

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

NEW HAMPSHIRE INDEMNITY COMPANY, INC.

Harrisburg, Pennsylvania

**AS OF
May 10, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 18, 2004

New Hampshire Indemnity Company, Inc.

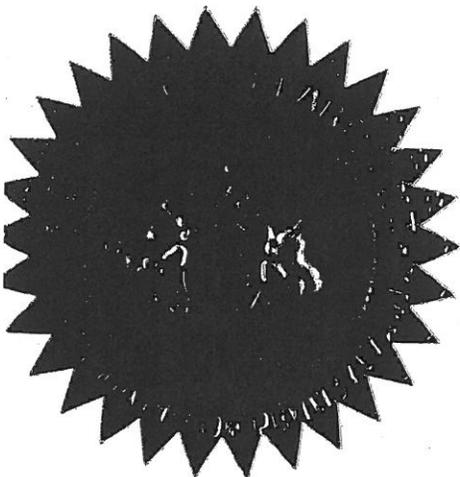
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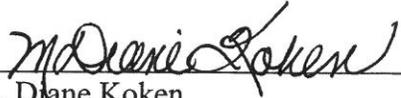
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
NEW HAMPSHIRE INDEMNITY	:	Section 605 of the Insurance
COMPANY, INC.	:	Department Act, Act of May 17,
4501 North Point Parkway	:	1921, P.L. 789, No. 285 (40 P.S.
Alpharetta, GA 30022	:	§ 235)
	:	
	:	Act 1990-6, Sections 1716, 1791.1(a),
	:	1793(b), 1799.3(d) and 1822 (Title
	:	75, Pa.C.S. §§ 1716, 1791, 1793, 1799
	:	and 1822)
	:	
	:	Sections 2003(a)(12), 2003(b), 2004,
	:	2006(2), 2006(3) and 2008(b) of Act
	:	68 of 1998 (40 P.S. §§ 991.2003,
	:	2004, 2006 and 2008)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	61.13, 146.4, 146.5(d) and 146.7(a)
	:	
	:	
Respondent.	:	Docket No. MC04-05-020

CONSENT ORDER

AND NOW, this 18th day of June, 2004, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is New Hampshire Indemnity Company, Incorporated, and maintains its address at 4501 North Point Parkway, Alpharetta, Georgia 30022.
- (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 May 10, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on June 1, 2004.

(e) The Examination Report notes violations of the following:

(i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Department, certify to the Department the names of all agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;

(ii) Section 1716 of Act 1990-6, Title 75, Pa.C.S. § 1716, which states that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of the benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the

insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

(iii) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages;

(iv) Section 1793 (b) of Act 1990-6, Title 75, Pa. C.S. § 1793, which 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;

- (v) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named 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;

- (vi) Section 1822 of Act 1990-6, Title 75, Pa. C.S. § 1822, which requires all applications for insurance, renewals and claim forms include the required fraud notice;

- (vii) Section 2003(a)(12) of Act 68 of 1998 (40 P.S. § 991.2003(a)(12)), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for: (12) Illness or permanent or temporary disability where the insured can medically document that such illness or disability will not impair his ability to operate a motor vehicle. Failure to provide such documentation shall be proper reason for the insurer to amend the policy of the named insured to exclude such disabled insured from coverage under

the policy, but shall not be proper reason to cancel or refuse to write or renew the policy;

(viii) Section 2003(b) of Act 68 of 1998 (40 P.S. § 991.2003(b)), which prohibits an insurer from canceling or refusing to renew a policy of automobile insurance on the basis of one accident within the 36 month period prior to the upcoming anniversary date of the policy;

(ix) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which prohibits an insurer from canceling a policy, except for one or more of the following specified reasons: (1) Nonpayment of premium, (2) Driver's license or vehicle registration of the insured has been suspended or revoked, and (3) The insured concealed a material fact or made a material allegation contrary to fact, or made a misrepresentation and that such concealment or misrepresentation was material to the acceptance of the risk by the insurer;

(x) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which prohibits a cancellation or refusal to renew from being effective unless the insurer delivers or mails a written notice of the cancellation or refusal to renew, which will include the date, not less than 60 days after the date of mailing or delivery, on which the cancellation or refusal to renew shall become effective.

When the policy is being cancelled or not renewed for reasons set forth in

Sections 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;

(xi) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a cancellation notice and state the specific reason or reasons of the insurer for cancellation;

(xii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires that any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;

(xiii) Title 31, Pennsylvania Code, Section 61.13, which requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, a report summarizing the record of all such actions, within 60 days following June 30 and December 31, each year;

(xiv) Title 31, Pennsylvania Code, Section 146.4, which prohibits an insurer or agent from failing to fully disclose to first-party claimants pertinent benefits, coverages or other provisions of an insurance policy under which a claim is presented;

- (xv) Title 31, Pennsylvania Code, Section 146.5(d), which 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;
- (xvi) Title 31, Pennsylvania Code, Section 146.7(a), which requires acceptance or denial of a claim to comply with the following: Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. An insurer may not deny a claim on the grounds of a specified policy provision, condition or exclusion unless reference to the provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

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

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

- (b) Violations of Section 605 of the Insurance Department Act (40 P.S. § 235) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;

 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.

 - (iii) issue an order to cease and desist.

 - (iv) impose such other conditions as the department may deem appropriate.

- (c) Respondent's violations of Sections 2003, 2004, 2006 and 2008 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).

(d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.4, 146.5(d) and 146.7(a) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(e) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

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 Twenty Five Thousand Dollars (\$25,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square,

Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

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

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

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: NEW HAMPSHIRE INDEMNITY
COMPANY, INC., Respondent

President / ~~Vice President~~

Secretary / Treasurer ~~Vice President~~

RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct examination was conducted at New Hampshire Indemnity Company, Inc., from December 8, 2003, through December 19, 2003. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

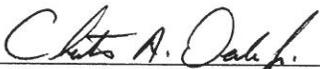
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was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



M. Katherine Sutton, A.I.C.
Market Conduct Examiner



James Myers
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct examination was conducted on New Hampshire Indemnity Company, Inc., hereinafter referred to as "Company", at their offices located at 1550 Coraopolis Heights Road, Suite 300, Coraopolis, PA. The examination was conducted pursuant to Sections 903 and 904 (40P.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 non-renewal, midterm cancellations and 60-day cancellations.
- Rating - Proper use of all classification and rating plans and procedures.

2. Claims

- Standards for prompt, fair and equitable settlements.
- Use of proper Peer Review procedures.

3. Forms

4. Advertising

5. Consumer Complaints

7. Licensing

III. HISTORY AND LICENSING

New Hampshire Indemnity Company, Inc. is a Pennsylvania domiciled Company licensed to write property and casualty insurance. The Company was incorporated on December 13, 1951, under the laws of New Hampshire. It began business on January 2, 1952. Business of the Company was conducted under the name Manchester Insurance Corporation from inception until October 19, 1972, when the present title was adopted. Effective December 29, 1993, the Company redomesticated to Pennsylvania. Direct control of the New Hampshire Indemnity Company has been held since May 15, 1969, directly or indirectly, by American International Group, Inc., New York, New York.

LICENSING

The Company is licensed in AK, CO, DE, DC, FL, ID, IN, IA, LA, ME, MD, MI, MS, NE, NH, MD, OK, OR, PA, SC, SD, UT, VT, VA, WA, WV, and WI. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$23,569,429. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Automobile No-fault \$4,082,131, Private Passenger Auto Liability \$12,572,342 and Private Passenger Auto Physical Damage \$6,914,956.

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 private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

V. UNDERWRITING

Private Passenger Automobile

2 Violations Title 31, Pa. Code, Section 61.13 – Records: Cancellation, Refusal to Write or Renew.

(a) Each Insurer shall maintain records of the number of cancellations and refusals to write or renew policies and the reasons therefore, and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month ending on these dates.

(b) The report required by the provisions of subsection (a) shall be in substantially the form set forth in Appendix D.

The Company did not provide either of the required reports of their cancellations and nonrenewals during the experience period.

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

From a universe of 9,238 private passenger automobile policies reported as cancelled midterm during the experience period, 100 files were selected, received and reviewed. Of the 100 files received, 34 were identified as 60-day cancellations

and 66 were midterm cancellations. The 14 violations noted were based on 10 midterm cancellations, resulting in an error ratio of 6.6%.

The following violations were noted.

5 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 violations resulted from failure to provide the required number of days notice.

8 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 violations noted resulted from cancellations for reasons not permitted.

1 Violation Act 68, Section 2006(3) (40 P.S. §991.2006(3)) - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:

(3) State the specific reason or reasons of the insurer for cancellation or refusal to renew. The notice did not give a specific reason for cancellation.

2. 60 Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days after initial issue.

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, Title 31, Pa. Code Section 59.9(b) which establishes number of days notice to be given, and Act 205, Section 5(a)(4) (40 P.S § 1171.5(a)(4)) which is the Unfair Methods of Competition and Unfair or Deceptive Practices Act.

From a universe of 4,616 Private Passenger Automobile policies which were reported by the Company as cancelled within the first 60 days after being first written, 100 files were selected for review. All 100 files were received and reviewed. The 1 violation noted was based on 1 file, resulting in an error ratio of 1%.

1 Violation Act 68, Section 2003(a)(12) (40 P.S. §991.2003(a)(12)) -

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

(12) Illness or permanent or temporary disability where the insured can medically document that such illness or disability will not impair his ability to operate a motor vehicle. Failure to provide such documentation shall be proper reason for the insurer to amend the policy of the named insured to exclude such disabled insured from coverage under the policy while operating a motor vehicle after the effective date of such policy amendment but shall not be proper reason to cancel or refuse to write or renew the policy. Nothing in this provision shall be construed to effect such excluded individual's eligibility for coverage under the named insured's policy for any injury sustained while not operating a motor vehicle. Illness or permanent or temporary disability on the part of any insured shall not be proper reason for cancelling the policy of the named insured.

The violation noted resulted from the policy being cancelled for lack of physician's statement.

3. Non Renewals

A non-renewal 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 that must be met regarding the form and conditions of the cancellation notice.

From a universe of 196 private passenger automobile policies reported as nonrenewed by the company during the experience period, 50 files were selected,

received and reviewed. The 7 violations noted were based on 6 files, resulting in an error ratio of 12%.

The following violations were noted.

2 Violations Act 68, Section 2006(2) (40 P.S. §991.2006) Proper Notification of Intention to Cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (2) State the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. 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 fifteen (15) days from the date of mailing or delivery. The files contained evidence of a cancellation which did not give the required 60 days notice.

1 Violation Act 68, Section 2003(b) (40 P.S. §991.2003(b)) - An insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy. The violation noted resulted from a non-renewal based on only one eligible accident.

4 Violations Act 68, Section 2006(3) (40 P.S. §991.2006(3)) - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:

(3) State the specific reason or reasons of the insurer for cancellation or refusal to renew. The violations noted resulted from not providing a specific reason for nonrenewal.

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*.

From a universe of 13 Private Passenger Automobile policies reported by the Company as being rescinded during the experience period, all 13 files were selected, received and reviewed. Eight of these 13 policies were actually midterm cancellations. The 12 violations noted were based on 11 files, resulting in an error ratio of 85%.

The following violations were noted.

2 Violations Act 68, Section 2008(b) (40 P.S. §991.2008(b)) – Requires that any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. The violations noted resulted from the failure to provide specific reasons to rescind the policy.

5 Violations Act 68, Section 2004 (40P.S. § 991.2004) Valid Reasons to Cancel Policy. An insurer may not cancel a policy except for one or more of the following specified reasons:

- (1) Nonpayment of premium.
- (2) The driver's license or motor vehicle registration of the insured has been under suspension or revocation during the policy period; the applicability of this reason to one who either is a resident in the same household or who customarily operates an automobile insured under the policy shall be proper reason for the insurer thereafter excluding such individual from coverage under the policy but not for canceling the policy.
- (3) A determination that the insured has concealed a material fact, or has made a material allegation contrary to fact, or has made a misrepresentation of a material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The violations noted resulted from midterm cancellations for reasons either not permitted or supported.

5 Violations Act 68, Section 2006(2) (40 P.S. §991.2006(2)) - Proper notification of intention to cancel. A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall:

- (2) State the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. 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 fifteen (15) days from the date of mailing or delivery. The violations noted resulted from failure to provide 60 days notice of cancellation.

VI. RATING

Private Passenger Automobile

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 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.

1. New Business – Standard Rates

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

From a universe of 14,105 private passenger automobile policies reported as new business without surcharges during the experience period, 100 files were selected,

received and reviewed. The 28,210 violations noted were based on the universe of 14,105 files, resulting in an error ratio of 100%.

The following violations were noted.

14,105 Violations Title 75 Pa.C.S., §1791.1(a) – Invoice. At the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania as enacted by the General Assembly only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages”. The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premium for the insured’s existing coverages.

The violations noted resulted from a failure to comply with the itemization requirements of the invoice.

14,105 Violations Title 75, Pa.C.S. § 1793(b) Surcharge Disclosure Plan. All insurers shall 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:

1. 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.
2. 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. The violations noted resulted from there being no evidence the insured was provided a copy of the surcharge disclosure plan at the time of application.

2. New Business - With Surcharges

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

From a universe of 4,987 private passenger automobile policies reported as new business with surcharges, 50 files were selected, received and reviewed. The 14,961 violations noted were based on the universe of 4,987 files, resulting in an error ratio of 100%.

The following violations were noted.

4,987 Violations 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 named 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 violations noted resulted from failure to comply with the requirements.

4,987 Violations Title 75, Pa. C.S., §1791.1(a) – Invoice. At the time of application for original coverage and every renewal thereafter, an insurer must

provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania as enacted by the General Assembly only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages". The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premium for the insured's existing coverages.

The violations noted resulted from a failure to comply with the itemization requirements of the invoice.

4,987 Violations Title 75, Pa.C.S. §1793(b) Surcharge Disclosure Plan. All insurers shall 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:

(1) 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.

(2) 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. There was no evidence the insured was provided a copy of the surcharge disclosure plan at the time of application.

3. Renewals – Standard Rates

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

From a universe of 21,065 private passenger automobile policies reported as renewals without surcharges during the experience period, 100 files were selected, received and reviewed.

No violations were noted.

4. Renewals With Surcharges

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

From a universe of 5,549 private passenger automobile policies reported as renewals with surcharges during the experience period, 50 files were selected, received and reviewed. The 11,098 violations noted were based on the universe of files, resulting in an error ratio of 100%.

The following violations were noted:

5,549 Violations Title 75, Pa. C.S. § 1793(b) Surcharge Disclosure Plan. All insurers shall 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:

1. 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.
2. 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. The violations noted resulted from failure to provide surcharge disclosure plan at the time of renewal

5,549 Violations Title 75, Pa.C.S. §1799.3(d) - Notice to the insured. If an insurer makes a determination to impose a surcharge, rate penalty or driver record point assignment, the insurer shall inform the named insured of the determination and shall 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 violations noted resulted from failure to provide disclosure statement listing dates of accidents/date of violations and amounts of surcharge on premium notice.

5. Assigned Risk Plan

The Company's Assigned Risk policies are written through a designated Company in the group. As part of this arrangement the Company produced no assigned risk business during the experience period.

VII. 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 (40P.S. §1171.4) and Section 5(a)(10)(vi) (40P.S. §1171.5(a)(10)(vi), Unfair Insurance Practices Act.)

Private Passenger Automobile

1. Comprehensive

From a universe of 572 comprehensive claims reported during the experience period, 100 files were selected, received and reviewed.

No violations were noted.

2. Collision

From a universe of 590 Private Passenger Automobile collision claims reported during the experience period, 150 files were selected, received and reviewed. The violation noted was based on 150 files, resulting in an error ratio of less than 1%.

The following violation was noted.

1 Violation Title 31, Pa. Code § 146.4. Misrepresentation of policy provisions.

- (a) An insurer or agent may not fail to fully disclose to first-party claimants pertinent benefits, coverages or other provisions of an insurance policy or insurance contract under which a claim is presented. The violation noted resulted from handling of a comprehensive glass claim as a collision claim.

3. Physical Damage Liability

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 (40P.S. §1171.4) and Section 5(a)(10)(vi) (40P.S. §1171.5(a)(10)(vi), Unfair Insurance Practices Act.)

From a universe of 3,593 Private Passenger Automobile property damage liability claims reported during the experience period, 50 files were selected, received and reviewed. Of these files, 38 were misidentified as property damage liability and were in fact a variety of towing, glass, animal collision and other first party claims.

No violations were noted.

4. Total Loss

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and Act 205, Section 4 (40P.S. §1171.4) and Section 5(a)(10)(vi) (40P.S. §1171.5(a)(10)(vi), Unfair Insurance Practices Act.) The files were also reviewed to determine compliance with Title 31, Chapter 62, Motor Vehicle Physical Damage Appraisers.

From a universe of 164 Private Passenger Automobile total loss claims reported during the experience period, 25 files were selected, received and reviewed.

No violations were noted.

5. First Party Benefits

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 Title 75, Pa. C.S., § 1716.

From a universe of 1,814 Private Passenger Automobile First Party Benefit claims reported during the experience period, 50 files were selected, received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 8%.

The following violations were noted.

2 Violations Title 75, Pa C.S. §1716 – Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of the benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The violations noted resulted from provider bills and applicable interest not being paid within the required 30 days.

1 Violation Title 31, Pa. Code Section 146.7(a) -Standards for prompt, fair and equitable settlements applicable to insurers - (a) Acceptance or denial of a claim shall comply with the following:

(1) Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. An insurer may not deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to the provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the

denial. The violations noted resulted from provider bills that were denied more than 15 working days from receipt.

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 claim forms within ten working days.

6. Peer Review

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

The Company was requested to provide copies of any contracts with a Peer Review Organization. The Company furnished a copy of their contract with an approved Peer Review Organization.

The Company reported there were no claim files referred to a PRO 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 (40P.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 Title 75, Pa. C.S. § 1822 which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

21,065 Violations Title 75 Pa. C.S. §1822 Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following:
"Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000."
The violations noted resulted from failure to provide the required fraud statement at the time of renewal.

IX. CONSUMER COMPLAINTS

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40P.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 evidence the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. No violations were found regarding the Complaint log requirements.

The Company identified a universe of 66 consumer complaints received during the experience period. All 66 files were selected and reviewed.

The following underwriting and rating violations were found within the complaint files.

1 Violation 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 named 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 file noted failed to identify and provide a description of the accident or violation, which resulted in the surcharge and advise the insured of the surcharge information.

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

Requires an insurer to deliver or mail to the named insured a notice of cancellation 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 or suspension of driving privileges, the effective date may be fifteen (15) days from the date of mailing or delivery. The files noted contained instances of cancellation notices that did not provide the required number of days notice from the date of mailing .

The following synopsis reflects the nature of the 66 complaints that were reviewed.

•	42	Cancellations	64%
•	15	Claims Related	23%
•	8	Premium Related	12%
•	1	Policy Issuance	1%
	<hr/>		<hr/>
	66		100%

X. ADVERTISING

The purpose of this review was to determine compliance with Act 205, Section 5 (40P.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 51.61.

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

The Company provided 12 pieces of advertising, which included brochures, agency appointment kits, and magazine ads. Internet advertising was also reviewed. No violations were noted.

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 (40P.S. §235) and Section 623 (40P.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. In addition to these lists provided by the Company, underwriting files and rating files were checked to verify proper licensing and appointment.

26 Violations Insurance Department Act, Section 605 (40 P.S. §235)

Appointment.

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

The following producers and agencies were evidenced to be writing policies and were not found in the Insurance Department records as having an appointment by the Company or possessing a brokers license.

1st Rate Insurance, Inc

A Agency Insurance

Acosta Agency, LLC
Affordable Insurance Agency
All Drivers Insurance
Atlantic Assurance Corp
Harry L Bubb Associates, Inc
Conti & Harding Ins Svcs, Inc
Fesser & Williams, Inc
Fusura, LLC
Insurance Hotline, Inc
J & L Hunters, Inc
Shirley Katz, Inc
Maggs & Associates, Inc
Neshaminy Insurance Associates
Ohara Corp
Pennsylvania Ins Specialists
RFP & Associates, LLC
Solensky Insurance Agency
Sutton Ins Assoc
Richard E Veri & Assoc, Inc
James Shipper
Anthony Allen Morrison
Marc Buckner
Judith Rogoff
Gregory Solensky

XII. RECOMMENDATIONS

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2003 (40 P.S. § 991.2003), Section 2004 (40 P.S. § 991.2004) and Section 2006 (40 P.S. § 991.2006), so that the violations noted in the report do not occur in the future.
2. The Company must review and revise internal control procedures to ensure compliance with rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*, to ensure future rescissions are in compliance.
3. The Company must put into place internal control procedures to comply with Title 31, Pa. Code, Section 61.13 – Records: Cancellation, Refusal to Write or Renew, to ensure these reports are filed as required.
4. The Company must review and revise internal control procedures to ensure the minimum limits invoice and the surcharge disclosure plan are provided in accordance with Title 75, Pa. C.S. 1791.1(a) and 1793(b)(1) & (2), respectively.
5. The Company must review and revise internal control procedures to ensure that when a surcharge is imposed on a private passenger automobile policy, the Company properly details the accidents and citations on the declaration page as required in Title 75, Pa. C.S. 1799 (3)(a).
6. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pa. Code, Chapter 146, Unfair Claims Settlement Practices and Title 75, Pa. C.S. § 1716 so that the violations noted in the Report do not occur in the future. Interest payments must

be made and proof of payment provided to the Department within 30 days from Report issue date.

7. The Company must review and put into place procedures to ensure the appropriate fraud warning notices are provided at the time of renewal as required by Title 75, Pa. C.S. § 1822.
8. The Company must ensure all agents, agencies and brokers are properly licensed and appointed, as required by Section 605 (40 P.S. § 235) and Section 623 (40 P.S. § 253) of the Insurance Department Act, prior to accepting any business from an agent or broker.

XIII. COMPANY RESPONSE



4501 North Point Parkway, Suite 500
Alpharetta, GA 30022
Phone: (770) 753-8601
Fax: (770) 753-8507

May 28, 2004

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

RE: New Hampshire Indemnity Company, Inc.
Examination Warrant Number: 03-M17-016

Dear Mr. Derk;

We are in receipt of your letter dated May 10, 2004 and examiner's market conduct report.

The following are our comments regarding **Section V. Underwriting**:

Records: Cancellations, Refusal to Write or Renew Report

Title 31, Pa. Code, Section 61.13 – We have acknowledged this report requirement. Our product managers will ensure this report is filed as required. Attached is a copy of the report produced and approved by the examiners for the period ending December 31, 2003.

1) Midterm Cancellations

Act 68, Section 2006(2) (40 P.S. 991.2006(2)) – 5 Violations – Our underwriting management has acknowledged these errors. We will continue to provide quality control feedback to our processing employees regarding these errors.

Act 68, Section 2004 (40 P.S. 991.2004) – 8 Violations – Our underwriting management disagree with the 4 violations related to this section for the reasons outlined in our response to the initial summaries. The remaining 4 violations appear to be related to Nonrenewals and Act 68, Section 2001 (40 P.S. 991.2001). Our underwriting management has acknowledged these errors for issuing the nonrenewal on an expiration date other than the annual anniversary date. We will continue to provide quality control feedback to our processing employees regarding these errors.

Act 68, Section 2006(3) (40 P.S. 991.2006(3)) – 1 Violation – Our underwriting management disagree with this violation for the reasons outlined in our response to the initial summaries.

2) 60 Day Cancellations

Act 68, Section 2003 (a) (12) (40 P.S. 991.2003(a)(12)) – 1 Violation – Our underwriting management has acknowledged this error. We will continue to provide quality control feedback to our processing employees regarding these errors.

3) Non Renewals

Act 68, Section 2006(2) (40 P.S. 991.2006) – 2 Violations – Our underwriting management has acknowledged these errors. We will continue to provide quality control feedback to our processing employees regarding these errors.

Act 68, Section 2003(b) (40 P.S. 991.2003(b)) – 1 Violation – Our underwriting management disagree with this violation for the reasons outlined in our response to the initial summaries.

Act 68, Section 2006(3) (40 P.S. 991.2006(3)) – 4 Violations – Our underwriting management has acknowledged these errors. We will continue to provide quality control feedback to our processing employees regarding these errors.

4) Rescissions

Act 68, Section 2008(b) (40 P.S. 991.2008(b)) – 2 Violations – Our underwriting management has acknowledged these errors. We will continue to provide quality control feedback to our processing employees regarding these errors.

Act 68, Section 2004 (40 P.S. 991.2004) – 5 Violations – Our underwriting management disagree with these violations for the reasons outlined in our response to the initial summaries.

Act 68, Section 2006(2) (40 P.S. 991.2006(2)) – 5 Violations – Our underwriting management has acknowledged 3 of these errors. We will continue to provide quality control feedback to our processing employees regarding these errors. Our underwriting management disagrees with 2 of these violations for the reasons outlined in our response to the initial summaries.

The following are our comments regarding **Section VI. Rating**:

1) New Business – Standard Rates

Title 75 Pa.C.S. 1791.1(a) – Invoice – 14,105 Violations – Please note that we have been using a form that appeared to be in compliance. However, we have acknowledged this requirement and have modified our form accordingly. Attached is a copy of the form (PATORT 0104) approved by the examiners.

Title 75 Pa.C.S. 1793 (b) – Surcharge Disclosure Plan – 14,105 Violations – We have acknowledged this requirement. Attached is a copy of the form (SURDIS NHI 0404) approved by the examiners.

2) New Business – With Surcharges

Title 75, Pa.C.S. 1799.3(d) – 4,987 Violations – The company has always provided the customer with a declaration page and payment schedule. The declaration indicates the surcharge, point value, and date. The payment schedule indicates the amount due at each installment. It would also reflect the increase in premium installments due to new surcharges. However, as discussed with the examiners, we have made a change to our declaration page. Attached is a copy of the declaration page approved by the examiners.

Title 75, Pa.C.S. 1791.1(a) – Invoice – 4,987 Violations – Please note that we have been using a form that appeared to be in compliance. However, we have acknowledged this requirement and have modified our form accordingly. Attached is a copy of the form (PATORT 0104) approved by the examiners.

Title 75 Pa.C.S. 1793 (b) – Surcharge Disclosure Plan – 4,987 Violations – We have acknowledged this requirement. Attached is a copy of the form (SURDIS NHI 0404) approved by the examiners.

3) Renewals – Standard Rates

No violations were noted.

4) Renewals – With Surcharges

Title 75 Pa.C.S. 1793 (b) – Surcharge Disclosure Plan – 5,549 Violations – We have acknowledged this requirement. Attached is a copy of the form (SURDIS NHI 0404) approved by the examiners.

Title 75, Pa.C.S. 1799.3(d) – 5,549 Violations – The company has always provided the customer with a declaration page and payment schedule. The declaration indicates the surcharge, point value, and date. The payment schedule indicates the amount due at each installment. It would also reflect the increase in premium installments due to new surcharges. However, as discussed with the examiners, we have made a change to our declaration page. Attached is a copy of the declaration page approved by the examiners.

The following are our comments regarding **Section VII. Claims:**

1) Comprehensive

No violations were noted.

2) Collision

Title 31, Pa. Code 146.4 – Misrepresentation of Policy Provisions – 1 Violation – Our claims management has acknowledged this error. We will continue to provide quality control feedback to our processing employees regarding these errors.

3) Physical Damage Liability

No violations were noted.

4) Total Loss

No violations were noted.

5) First Party Benefits

Title 75, Pa.C.S. 1716 – Payment of Benefits – 2 Violations – Our claims management has acknowledged these errors. We will continue to provide quality control feedback to our processing employees regarding these errors.

Title 31, Pa.C.S. 146.7(a) – Standards for prompt, fair, and equitable settlements applicable to insurers – 1 Violation – Our claims management has acknowledged this error. We will continue to provide quality control feedback to our processing employees regarding these errors.

Title 31, Pa.C.S. 146.5(d) – 1 Violation – Our claims management disagree with this violation for the reasons outlined in our response to the initial summaries.

The following are our comments regarding **Section VIII. Forms**:

Title 75, Pa.C.S. 1822 – Warning notice on application for insurance and claim forms – 21,065 Violations – We have acknowledged this requirement to provide a fraud statement at the time of renewal. Attached is a copy of the form (FRAUD 0404) approved by the examiners.

The following are our comments regarding **Section IX. Consumer Complaints**:

Title 75, Pa.C.S. 1799.3(d) – 1 Violation – The company has always provided the customer with a declaration page and payment schedule. The declaration indicates the surcharge, point value, and date. The payment schedule indicates the amount due at each installment. It would also reflect the increase in premium installments due to new surcharges. However, as discussed with the examiners, we have made a change to our declaration page. Attached is a copy of the declaration page approved by the examiners.

Act 68, Section 2006(2) (40 P.S. 991.2006(2)) – 4 Violations – Our underwriting management has acknowledged 1 of these errors. We will continue to provide quality control feedback to our processing employees regarding these errors. Our underwriting management disagrees with 3 of these violations for the reasons outlined in our response to the initial summaries.

The following are our comments regarding **Section XI. Licensing**:

Section 605 (40 P.S. 235) – Appointment – 26 Violations – We have acknowledged 14 of these errors. We will continue to provide quality control feedback to our processing employees regarding these errors. We disagree with 9 of these violation for the reasons outlined in our response to the initial summaries. It appears 3 additional violations were added after the initial summaries were completed.

The following are our comments regarding **Section XII. Recommendations**:

- 1) The company acknowledges the violations regarding cancellation notice requirements. We will continue to provide quality control feedback to our processing employees so that these violations do not occur in the future.

- 2) The company acknowledges the violations regarding rescission requirements. We will continue to provide quality control feedback to our processing employees so that these violations do not occur in the future.
- 3) The company acknowledges the Records: Cancellation, Refusal to Write or Renew report requirement. Our product managers will ensure this report is filed as required.
- 4) The company acknowledges the minimum limits invoice and the surcharge disclosure plan notice requirement. We have initiated a revision and implementation of the notices as approved by the examiners.
- 5) The company acknowledges the declaration page requirements regarding surcharges imposed on a private passenger automobile policy. We have initiated a revision and implementation of the revised declaration page as approved by the examiners.
- 6) The company acknowledges the violations regarding claim handling requirements. We will continue to provide quality control feedback to our processing employees so that these violations do not occur in the future.
- 7) The company acknowledges the fraud warning notice requirement for renewal policies. We have initiated an implementation of the notice as approved by the examiners.
- 8) The company acknowledges the violations regarding licensing requirements. We will continue to provide quality control feedback to our processing employees so that these violations do not occur in the future.

It has been a pleasure in working with you, Kay, and Jim. Should you have any questions, please feel free to contact me.

Sincerely,



Roger H. Osgood
Compliance Director

On behalf of: New Hampshire Indemnity Company, Inc.

6 Month Report on Cancellations and Refusals to Renew

Name of Insurer: New Hampshire Indemnity Company, Inc.

Time Period for which Report Submitted: 7/1/2003 to 12/31/2003

	Number of Cancellations	Number of Refusals To Renew
Reason		
(a) Request of Insured	754	2663
(b) Nonpayment of Premium	4013	0
(c) Underwriting Reasons	872	99
(d) Termination of Agency	0	0

Refusal to Write

Reason	
(a) Health	0
(b) Accident Frequency	0
(c) Driving Record	0
(d) Misrepresentation	0

NOTICE TO NAMED INSUREDS

The laws of the Commonwealth of Pennsylvania, as enacted by the general assembly, only require that you purchase liability and first party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.

Mandatory Coverages	Coverage Limits	Policy Term	Full Tort Estimated Premium Cost	Limited Tort-Estimated Premium Cost	Difference in Estimated Premium Cost
Bodily Injury	\$15,000 each person / \$30,000 each accident	6 or 12 Months	\$ #####	\$ @@@@	\$ #####
Property Damage	\$5,000 each accident	6 or 12	\$ @@@@	\$ #####	\$ @@@@
First Party Benefits	\$5,000 each person	6 or 12	\$ #####	\$ @@@@	\$ #####

- A. "Limited Tort" Option - The laws of the Commonwealth of Pennsylvania give you the right to choose a form of insurance that limits your right and the right of members of your household to seek financial compensation for injuries caused by other drivers. Under this form of insurance, you and other household members covered under this policy may seek recovery for all medical and other out-of-pocket expenses, but not for pain and suffering or other nonmonetary damages unless the injuries suffered fall within the definition of "serious injury" as set forth in the policy, or unless one of several other exceptions noted in the policy applies.
- B. "Full Tort" Option - The laws of the Commonwealth of Pennsylvania also give you the right to choose a form of insurance under which you maintain an unrestricted right for you and the members of your household to seek financial compensation for injuries caused by other drivers. Under this form of insurance, you and other household members covered under this policy may seek recovery for all medical and other out-of-pocket expenses and may also seek financial compensation for pain and suffering and other non-monetary damages as a result of injuries caused by other drivers.
- C. If you wish to choose the "limited tort" option described in paragraph A, you must sign this notice where indicated below and return it. If you do not sign and return this notice, you will be considered to have chosen the "full tort" coverage as described in paragraph B and you will be charged the "full tort" premium.

I wish to choose the "limited tort" option described in paragraph A:

Signature Line I _____ Date _____
 Signature of First Named Insured
 (if under 18, guardian's signature required)

- D. If you wish to choose the "full tort" option described in paragraph B, you may sign this notice where indicated below and return it. However, if you do not sign and return this notice, you will be considered to have chosen the "full tort" coverage as described in paragraph B and you will be charged the "full tort" premium.

I wish to choose the "full tort" option described in paragraph B:

Signature Line II _____ Date _____
 Signature of First Named Insured
 (if under 18, guardian's signature required)

- E. You may contact your insurance agent, broker or company to discuss the cost of other coverages.
- F. If you wish to change the tort option that applies to your policy, you must notify your agent, broker or company and complete and mail this form to the company.

Pennsylvania Surcharge Disclosure Statement

In accordance with Pennsylvania law, we are providing you with an explanation of our Demerit Rating Plan, under which your policy has been rated, and the plans effect on your automobile rate in the event of a chargeable accident(s) and/or violation. The following is our Demerit Rating Plan:

Code	Description	1st Offense	Each Additional
MMV	Major moving violation	4	4
FSO	Eluding a police officer	4	4
FEL	Felony involving use of a motor vehicle	4	4
HMA	Homicide or manslaughter involving vehicle	4	4
RAC	Drag racing	4	4
DWV	Driving with a suspended or revoked license	4	4
OWP	Operating vehicle without owners consent	4	4
RKD	Reckless driving	4	4
ACC	At-fault accident with bodily injury	3	3
ACP	At-fault accident with property damage	3	3
DWI	Driving under the influence of alcohol or drugs	1	3
FBT	Failure to take a blood or breath test	1	3
OBV	Open container	1	3
SPD	Speeding	0	1
HAR	Failure to stop at the scene of an accident	0	2
FSB	Passing a stopped school bus	0	2
DWW	Driving wrong way on one way street	0	2
FTY	Failure to yield	0	2
CID	Careless/Improper driving	0	2
FTA	Failure to report an accident	0	2
FTC	Following too closely	0	2
SIG	Traffic Device/Signal	0	2
MVL	Any moving violation not listed above	0	2
ACU	Not at-fault accident	0	0
CMU	Comprehensive claim > \$1000	0	0
UDR	Unverifiable driving record	4	-
FDL	Foreign drivers license	4	-

The retention period for violations and accidents is 35 months.

Note: Surcharges are for the highest rated offense when multiple charges apply to the same occurrence. Exception: If an at-fault accident or violation occurs in connection with a "DWI" violation, charges will apply for each offence.

The following violations of Title 75 of the Pennsylvania Consolidated Statutes are considered major violations:

Section	Description
1371	Operating vehicle after registration suspended
1501 (a)	Driving without a license
1532 (a)(1)	Felony involving a motor vehicle
1543	Driving while license suspended or revoked
1547 (b)	Refusal to submit to chemical test for alcohol or controlled substance
1573	Displaying foreign license during suspension
1574	Permitting an unauthorized person to drive
1575	Permitting use of an unauthorized vehicle
3301	Driving left of the center
3311	Driving on the left side of a divided highway
3367	Racing on highways, including drag racing
3717	Trespass by motor vehicle
3732	Vehicular homicide
3733	Fleeing or attempting to elude a police officer
3734	Driving without lights to avoid arrest
3735	Vehicular homicide while driving while intoxicated
3736	Reckless driving
3742	Leaving accident scene involving death or injury
3743	Leaving accident involving attended vehicle
3744	Failure to give information and render aid
3746	Failure to report accident to police department
7102 (b)	Removal or falsification of VIN
7103 (b)	Dealing in vehicles with removed / falsified VIN
7111	Dealing in titles or plates for stolen vehicles
7121	False application for titles or registration
7122	Altering, forging or counterfeiting documents or plates

For Underwriting and Rating purposes every accident will be considered to be "at-fault" EXCEPT those occurring under the following circumstances:

- the insurer incurs less than \$1,050 in excess of any deductible for personal injury or damage to property, including the insured's;
- auto lawfully parked (if the parked vehicle rolls from the parked position then any such accident is charged to the person who parked the auto);
- the applicant is reimbursed by, or on behalf of, a person who is responsible for the accident or has judgment against such person;
- auto is struck in the rear by another vehicle and the applicant or other resident operator has not been convicted of a moving traffic violation in connection with the accident;
- operator of the other auto involved in the accident was convicted of a moving traffic violation and the applicant or other resident operator was not convicted of a moving traffic violation in connection with the accident;
- auto operated by the applicant or other resident operator is struck by a "hit-and-run" vehicle, if the accident is reported to the proper authority within 24 hours by the applicant or resident operator;
- accidents involving damage by contact with animals or fowl;

- accidents involving Physical Damage, limited to and caused by flying gravel, missiles, or falling objects;
- accidents occurring when using auto in response to an emergency if the applicant at the time of accident was a paid or volunteer member of any Police or Fire Department, First Aid Squad, or any law enforcement agency. This exception does not include an accident occurring after the auto ceases to be used in response to such emergency;
- the accident resulted solely in payment under the First Party Benefits, UM, or UIM parts of the insured's policy;
- the Company was reimbursed by or on behalf of the insured for at least 60% of the total amount of the paid claim through subrogation or settlement or judgment against the person responsible for the accident.

The following shows the surcharge as a percentage increase of the base premium:

Point Charges						
Points	BI	PD	Med Pay	UM	CMP	COL
0	0%	0%	0%	0%	0%	0%
1	5%	5%	0%	0%	5%	5%
2	10%	10%	10%	0%	13%	13%
3	20%	20%	10%	0%	15%	15%
4	30%	30%	15%	0%	18%	18%
5	45%	45%	20%	0%	33%	33%
6	55%	55%	25%	0%	37%	37%
7	65%	65%	30%	0%	50%	50%
8	75%	75%	40%	0%	52%	52%
9	100%	100%	55%	0%	80%	80%
10	130%	130%	70%	0%	90%	90%
11	160%	160%	85%	0%	100%	100%
12	200%	200%	100%	0%	111%	111%
13	210%	210%	110%	0%	130%	130%
14	230%	230%	130%	0%	150%	150%
15	240%	240%	140%	0%	180%	180%
16	255%	255%	155%	0%	195%	195%
17	270%	270%	170%	0%	210%	210%
18	285%	285%	185%	0%	225%	225%
19	300%	300%	200%	0%	240%	240%
20	315%	315%	215%	0%	255%	255%

These percentages are illustrative of the effect on the base premium only. While the base premium is different depending upon rating territory, the base premium does not vary for other considerations such as your age, sex, or marital status. Therefore, the dollars of surcharge will be the same for all drivers with equivalent coverage in any particular territory. However, the percentage of surcharge when compared to your total premium, which does recognize your age, sex and marital status, could vary somewhat from the above cited percentages.

You may be able to determine the points assigned to you by looking at your policy. The front page information may include a four digit code such as 2W-02. The last 2 digits show the points.

For more information about these surcharges, please contact your agent.



REGIONAL OFFICE
 P.O. BOX 1802
 ALPHARETTA, GA 30023

COMPANY COPY

PERSONAL AUTO POLICY
 NEW DECLARATION ***** EFFECTIVE 02/26/03

POLICY NUMBER	POLICY PERIOD		COVERAGE IS PROVIDED IN THE	AGENCY
	FROM	TO		
AIG 0700509	02/26/03	08/26/03	NEW HAMPSHIRE INDEMNITY COMPANY, INC.	3737588
NAMED INSURED AND ADDRESS			AGENT	

VEHICLES COVERED
 UNIT ST TER YR MAKE-DESCRIPTION SERIAL NUMBER AGE SYM CLASS CSTNEW CHG DATE
 001 PA 204 90 NISS MAXIMA JN1 HJ01 P5LT455413 6 11 2W-02 02/26/03
 INSURANCE IS PROVIDED WHERE A PREMIUM IS SHOWN FOR THE COVERAGE.

COVERAGE	LIMITS OF LIABILITY	UNIT 1	PREMIUMS
A BODILY INJURY \$10,000 EA PERSON \$20,000 EA ACCIDENT (Full Tort)		105.00	
A PROPERTY DAMAGE \$10,000 EACH ACCIDENT		104.00	
B MEDICAL PAYMENTS \$1,000 PER PERSON		23.00	
C UNINSURED MOTOR BI \$10,000 EA PERSON \$20,000 EA ACC		38.00	
C UNINSURED MOTORISTS - PROPERTY DAMAGE \$5,000		18.00	
	TOTAL BY UNIT	288.00	
	TOTAL TERM PREMIUM		\$288.00

DISCOUNTS/SURCHARGES APPLIED TO APPLICABLE COVERAGES
 UNIT 01 TRANSFER DISCOUNT 30% PASSIVE RESTRAINT

DRIVER ID	DRIVER NAME	LICENSE NUMBER	BIRTH DATE
01	STACY ROBERTS	427430997	02/08/77
02	JOHN ROBERTS	123456789	03/01/77

DRIVER HISTORY:
 Your policy premium includes surcharges due to the following accidents or violations in the amount of \$ 98.00.

DRIVER ID 01	ACC4 06/15/03	ACC4 10/15/02	SPD1 05/15/02
DRIVER ID 02	MVL1 09/01/02		

THE TOTAL EXPENSE CONSTANT FEE IS \$0.00

APPLICABLE FORMS
 FORM# DATE UNIT FORM# DATE UNIT FORM# DATE UNIT

POLICY PERIOD 12:01 AM

03/26/03

PREMIUM THIS TRANSACTION.....\$288.00

DATE

AUTHORIZED REPRESENTATIVE

FRAUD WARNING

Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete, or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.