

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

OMNI INSURANCE COMPANY
Springfield, Illinois

**AS OF
May 17, 2010**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

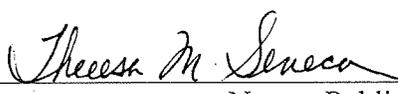
Issued: June 28, 2010

VERIFICATION

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


June A. Coleman, Examiner-In-Charge

Sworn to and Subscribed Before me
This 17 Day of February, 2010


Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

OMNI INSURANCE COMPANY

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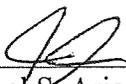
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, 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 Ronald A. Gallagher, 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.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
OMNI INSURANCE COMPANY : Sections 641.1A and 671-A of Act 147
2018 Powers Ferry Road, SE : of 2002 (40 P.S. §§ 310.41 and 310.71)
Atlanta, GA 30339 : :
: Sections 4(a) and 4(h) of the Act of
: June 11, 1947, P.L. 538, No. 246
: (40 P.S. §§ 1184)
: :
: Act 1990-6, Sections 1716, 1731(c)(1),
: 1738(c), and 1738(d)(1) and (2) (Title
: 75, Pa.C.S. §§ 1716, 1731, and 1738)
: :
: Section 4 of the Unfair Insurance
: Practices Act, Act of July 22, 1974,
: P.L. 589, No. 205 (40 P.S. §1171.4)
: :
: Sections 2003(a)(8) and (9), and
: 2006(3) of Act 68 of 1998 (40 P.S.
: §§991.2003 and 991.2006)
: :
: Title 31, Pennsylvania Code, Sections
: 61.5, 61.5(6), 62.3(e)(1), 62.3(e)(7),
: 69.22(c), 69.52(b), 146.5(a), 146.5(d),
: and 146.6
: :
: Title 75, Pennsylvania Consolidated
: Statutes, Sections 1161(a) and (b)
: :
Respondent. : Docket No. MC10-06-001

CONSENT ORDER

AND NOW, this 28th day of June, 2010, this Order is hereby
issued by the Insurance Department 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 Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Omni Insurance Company, and maintains its address at 2018 Powers Ferry Road, S.E., Atlanta, GA 30339.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2008 through December 31, 2008.
- (c) On May 17, 2010, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on June 15, 2010.
- (e) The Examination Report notes violations of the following:
- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;
 - (iv) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of 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;

- (v) Section 1731(c)(1) of Act 1990-6, Title 75, Pa.C.S. § 1731(c)(1), which states on policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists;
- (vi) Section 1738(c)(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vii) Section 4 of Act 205 (40 P.S. § 1171.4), which states no person shall engage in this state in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act;

- (viii) Section 2003(a)(8) and (9) of Act 68 (40 P.S. §991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Marital Status and Sex;
- (ix) 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 nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;
- (x) Title 31, Pennsylvania Code, Section 61.5, which states forms of notices of cancellation or refusal to renew shall be clearly labeled: “Notice of Cancellation or Refusal to Renew”;
- (xi) Title 31, Pennsylvania Code, Section 61.5(6), which states the reasons for nonrenewal shall be clear and complete. They shall be stated such that a person of average intelligence and education can understand them;
- (xii) Title 31, Pennsylvania Code, Section 62.3(e)(1), which requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method;
- (xiii) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is

completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion;

(xiv) Title 31, Pennsylvania Code, Section 69.22(c), which requires the insurer, when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill;

(xv) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;

(xvi) Title 31, Pennsylvania Code, Section 146.5(a), which states every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice, unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated;

- (xvii) Title 31, Pennsylvania 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;

- (xviii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

- (xix) Section 1161(a) and (b) of Title 75, Pa. C.S., which states an insurer who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641.1A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.
- (c) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
 - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(d) Respondent's violations of Section 4 of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

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

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

(f) Respondent's violations of Sections 2003 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) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 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 Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Fifteen Thousand Dollars (\$15,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Market Actions, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Insurance Department 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 Insurance Department 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 Department 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 Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department 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.

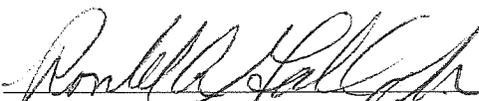
11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective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

BY: OMNI INSURANCE COMPANY, Respondent



President / Vice President

Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

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BY: OMNI INSURANCE COMPANY, Respondent

President / Vice President

Marshall Keyser, TREAS

Secretary / Treasurer

COMMONWEALTH OF PENNSYLVANIA

By: Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Omni Insurance Company's offices located in Atlanta, Georgia, from September 8, 2009, through October 1, 2009. 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.

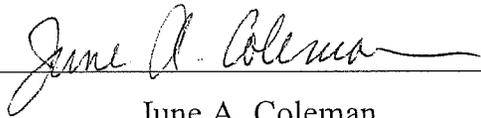
The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

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



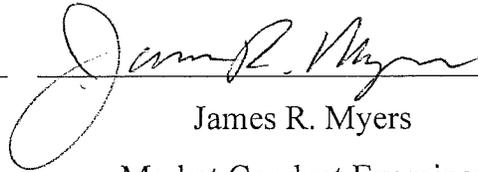
Chester A. Derk, Jr., AIE, HIA

Market Conduct Division Chief



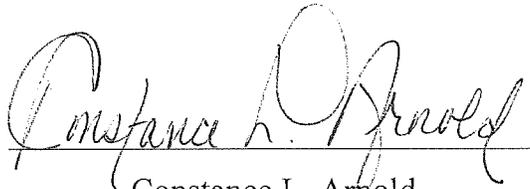
June A. Coleman

Market Conduct Examiner



James R. Myers

Market Conduct Examiner



Constance L. Arnold

Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Omni Insurance Company, hereinafter referred to as “Company,” at their office located in Atlanta, Georgia. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2008, through December 31, 2008, 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. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellations, 60-day cancellations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Claims
3. Forms
4. Advertising
5. Complaints
6. Licensing

III. COMPANY HISTORY AND LICENSING

Omni Insurance Company is an Illinois domiciled multiple line property/casualty insurance company that was organized June 30, 1980, in Georgia, as American Hannover Insurance Company. It began business as a reinsurer on September 19, 1980. At inception, Omni Insurance was a wholly-owned subsidiary of Hannover Holdings, Inc. Hannover Holdings (Hannover) was a wholly-owned subsidiary of Vereinigte Haftpflicht Versicherung ("VHV"). VHV was a mutual property/casualty insurer domiciled in Hannover, West Germany. VHV was one of the larger insurers and largest auto insurer in West Germany. Omni Insurance terminated its reinsurance agreement with VHV as of December 31, 1985. Thereunder, Omni Insurance retroceded to VHV all reserves for the business reinsured and the parties cancelled all obligations each had to the other. Thus, Omni Insurance had no further obligations to VHV of any nature whatsoever.

On June 2, 1986, Dudley L. Moore, Jr. and Hannover formed a new insurance holding company named Omni Insurance Group, Inc. ("Omni Group"). Omni Group was formed when Hannover contributed all the stock of Omni Insurance to Omni Group in exchange for 42% of the common stock of Omni Group and Dudley L. Moore, Jr. contributed all of the common stock of his wholly-owned Sunbelt Life Insurance Company to Omni Group in exchange for 58% of the common stock of Omni Group.

On June 6, 1986, Omni Group contributed to Omni Insurance \$5,500,000 in cash and all the stock of Sunbelt Life (which stock was valued on a statutory accounting basis at \$1,500,000), thereby increasing Omni Insurance's surplus to \$8,684,280, which was the surplus figure shown in the Special Examination of June 13, 1986 prepared by the Georgia Insurance Department.

On June 30, 1986 a stock dividend of 6,000 shares of Omni Insurance's \$100.00 par value common stock was declared and paid to Omni Group thereby increasing paid-in capital of Omni Insurance to \$1,000,000, and reducing surplus to \$8,084,280. The total capital and surplus of Omni Insurance was unchanged by the above stock dividend. This change was made to meet or to exceed the capital and surplus requirements of certain states where Omni Insurance had applied or expected to apply for a Certificate of Authority to operate as a direct insurer. Omni Insurance then became a direct property/casualty writer.

In 1989, Sunbelt Life Insurance Company amended its charter to become a property casualty insurer. The name of the successor company is Omni Indemnity Company. Omni Indemnity received a Certificate of Authority from its domicile state, Georgia, in November 1989.

On June 8, 1993, Omni Insurance Group, Inc. purchased all the outstanding common stock of Omni Insurance Group, Inc., owned by Hannover Holdings, Inc. for a cash purchase price equal to \$7,400,000. In July, 1993, Omni Insurance Group, Inc. participated in an initial public offering of its stock, of which approximately 36.4% of its outstanding common stock was purchased by a variety of public shareholders. Shares representing approximately 8.2% of the outstanding common stock of Omni Insurance Group, Inc. were transferred to J. Paul Kennedy by Mr. Moore. Approximately \$16.1 million dollars from the public offering was transferred to Omni Insurance Company from Omni Insurance Group, Inc. as surplus adjustments paid in.

On December 1, 1994, the Illinois Department of Insurance granted approval for Omni Insurance Company to move its domicile from Georgia to Illinois. This change was approved by the Georgia Department of Insurance and became effective December 31, 1994. On June 12, 1995, Omni Insurance Company

purchased Omni General Agency, Inc., (OGA), in Dallas, Texas, from Forrest Roan. OGA was licensed as a managing general agency and became a 100% wholly owned subsidiary of Omni Insurance Company. The management and service agreement between the two companies was approved by the Illinois Department of Insurance on August 14, 1995.

On June 10, 1996, Omni Indemnity Company officially changed its domicile from the state of Georgia to Illinois. Its Articles of Reorganization were amended and on July 18, 1996, Omni Indemnity also amended its Bylaws.

On February 12, 1998, all outstanding stock of the Omni Group was acquired by The Hartford Financial Services Group, Inc.

On November 30, 2006, Omni Insurance Group, Inc. was acquired by American Independent Companies, Inc., a subsidiary of Independent Insurance Investments, Inc.

LICENSING

Omni Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2010. The Company is licensed in Alabama, Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Missouri, Mississippi, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and Washington. The Company's 2008 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$9,211,539. Premium volume related to the areas of this review were: Fire \$2,258,571; Homeowners Multiple Peril \$4,689,621; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-

Fault (personal injury protection) \$116,373; Other Private Passenger Auto Liability \$478,042 and Private Passenger Auto Physical Damage \$390,192.

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. Agency bulletins and 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.

The following finding was made:

1 Violation Act 68, Section 2003(a)(8)&(9) [40 P.S. §991.2003(a)(8)&(9)]
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: Marital Status and Sex. The Company’s guideline stated the following: “AS 400 Renewals Only-Effective February 2007-Underwriting Guide-Unacceptable Risks-Operators: Where husband does not drive, unless specifically excluded.

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.

The universe of 4 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 4 files were received and 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.

From the universe of 153 private passenger automobile files identified as midterm cancellations, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

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.

The universe of 7 private passenger automobile files identified as nonrenewals was selected for review. All 7 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 29%.

The following findings were made:

1 Violation Act 205, Section 4

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Prohibited. No person shall engage in this State in any trade practice which is defined or determined to be an unfair method of competition or an unfair or deceptive act or practice in the business of insurance pursuant to this act. The file noted was improperly nonrenewed. There was no evidence that the first named insured was endorsed to be

removed from the policy prior to issuance of the notice of nonrenewal. The notice of nonrenewal was only addressed to the spouse.

1 Violation Act 68, Section 2006(3) [40 P.S. §991.2006(3)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation.

AND

Title 31, Pa. Code, Section 61.5(6)

The reasons for nonrenewal shall be clear and complete. They shall be stated such that a person of average intelligence and education can understand them. The Company did not provide a clear, complete and 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*.

The universe of 2 private passenger automobile policies that were identified as rescissions during the experience period was selected for review. Both files were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

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

From the universe of 290 private passenger automobile policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 26 violations noted were based on the universe of 290 files, resulting in an error ratio of 9%.

The following findings were made:

26 Violations Title 75, Pa. C.S. §1738(c)

Each named insured purchasing uninsured or underinsured motorist coverage for more than one vehicle under a policy shall be provided the opportunity to waive the stacked limits of coverage and instead purchase coverage as described in subsection (b). The premiums for an insured who exercises such waiver shall be reduced to reflect the different cost of such coverage. The Company failed to reduce premium for opting to waive the stacked limits of uninsured or underinsured coverage on policies with more than one vehicle.

Private Passenger Automobile - New Business With Surcharges

From the universe of 70 private passenger automobile policies identified as new business with surcharges by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 11 violations noted were based on the universe of 70 files, resulting in an error ratio of 16%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied an incorrect surcharge to the policy resulting in an overcharge of \$22.95.

10 Violations Title 75, Pa. C.S. §1738(c)

Each named insured purchasing uninsured or underinsured motorist coverage for more than one vehicle under a policy shall be provided the opportunity to waive the stacked limits of coverage and instead purchase coverage as described in subsection (b). The premiums for an insured who exercises such waiver shall be reduced to reflect the different cost of such coverage. The Company failed to reduce premium for opting to waive the stacked limits of uninsured or underinsured coverage on policies with more than one vehicle.

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

From the universe of 380 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 42 violations noted were based on the universe of 380, resulting in an error ratio of 11%.

The following findings were made:

42 Violations Title 75, Pa. C.S. §1738(c)

Each named insured purchasing uninsured or underinsured motorist coverage for more than one vehicle under a policy shall be provided the opportunity to waive the stacked limits of coverage and instead purchase coverage as described in subsection (b). The premiums for an insured who exercises such waiver shall be reduced to reflect the different cost of such coverage. The Company failed to reduce premium for opting to waive the stacked limits of uninsured or underinsured coverage on policies with more than one vehicle.

Private Passenger Automobile – Renewals With Surcharges

From the universe of 91 private passenger automobile policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 12 violations noted were based on the universe of 91 files, resulting in an error ratio of 13%.

The following findings were made:

12 Violations Title 75, Pa. C.S. §1738(c)

Each named insured purchasing uninsured or underinsured motorist coverage for more than one vehicle under a policy shall be provided the opportunity to waive the stacked limits of coverage and instead purchase coverage as described in subsection (b). The premiums for an insured who exercises such waiver shall be reduced to reflect the different cost of such coverage. The Company failed to reduce premium for opting to waive the stacked limits of uninsured or

underinsured coverage on policies with more than one vehicle.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business 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. Tenant Homeowner Claims
- I. 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

The universe of 33 private passenger automobile property damage claims reported during the experience period was selected for review. All 33 files were received and reviewed. The 2 violations noted were based on 1 file,

resulting in an error ratio of 3%.

The following findings were made:

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

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

1 Violation Title 31, Pa. Code, Section 146.6

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

B. Automobile Comprehensive Claims

The universe of 13 private passenger automobile comprehensive claims reported during the experience period was selected for review. All 13 files were received and reviewed. The violation noted resulted in an error ratio of 8%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

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

C. Automobile Collision Claims

The universe of 24 private passenger automobile collision claims reported during the experience period was selected for review. All 24 files were received and reviewed. The 5 violations noted were based on 3 files, resulting in an error ratio of 13%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such

notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days for the 2 claims noted.

3 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 3 claims noted.

D. Automobile Total Loss Claims

The universe of 7 private passenger automobile total loss claims reported during the experience period was selected for review. All 7 files were received and reviewed. The 9 violations noted were based on 3 files, resulting in an error ratio of 43%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 62.3(e)(1)

Requires the replacement value of a motor vehicle be calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method. The Company failed to pay the claimant the average appraised value determined by the Guide Source Method for the 2 claims noted.

3 Violations Title 31, Pa. Code, Section 62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion. The Company did not provide a copy of the total loss evaluation to the consumer within 5 days after its completion.

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

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The

Company did not acknowledge the claim within 10 working days.

2 Violations Title 31, Pa. Code, Section 146.6

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

1 Violation Title 75, Pa. C.S. §1161(a)&(b) – Certificate of Salvage Required.

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined in Section 1702 (relating to definitions), who owns, possesses or transfers a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle.

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate

of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company failed to provide the copy of the owner retained certificate of salvage in the file.

E. Automobile First Party Medical Claims

The universe of 21 private passenger automobile first party medical claims reported during the experience period was selected for review. All 21 files were received and reviewed. The 14 violations noted were based on 8 files, resulting in an error ratio of 38%.

The following findings were made:

4 Violations Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill. The Company did not provide the notice to the insured that first-party limits had been exhausted for the 4 files noted.

4 Violations Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company failed to pay medical bills within 30 days for the 4 files noted.

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

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

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 Company did not provide the necessary claim forms to the claimant within ten working days for the file noted.

4 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 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 Company did not pay interest on 4 claims that were not paid within 30 days.

F. Automobile First Party Medical Claims Referred to a PRO

Although no automobile first party medical claims referred to a peer review organization were reported, the Company was asked to provide a copy of all peer review contracts in place during the experience period. A contract with an approved peer review organization was received and reviewed. No violations were noted.

The following concern was noted:

Concern: The Company provided a PRO contract that was contracted between Laurel Rehabilitation Services, Inc. and American Independent Insurance Company, Omni Insurance Company's parent company. The PRO contract should list the subsidiaries that will be utilizing the PRO service. The Company should update its PRO contract to include Omni Insurance Company.

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 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.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 61.5

Notice of cancellation or refusal to renew; requirements. The date, not less than 30 days after the date of delivery or mailing, on which the cancellation or refusal to renew is to become effective shall be clearly indicated. If the cancellation or nonrenewal is due to nonpayment of premium the effective date may be 15 days from the date of delivery or mailing. The Company's form OMNI PA ICXNP (08/08), Notice of Cancellation or Refusal to Renew or Refusal to Write failed to clearly indicate on the form the required 15 days notice.

2 Violations Title 75, Pa. C.S. §1731(c.1)

Insurers shall print the rejection forms required on separate sheets in prominent type and location. The forms must be signed by the first named insured and dated to be valid. The signatures on the forms may be witnessed by an insurance producer or broker. Any rejection form that does not specifically comply with this section is void. The Company's notices OMNI PA UIMREJ (08/08), Underinsured Motorist Coverage Rejection of Underinsured Motorist Protection and OMNI PA UMREJ (08/08), Uninsured Motorist Coverage Rejection of Uninsured Motorist Protection did not provide the required signature of first named insured.

1 Violation Title 75, Pa. C.S. §1738(d)(1)

Stacking of uninsured and underinsured benefits and option to waive. The named insured shall be informed that he may exercise the waiver of the stacked limits of uninsured motorist coverage by signing a written rejection form. The Company's notice OMNI PA UMSTREJ (08/08), Uninsured Coverage Limits Rejection of Stacked Uninsured Coverage Limits did not provide the required signature of first named insured.

1 Violation Title 75, Pa. C.S. §1738(d)(2)

Stacking of uninsured and underinsured benefits and option to waive. The named insured shall be informed that he may exercise the waiver of the stacked limits of underinsured motorist coverage by signing a written rejection form. The Company's notice OMNI PA UIMSTREJ (08/08),

Underinsured Coverage Limits Rejection of Stacked
Underinsured Coverage Limits did not provide the required
signature of the first named insured.

IX. ADVERTISING

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

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

The Company provided 6 pieces of advertising in use during the experience period. The advertising materials provided were producer bulletins. 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. The Company identified 4 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 4 complaint files reported were requested, received and reviewed.

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

No violations were noted.

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

•	1	Cancellation/Nonrenewal	25%
•	2	Claims	50%
•	1	Premium	25%
	<hr/>		<hr/>
	4		100%

XI. LICENSING

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

The following findings were made:

*1 Violation Insurance Department Act, No. 147, Section 641.1A
[40 P.S. §310.41a]*

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

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

Roman Gutman

3 Violations Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

- (a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
- (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.
- (d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.
- (e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but were not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

A Better Choice Auto Insurance LLC
Alexis-Hunter Group Inc., The
Evergreen Insurance Associates LLC

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with nonrenewal notice requirements of Act 68, Section 2006 [40 P.S. §991.2006], so that the violation noted in the Report does not occur in the future.
2. The Company must review Act 205, Section 4 [40 P.S. §1171.4] to ensure that the violation relative to a nonrenewal only being addressed to a spouse, as noted in the Report, does not occur in the future.
3. On policies in which the insured has waived the stacked limits of uninsured and underinsured coverage, the premiums shall be reduced to reflect the different cost of such coverage, as noted in Title 75, Pa. C.S. 1738(c). The Company must file separate rates to reflect these reduced costs within 30 days of the Report issue date.
4. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violation listed in the report does not occur in the future.
5. The premium overcharge 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.

6. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and claim acknowledgement, as noted in the Report, do not occur in the future.
7. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
8. The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.
9. The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that the replacement value is properly calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method.
10. The Company must calculate and pay the proper replacement value to the insured for the 2 total loss claims noted in the Report and must provide proof of such payment within 30 days of the report issue date.
11. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the insured is properly notified that first-party medical benefits have been exhausted.

12. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
13. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
14. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.
15. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 of Act 68 [40 P.S. §991.2003].
16. The Company must review Title 75, Pa. C.S. §1738(d)(1)&(2) to ensure that violations regarding the requirement of a signature of the first named insured on the waiver of stacked limits for uninsured and underinsured motorist coverage, as noted in the Report, do not occur in the future.

17. The Company must review Title 75, Pa. C.S. 1731(c.1) to ensure that violations regarding the requirement of a signature of the first named insured on the rejection form for uninsured and underinsured motorist coverage, as noted in the Report, do not occur in the future.

18. The Company must review Title 31, Pa. Code, Section 61.5 to ensure that notices of cancellation or refusal to renew clearly indicate the required number of days' notice on which the cancellation or refusal to renew is to become effective.

XIII. COMPANY RESPONSE



June 15, 2010

Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief
Pennsylvania Insurance Department
1227 Strawberry Square
Harrisburg, PA 17120

Re: Omni Insurance Company
Market Conduct Examination

Dear Mr. Derk:

Omni Insurance Company (the "Company") is in receipt of your letter dated May 17, 2010 and the Department's Report of Examination covering the period of January 1, 2008 to December 31, 2008 ("Report"). Kindly accept this letter as the Company's response to the Report.

As you know, the Company serves the unique segment of the market, namely, the non-standard automobile insurance market, in which most of its customers are interested in purchasing just the minimum level of statutory coverage. We value the opportunity to fill this significant market need and strive to maintain this coverage at affordable levels and in a very consumer friendly environment.

Our response below addresses each of the Department's recommendations starting on page 36 of the Report. Although we believe the exceptions noted in the Report relate mostly to categories of either human error (which we believe are statistically insignificant) or to differing interpretations of Pennsylvania law, we accept the Report constructively in an effort to improve procedures, and the Company is implementing the recommendations of the Department to further strengthen our compliance. To the extent the Department views contain certain matters to be a violation of Pennsylvania law, given the circumstances, the Company respectfully submits that none of such actions should be viewed as an intentional violation of the law or any general pattern or practice on noncompliance.

The Company appreciates the professional courtesy of your staff through the examination process. We look forward to working with you to reach a mutually agreeable resolution in the Report. If you have any questions in connection with the letter or you require any further information, please do not hesitate to call me.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Bruce Arneson', written over a horizontal line.

Bruce Arneson
President
Omni Insurance Company

P.O. Box 105440
Atlanta, GA 30348-5440
Toll Free 1 800 777 6664

The Company response will parallel the order of the findings as noted in XII-RECOMMENDATIONS of the Report of the Market Conduct Examination for Omni Insurance Company.

1. The Company must review and revise internal control procedures to ensure compliance with nonrenewal notice requirements of ACT 68, Section 2006 [40 P.S. §991.2006], so that the violation noted in the Report does not occur in the future.

Company Response:

We have reviewed our procedures and have determined that a processing error occurred resulting in the specific reason for cancellation not being properly given to the insured on the notice. We have provided additional training to the applicable personnel in this area to strengthen compliance in this area.

2. The Company must review Act 205, Section 4 [40 P.S. §1171.4] to ensure that the violation relative to a nonrenewal only being addressed to a spouse, as noted in the Report, does not occur in the future.

Company Response:

We have reviewed our procedures and have determined the error relates to an isolated error in processing the nonrenewal. We have provided additional training to the applicable personnel in this area to strengthen compliance in this area.

3. On policies in which the insured has waived the stacked limits of uninsured and underinsured coverage, the premiums shall be reduced to reflect the different cost of such coverage, as noted in Title 75, Pa. C.S. 1738(c). The Company must file separate rates to reflect these reduced costs within 30 days of the Report issue date.

Company Response:

We have filed separate rates to reflect the reduced costs when an insured exercises their rights to waiver stacked limits of uninsured and/or underinsured coverage on policies with more than one vehicle via SERFF filing # OMNI-126380343 and PA # B27400001. The filing was approved effective April 20, 2010 for new business and May 20, 2010 for renewals for our current new business program. The withdrawal plan filed for our three renewal only programs was approved with the Bureau of Consumer Services effective February 17, 2010.

4. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violation listed in the report does not occur in the future.

Company Response:

We have reviewed Act 246, Section 4(a)&(h) [40 P.S. §1184] and our rating procedures. We have determined that this isolated error was due to human error in assigning the correct number of points. We have provided additional training to the applicable personnel to strengthen compliance in this area.

5. The premium overcharge 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.

Company Response:

For the isolated case where a premium was overcharged, the refund has been issued. A copy of the check is provided under separate cover.

6. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and claims acknowledgement, as noted in the Report, do not occur in the future.

Company Response:

The Company has completed a review of the violations of Chapter 146 and determined that they were due to isolated cases in which there was a deviation from the Omni procedures. To improve compliance with the statute, the Company has provided additional training to the appropriate personnel.

7. The Company must review Title 75, Pa. C.S. §1161 (a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.

Company Response:

We have reviewed the requirements of Title 75, Pa. C.S. §1161 (a)&(b) with the applicable claim staff. We have provided additional training to the appropriate personnel to strengthen compliance with Title 75 to ensure that salvage certificates are obtained and retained with the claim file.

8. The Company must review Title 31, Pa. Code, Section 62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.

Company Response:

We have reviewed the requirements of Title 31, Pa. Code, Section 62.3(e)(7) with the applicable claim staff. We have provided additional training to the appropriate personnel to strengthen compliance with Title 31 to ensure customer receives the total loss evaluation report within 5 working days after the appraisal is completed.

9. The Company must review Title 31, Pa. Code, Section 62.3(e)(1) with its claim staff to ensure that the replacement value is properly calculated by use of the Guide Source Method, the Actual Cost Method or the Dealer Quotation Method.

Company Response:

We have reviewed the requirements of Title 31, Pa. Code Section 62.3(e)(1) with the applicable claim staff. For those isolated cases where mistakes were made in calculating the appropriate replacement value of vehicles, supplemental payments have been issued. Copies of the cashed checks are provided under separate cover. To strengthen compliance, we have provided training to the appropriate personnel.

10. The Company must calculate and pay the proper replacement value to the insured for the 2 total loss claims noted in the Report and must provide proof of such payment within 30 days of the report issue date.

Company Response:

For the two isolated cases where mistakes were made in calculating the appropriate replacement value of vehicles, supplemental payments have been issued. Copies of the checks are provided under separate cover.

11. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the insured is properly notified that first party medical benefits have been exhausted.

Company Response:

We have reviewed the requirements of Title 31, Pa. Code Section 69.22 with the applicable claim staff. We have provided additional training to the appropriate personnel to strengthen compliance with Title 31 to ensure the insured receives proper notification that first party medical benefits have been exhausted.

12. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical benefits are paid within 30 days.

Company Response:

The Company has reviewed Title 31, Pa. Code, Section 69.52(b) with the no Fault representatives and supervisors to reinforce the understanding that first party medical bills are to be paid within thirty days of receiving sufficient documentation to process the bill. Additional training was provided to remind the appropriate staff of the requirement to pay interest on payments not processed within thirty days.

13. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annual from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

The Company has reviewed the isolated first party claims identified as failing to include interest that were paid past thirty days. The Company issued the interest payments that were owed. Copies of the checks are provided under separate cover. Additional training was provided to remind the appropriate staff of the requirement to pay interest on payments not processed within thirty days.

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

Company Response:

We have reviewed our appointment process. All producers are appointed and will continue to be appointed in accordance to Sections 641.1(a) and 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147. We have provided additional training to our staff to ensure compliance.

15. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Section 2003 of Act 68 [40 P.S. §991.2003].

Company Response:

Based on the recommendations made by the Department, we have reviewed our underwriting guidelines and have reissued the underwriting guidelines to our staff. We have amended the unacceptable risk section of the Company's private passenger

automobile guidelines. The amendments were made to ensure compliance to Section 2003 of Act 68 [40 P.S. §991.203].

16. The Company must review Title 75, Pa. C.S. §1738(d)(1)&(2) to ensure that violations regarding the requirement of a signature of the first named insured on the waiver of stacked limits for uninsured and underinsured motorist coverage, as noted in the Report do not occur in the future.

Company Response:

We have reviewed Title 75, Pa. C.S. §1738(d)(1)&(2) and have revised the signature requirement of the first named insured on the waiver of stacked limits forms for uninsured and underinsured motorist coverage to comply with the statute per the Departments recommendations.

17. The Company must review Title 75, Pa. C.S. §1731(c.1) to ensure that violations regarding the requirement of a signature of the first named insured on the rejection form for uninsured and underinsured motorist coverage, as noted in the Report, do not occur in the future.

Company Response:

We have reviewed Title 75, Pa. C.S. §1731(c.1) and have revised the signature requirement of the first named insured on the rejection forms for uninsured and underinsured motorist coverage to comply with the statute per the Departments recommendations.

18. The Company must review Title 31, Pa. Code, Section 61.5 to ensure that notices of cancellation or refusal to renew clearly indicate the required number of days' notice on which the cancellation or refusal to renew is to become effective.

Company Response:

We have reviewed the one violation of Title 75, Pa. Code, Section 61.5 and have determined that a human typographical error on the back of the non-pay cancellation notice form was the cause of any unclear indication. The typographical error, which referenced that the insured has 25 days to replace their insurance, has been corrected to 15 days on the back of the non-pay cancellation form. This typographical error was not found during the process of proofing of the form internally or by the Department when approving the filed form. The front of the non-pay cancellation form has always clearly given the correct 15 days notice to the insured.