenger automobile renewal policies written as other than clean during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. Based upon the 50 files sampled, the Company was subsequently requested to review the entire universe of renewal policies to identify how many policies were issued without the tort disclosure notice. The 364 violations noted were based on the universe of 364, resulting in an error ratio of 100%.

The following findings were made:

364 Violations *Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)*
Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance

and limited tort insurance. The Company did not provide the notice of tort options to the insured at the time of renewal.

C. Homeowners

1. New Business

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

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

Homeowners - New Business Without Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 19,609 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any homeowner policies written as new business during the experience period.

Homeowners - New Business With Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 1,345 homeowner policies written as new business with surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any homeowner policies written as new business during the experience period.

2. Renewals

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

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

Homeowners – Renewals Without Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 290,976 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any homeowner renewals during the experience period.

Homeowners – Renewals With Surcharges

Nationwide Mutual Fire Insurance Company

From the universe of 10,807 homeowner policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any homeowner renewals during the experience period.

D. 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.

Nationwide Mutual Fire Insurance Company

From the universe of 285 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.

Nationwide Mutual Insurance Company

This Company did not report any dwelling fire new business during the experience period.

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.

Nationwide Mutual Fire Insurance Company

From the universe of 6,134 dwelling fire policies renewed during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any dwelling fire renewals during the experience period.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO
- G. Homeowner Claims
- H. 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. Automobile Property Damage Claims

Nationwide Mutual Fire Insurance Company

From the universe of 6,331 private passenger automobile property damage claims reported during the experience period, 100 claim files were selected

for review. All 100 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

Nationwide Mutual Insurance Company

From the universe of 47,845 private passenger automobile property damage claims reported during the experience period, 150 claim files were selected for review. All 150 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

B. Automobile Comprehensive Claims

Nationwide Mutual Fire Insurance Company

From the universe of 42,471 private passenger automobile comprehensive claims reported during the experience period, 150 claim files were selected

for review. All 150 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

Nationwide Mutual Insurance Company

From the universe of 1,575 private passenger automobile comprehensive claims reported during the experience period, 100 claim files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

C. Automobile Collision Claims

Nationwide Mutual Fire Insurance Company

From the universe of 55,470 private passenger automobile collision claims reported during the experience period, 150 claim files were selected for

review. All 150 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

Nationwide Mutual Insurance Company

From the universe of 3,727 private passenger automobile collision claims reported during the experience period, 100 claim files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

D. Automobile Total Loss Claims

Nationwide Mutual Fire Insurance Company

From the universe of 970 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review.

All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

1 Violation Act 205, Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)]

Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices: Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear.

AND

Act 205, Section 5(a)(10)(xiii) [40 P.S. §1171.5(a)(10)(xiii)]

Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices: Failing to promptly settle claims, where liability has become reasonably clear, under one portion of the insurance policy coverage in order to influence settlements under other portions of the insurance policy coverage or under other policies of insurance. The Company offset the amount of a claim because the policyholder owed money to the Company from an old policy.

The following concern was noted:

The appraisal form used by the Company states "Information regarding repair facilities which will be able to repair the vehicle for the appraised

amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

Nationwide Mutual Insurance Company

From the universe of 9,821 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

The following concern was noted:

The appraisal form used by the Company states “Information regarding repair facilities which will be able to repair the vehicle for the appraised amount may be available from the insurance company. The words “may be” should be replaced with “is”, which is in accordance with Title 31, Pa. Code, Section 62.3(a)(4).

E. Automobile First Party Medical Claims

Nationwide Mutual Fire Insurance Company

From the universe of 2,732 private passenger automobile first party medical claims reported during the experience period, 34 claim files were reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

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

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms,

instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The violation noted was the result of not providing claimants with the necessary application for benefits within ten working days.

Nationwide Mutual Insurance Company

From the universe of 2,732 private passenger automobile first party medical claims reported during the experience period, 12 claim files were reviewed. No violations were noted in the 12 files reviewed.

In addition to all the sampled first party medical files reviewed, the Company was subsequently requested to report chiropractic claims that were denied due to an unlicensed individual performing the modality. The Company identified 56 chiropractic claims that were denied during the period of April 28, 2003 through February 12, 2004. The experience period for this portion of the exam was expanded to encompass that period of time as a result of Departmental complaints and prior actions. The 56 violations noted reflect the experience period and up to February 12, 2004 and included Nationwide General Insurance Company and Nationwide Property and Casualty Company.

The following findings were made:

56 Violations Title 75, Pa. C.S. §1704(b)

Insurance Matters. The Insurance Department shall administer and enforce this chapter as to matters under its jurisdiction as determined by this chapter or other statute and

may make rules and regulations necessary for the administration and enforcement of this chapter.

AND

Title 75, Pa. C.S. §1712

An insurer issuing or delivering liability insurance policies covering any motor vehicle of the type required to be registered under this title, except recreational vehicles not intended for highway use, motorcycles, motor-driven cycles or motorized pedal cycles or like type vehicles, registered and operated in this Commonwealth, shall make available for purchase first party benefits with respect to injury arising out of the maintenance or use of a motor vehicle as follows: (1) Medical Benefit – Subject to the limitations of section 1797 (relating to customary charges for treatment), coverage to provide for reasonable and necessary medical treatment and rehabilitative services, including, but not limited to, hospital, dental, surgical, psychiatric, psychological, osteopathic, ambulance, chiropractic, licensed physical therapy, nursing services, vocational rehabilitation and occupational therapy, speech pathology and audiology, optometric services, medications, medical supplies and prosthetic devices, all without limitation as to time, provided that, within 18 months from the date of the accident causing injury, it is ascertainable with reasonable medical probability that further expenses may be incurred as a result of the injury. Benefits under this paragraph may include any nonmedical remedial care and treatment rendered in accordance with a recognized religious method of healing.

AND

Act 205, Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)]
Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: (10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices: (vi) Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company’s liability under the policy has become reasonably clear. Failure to pay chiropractic claims that involved adjunctive procedures that were performed by individuals that were other than licensed chiropractors.

F. Automobile First Party Medical Claims Referred to a PRO

Nationwide Mutual Fire Insurance Company

The universe of 44 private passenger automobile first party medical claims referred to a Peer Review Organization during the experience period was selected for review. All 44 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

1 Violation Act 1990-6, Section 18, Title 75, Pa. C.S. §1797(b)(2) & (5)
PRO reconsideration. An insurer, provider or insured may request reconsideration by the PRO of the PRO’s initial determination. Such a request for reconsideration must be made within 30 days of the PRO’s initial determination. If a PRO determines that medical treatment or rehabilitative

services or merchandise were medically necessary, the insurer must pay to the provider the outstanding amount plus interest at 12% per year on any amount withheld by the insurer pending PRO review. The Company did not pay the medical bill within 30 days of receiving the report and no request for reconsideration was made.

Nationwide Mutual Insurance Company

From the universe of 420 private passenger automobile first party medical claims referred to a peer review organization, 100 files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

G. Homeowner Claims

Nationwide Mutual Fire Insurance Company

From the universe of 35,223 homeowner claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any homeowner claims during the experience period.

H. Dwelling Fire Claims

Nationwide Mutual Fire Insurance Company

From the universe of 1,187 dwelling fire claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Nationwide Mutual Insurance Company

This Company did not report any dwelling fire claims during the experience period.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §1827] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following finding was made:

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

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

IX. ADVERTISING

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

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

The Company provided 382 pieces of advertising, which included brochures, newspaper and magazine ads, mail solicitation, radio and television scripts, yellow page ads, and billboard ads. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. From the universe of 2,257 complaints filed within the experience period, 100 complaint files were selected for review. All 100 complaints reported, were selected and reviewed.

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

The following findings were made:

Nationwide Mutual Fire Insurance Company

1 Violation Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted was cancelled for other than permitted reasons.

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 2 violations noted were due to an improper 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. The violation was due to a cancellation notice being issued that did not provide the required thirty days.

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 was absent any evidence this requirement was complied with.

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.

Nationwide Mutual Insurance Company

1 Violation Act 68, Section 2004 [40 P.S. §991.2004]

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The file noted was cancelled for other than permitted reasons.

1 Violation Act 68, Section 2006(2) [40 P.S. §991.2006(2)]

Requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date

may be fifteen (15) days from the date of mailing or delivery. The Company did not provide the 15 days from the date of mailing.

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

Requires an insurer to maintain a complete record of all the complaints, which it has received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and time it took to process each complaint. The 4 violations noted was the result of incomplete complaint records during the preceding four years for Nationwide Mutual Fire Insurance Company and Nationwide Mutual Insurance Company. The 1999 complaint record did not indicate the nature of the complaint. The 2000 complaint record did not indicate the nature of the complaint, disposition of the complaint and their classification by line of insurance. The 2001 and 2002 complaint record did not include the disposition of the complaint.

The following synopsis reflects the nature of the 100 complaints that were reviewed.

Nationwide Mutual Fire Insurance Company

• 27	Cancellation/Nonrenewal	54%
• 1	Premium Related	2%
• 12	Claims Related	24%
• 10	Premium Increase	20%
<hr/> 50		<hr/> 100%

Nationwide Mutual Insurance Company

• 13	Cancellation/Nonrenewal	26%
• 15	Claims Related	30%
• 1	Agent Related	2%
• 5	Billing	10%
• 12	Premium Increase	24%
• 4	Miscellaneous	8%
<hr/>		<hr/>
50		100%

XI. LICENSING

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

The following finding was made:

Nationwide Mutual Fire Insurance Company

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

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

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

Bonnie L. Cornell

XII. RECOMMENDATIONS

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

1. The Company must revise their claim handling process and procedures relative to chiropractic claims to assure violations of Title 75, Pa. C.S. §§1704(b) and 1712, and Act 205, Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], as noted in the Report do not continue to occur.
2. The Company must review and pay the improperly denied chiropractic claims noted in the Report. Proof of such payments, along with any required interest, must be provided to the Department within 30 days of the Report issue date.
3. The Company must ensure all producers are properly licensed and appointed, prior to accepting any business.
4. 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.
5. The Company must review Act 205, Sections 5(a)(9) and 5(a)(9)(ii) [40 P.S. §1171.5(a)(9) and §1171.5(a)(9)(ii)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2004 and 2006 [40 P.S. §991.2004 and 2006] so that the violations noted in the Report do not occur in the future.
7. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations of the types noted in the Report do not occur in the future.
8. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(b) to ensure that violations of the types noted in the Report do not occur in the future.
9. The premium overcharges noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.
10. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 86, Sections 1, 2, 3 and 7 [40 P.S. §3401, 3402, 3403 and 3407], so that the violations noted in the Report do not occur in the future.
11. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.

12. The Company must review and revise internal control procedures to ensure compliance with Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(d) so that the violations noted in the Report do not occur in the future.
13. The Company must review and revise internal control procedures to ensure compliance with Workers' Compensation cancellation and nonrenewal notice requirements of Insurance Company Law, Section 653 [40 P.S. §813], so that the violations noted in the Report do not occur in the future.
14. The Company must review PA Assigned Risk Plan Manual, Section 12A.3 to ensure that the violations noted in the report do not occur in the future.
15. The Company must review Title 31, Pa. Code, Section 67.33(a)(2)(i) & (ii) to ensure that the violations noted in the report do not occur in the future.

XIII. COMPANY RESPONSE



Office of General Counsel

August 20, 2004

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

Re: *Response to the Report of Market Conduct Examination Warrant: 02-M08-007*

Dear Mr. Derk:

On behalf of Nationwide Mutual Fire Insurance Company and Nationwide Mutual Insurance Company (collectively "Nationwide" or "We"), please allow this letter to serve as our response to the Report of the Market Conduct Examination Warrant Number 03-M08-017 (the "Report"), which was received with your cover letter dated July 27, 2004. We have reviewed the Report and respectfully submit this response.

This response will address the recommendations beginning on page 82 of the Report. The recommendations made in the Report identify measures that the Department believes are necessary as a result of the number or the nature of the alleged violations noted in the Report. With respect to the other exceptions covered in the Report, but not addressed in the recommendations or within this response, Nationwide wishes to note that the remaining areas typically involve a single or statistically insignificant number of unique errors and not a trend. Those exceptions are a reflection of human error or deviation from Nationwide's established procedures and practices and do not require material institutional corrective actions. Nationwide has nonetheless taken steps to minimize the recurrence of these issues in the future.

We have organized our response in relation to the recommendations set forth in the Report as follows:

- 1. The Company must revise their claim handling process and procedures relative to the chiropractic claims to assure violations of Title 75, Pa.C.S. §§1704(b) and 1712, and Act 205, Section 5(a)(10)(vi) [40 P.S. §§1171.5(a)(10)(vi)], as noted in the Report do not continue to occur.**

Nationwide accepts this recommendation and we have revised our claims handling process and procedures to pay for chiropractic procedures performed by unlicensed personnel in accordance with Department-approved procedures that were in place prior to the Pennsylvania Supreme Court's decision in *Kleinberg v. Southeastern Penn. Transp. Auth.*, 765 A.2d 405 (Pa. Cmwlth. 2000), *aff'd*, 810 A.2d 635 (Pa. 2002). Accordingly, we will pay for delegable chiropractic procedures performed by unlicensed personnel after reviewing the charges and related office notes to ascertain if such personnel were properly trained and supervised to perform such procedures. If it is unclear from the charges and related office notices if the delegated services were performed by properly trained and supervised personnel, Nationwide may request from the chiropractor written certification of training and direct on premises supervision. We will advise chiropractors in writing of any denial and the reason for the denial. Denial may be for failure to provide proof of adjunctive license, proper training or supervision, or because the services were non-delegable.

Nationwide had modified its practice of reimbursing chiropractors for adjunctive procedures performed by unlicensed personnel following the Pennsylvania Supreme Court's decision in *Kleinberg*. After careful consideration of that decision and in consultation with its outside legal advisors, we believed *Kleinberg* to be controlling on the issue of whether it had to pay for adjunctive services performed by unlicensed personnel. The Department has expressed a different interpretation of *Kleinberg* and Nationwide has agreed to modify its procedures in accordance with the Department's views on this issue. If either the Department or a Pennsylvania appellate court issues a regulation, adjudication, or decision that provides definitive and binding guidance on this issue, Nationwide would further revise its procedures in conformity with such binding guidance.

- 2. The Company must review and pay the improperly denied chiropractic claims noted in the Report. Proof of such payments, along with any required interest, must be provided to the Department within 30 days of the Report issue date.**

Nationwide accepts this recommendation and has reimbursed chiropractors for the claims up to the policy limits that were identified in the Report. Proof of such payment, including interest, will be provided to the Department within the required time period. We would note that the denied claims identified in the Report constitute only a fraction of the total chiropractic claims regularly submitted to the company, most of which are reviewed and paid in the normal course.

- 3. The Company must ensure all producers are properly licensed and appointed, prior to accepting any business.**

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure that all producers are properly licensed and appointed prior to accepting business from that party. The Report notes only a single violation which was the result of clerical error. Given the hundreds of Nationwide-appointed producers, we

believe the fact that the Report notes only one violation is a testament to the overall effectiveness of our current producer appointment process.

- 4. 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.**

While Nationwide does not believe that its activities violated Act 205, we nevertheless accept the Department's recommendation. Nationwide will comply with the Department's position with respect to writing unsupported business. Consequently, Nationwide has removed any language from both our automobile and homeowners insurability standards that require supporting business before writing recreational vehicles, inland marine policies, or rental dwellings. Nationwide is also making necessary changes to its computer systems to implement this recommendation.

While we accept the Department's interpretation of the statute, in our view Act 205 does not clearly prohibit this conduct in that there is no agreement or concerted action to commit any act of boycott, coercion or intimidation. Moreover, no policyholders were harmed by Nationwide's underwriting requirements. To the contrary, the requirement was designed to allow Nationwide to offer policies in conjunction with one another as a cost-saving measure for our policyholders. To the extent that Nationwide must now offer mono-line policies, we may need to increase our rates to cover the administrative costs associated with selling the coverages individually.

- 5. The Company must review Act 205, Section 5(a)(9) and 5(a)(9)(ii) [40 P.S. §1171.5(a)(9) and §1171.5(a)(9)(ii)] to ensure compliance with the cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with respect to cancellation on personal property policies. All underwriting associates handling cancellation of personal property policies have been apprised of the Department's findings and have reviewed the statute. We specifically have changed our rental Dwelling Fire policy cancellation procedures to be in compliance with the provisions of Act 86.

- 6. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2004 and 2006 [40 P.S. §991.2004 and 2006] so that the violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with respect to cancellation on private passenger automobile policies. Of the numerous files reviewed, the Department noted only seven exceptions in its Report, which Nationwide believes is indicative of its overall effectiveness and compliance with the statute.

- 7. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations of the types noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and will revise its procedures so that applicants will be provided with a copy of the surcharge disclosure notice at time of application. Nationwide is also making necessary changes to its computer systems to implement this recommendation. Nationwide's previous practice was to provide this information when it issued the policy as a way of ensuring that its policyholders received the required disclosures. In accordance with the Report, we will change the timing of the delivery so that policyholders receive this material at time of application.

- 8. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(b) to ensure that violations of the types noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and will revise its procedures so that applicants will be provided with a copy of the Section 1791.1(b) Tort Option Notice at time of application. Nationwide is also making necessary changes to its computer systems to implement this recommendation.

We would note that it was our practice to provide applicants with full notice of tort options at the time of application. While Nationwide did not provide the notice under Section 1791.1 of the MVFRL (75 Pa. C.S. §1791.1) at time of application (it is provided later with the policy), our agents provided applicants with the almost identical tort notice required under Section 1705. The only substantive differences between the two notices is that the Section 1705 notice provides applicants with additional information, including the premium differential between full tort and limited tort. Accordingly, in giving applicants the 1705 notice, we were in fact going beyond the minimum that the law requires and providing applicants with greater information. Nevertheless, we will change our practice to provide the Section 1791.1(b) at time of application.

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

Nationwide accepts this recommendation and has issued refunds for the nine policies listed in the Report. Proof of such payment will be provided to the Department within the required time period.

- 10. The Company must review and revise internal control procedures to ensure compliance with the cancellation and nonrenewal notice requirements of Act 86, Section 1, 2, 3, and 7 [40 P.S. §§3401, 3402, 3403, and 3407], so that the violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with Act 86. Concerning isolated instances in which proper notice or reasons for nonrenewal was not given, we have re-emphasized the requirements of the law with our associates and the need for full compliance. Concerning cases where we did not notify insureds of possible premium increases at least 30 days prior to renewal, we are attempting to mechanize this process to avoid the possibility of error. If mechanization cannot be done, we are prepared to accomplish this manually. We expect to have either the mechanized or manual procedure in place by September 15, 2004.

- 11. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and has reinforced the need for policy maintenance to our associates, particularly those that are responsible for file maintenance and retrieval.

- 12. The Company must review and revise internal control procedures to ensure compliance with Act 1990-6, Section 19, Title 75 Pa. C.S. §1799.3(d) so that the violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and will revise our billing notices to include the specific dates for accidents and violations subject to the surcharge shown in the premium notice. Nationwide is also making necessary changes to its computer systems to implement this recommendation. For Assigned Risk policies we have already revised our billing notices effective May 10, 2004.

While we accept the Department's interpretation of the statute going forward, we believed that our surcharge notices conform with the requirements of Act 6. Under our procedures, policyholders were advised of the determination to impose a surcharge, the manner in which the surcharge was made, and the amount of the surcharge. Neither Act 6, nor Department regulations or any other form of publicly available guidance from the Department requires an insurer to specify the date of the accident as part of the surcharge notice. Consequently, Nationwide believes that it did not violate the statute for omitting the date of the accident where the statute itself does not require that information be provided as part of the notice.

- 13. The Company must review and revise internal control procedures to ensure compliance with the Workers' Compensation cancellation and nonrenewal notice requirements of Insurance Company Law, Section 633 [40 P.S. §813], so that the violations noted in the Report do not occur in the future.**

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with respect to cancellation and nonrenewal of workers' compensation policies.

14. The Company must review PA Assigned Risk Plan Manual, Section 12A.3 to ensure that the violations noted in the Report do not occur in the future.

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with Section 12A.3 of the PA Assigned Risk Plan Manual. Section 12 A.3 states, "the assigned company shall mail a take-out notice to each insured eligible for take-out and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced." We are aware of the fact that our offer to the policyholder must be mailed within the Plan guidelines. We reinforced with our associates that our normal business practice is to mail the offers to the policyholder within the required 45-60 day timeframe.

15. The Company must review Title 31 Pa. Code, Section 67.33(a)(2)(i) & (ii) to ensure that the violations noted in the Report do not occur in the future.

Nationwide accepts this recommendation and has reviewed its processes and procedures to ensure compliance with this regulation.

Thank you for your consideration on this matter and for providing us with an opportunity to respond to the Report. We wish to offer our sincere gratitude to the Department and each individual examiner for the courtesies granted Nationwide throughout the course of this examination.

Very truly yours,

Nationwide Insurance Companies



Anne D. Saxon
Associate Vice President
Associate General Counsel
Office of General Counsel