

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**METROPOLITAN PROPERTY AND CASUALTY INSURANCE
COMPANY**

**METROPOLITAN CASUALTY INSURANCE COMPANY
METROPOLITAN DIRECT PROPERTY AND CASUALTY
INSURANCE COMPANY**

Warwick, Rhode Island

**AS OF
February 28, 2007**

COMMONWEALTH OF PENNSYLVANIA



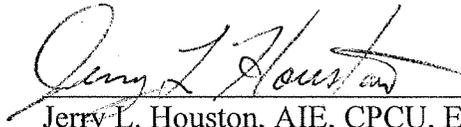
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Web site*

**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 17, 2007

VERIFICATION

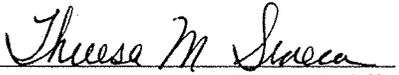
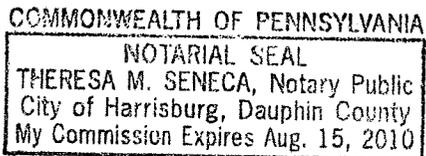
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Jerry L. Houston, AIE, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 16 Day of February, 2007


Notary Public

**METROPOLITAN PROPERTY AND CASUALTY INSURANCE COMPANY
METROPOLITAN CASUALTY INSURANCE COMPANY
METROPOLITAN DIRECT PROPERTY AND CASUALTY INSURANCE COMPANY**

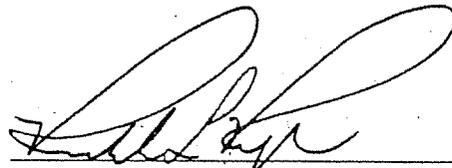
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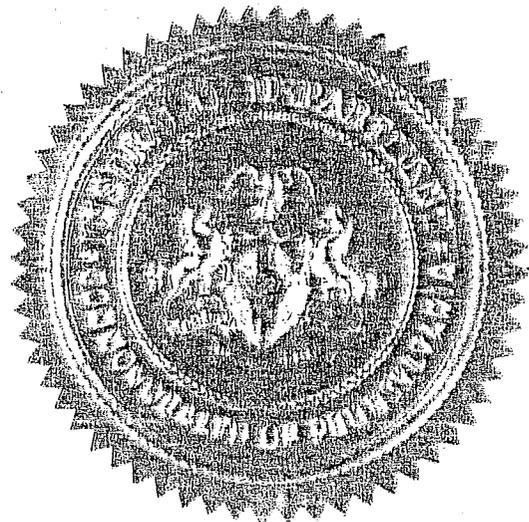
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20th day of February, 2007, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, 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.



Randolph L. Rohrbaugh
Acting Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
METROPOLITAN PROPERTY & CASUALTY INSURANCE COMPANY:	:	Section 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. § 323.3)
METROPOLITAN CASUALTY INSURANCE COMPANY	:	
METROPOLITAN DIRECT PROPERTY & CASUALTY INSURANCE COMPANY	:	Act 1990-6, Sections 1705(a)(1) and (4), 1716, 1738(d)(1)(2), 1791, 1791.1(a) and (b), 1793(b) and 1799.3(f) (Title 75, Pa.C.S. §§ 1705, 1716, 1734, 1738, 1791, 1793 and 1799)
700 Quaker Lane	:	
Warwick, RI 02886	:	
	:	Sections 5(a)(4), 5(a)(9) and 5(a)(9)(ii) of the Unfair Insurance Practices Act, Act of July 22, 1974, P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Sections 2003(a)(1), 2003(e)(12), 2003(13)(ix), 2004, 2006 and 2008(b) of Act 68 of 1998 (40 P.S. §§991.2003, 991.2004, 991.2006 and 991.2008)
	:	
	:	Sections 2, 3(a)(1), 3(a)(2), 3(a)(4), 3(a)(6) and 7(c) of the Act of July 3, 1986, P.L. 396, No. 86 (40 P.S. §§ 3402, 3403 and 3407)
	:	
	:	Title 31, Pennsylvania Code, Sections 51.61(3), 69.42, 69.43, 69.52(a), 69.52(b), 69.53(e), 146.3, 146.5(d), 146.6 and 146.7(a)(1)
	:	
	:	Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)(1)
	:	
	:	Title 75, Pennsylvania Consolidated Statutes, Section 1822
	:	
Respondent.	:	Docket No. MC07-03-003

CONSENT ORDER

AND NOW, this 17th day of April, 2007, 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 Metropolitan Property & Casualty Insurance Company, Metropolitan Casualty Insurance Company, and Metropolitan Direct Property & Casualty Insurance Company, and maintains its address at 700 Quaker Lane, Warwick, Rhode Island 02886.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2005 through June 30, 2006.
- (c) On February 28, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on March 30, 2007.
- (e) The Examination Report notes violations of the following:
 - (i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company subject to examination keep all records and documents relating to its business in such manner as may be required in order that the Department may verify whether the company has complied with the laws of this Commonwealth;
 - (ii) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

- (iii) 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;

- (iv) Section 1738(d)(1)(2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for stacked uninsured and underinsured motorist coverage by signing written rejection forms;

- (v) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires the company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage;

(vi) 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 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 premiums for the insured’s existing coverages;

(vii) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;

(viii) 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 deliver the plan to each insured 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;

- (ix) Section 1799.3(f) of Act 1990-6, Title 75, Pa.C.S. § 1799, which states, if requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the Commissioner. An applicant receiving a notice of reasons under this subsection may obtain review by the Commissioner pursuant to the Automobile Insurance Policy Act;
- (x) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which defines as an unfair method of competition or unfair or deceptive acts or practices as entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance;
- (xi) Section 5(a)(9) of Act 205 (40 P.S. §1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation,

fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

- (xii) Section 5(a)(9)(ii) of Act 205 (40 P.S. §1171.5), which requires that a cancellation notice shall state the date, not less than 30 days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;
- (xiii) Section 2003(a)(1) of Act 68 of 1998 (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: Age. Under Pennsylvania law, requiring a minimum period of driving experience in

order to be eligible to obtain automobile insurance constitutes a *per se* unlawful criterion based upon age. *See, e.g., Aetna v. Commonwealth, Insurance Department*, 606 A.2d 553 (Pa. Cmwlth. 1992), *rev'd on other grounds*, 536 Pa. 105, 638 A.2d 194 (1994); *Travelers v. Commonwealth, Insurance Department*, 440 A.2d 645 (Pa. Cmwlth. 1981);

- (xiv) Section 2003(e)(12) of Act 68 of 1998 (40 P.S. § 991.2003), which states that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a 24 month period when the operator's record indicates that the named insured presently bears five points or fewer, unless: The driver's license or motor vehicle registration of the named insured has been suspended or revoked;

- (xv) Section 2003(13)(ix) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for accidents which occurred more than 36 months prior to the later of the inception of the insurance policy or the upcoming anniversary date of the policy;

- (xvi) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which states that an insurer may not cancel a policy except for specified reasons;

- (xvii) Section 2006 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;

- (xviii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires 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. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;

- (xix) Section 2 of Act 86 (40 P.S. § 3402), which states canceling in midterm a policy of insurance covering commercial property and casualty risks is prohibited for any reason other than those enumerated under this section;

- (xx) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds;

- (xxi) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination;
- (xxii) Section 3(a)(4) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice be clearly labeled “Notice of Cancellation”;
- (xxiii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or nonrenewal notice shall state that, at the insured’s request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;
- (xxiv) Section 7(c) of Act 86 (40 P.S. § 3407), which states this act does not apply to commercial property and casualty policies in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days’ notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;
- (xxv) Title 31, Pennsylvania Code, Section 51.61(3), which states an advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of a premium rate which the

company would charge for such insurance unless: If it is the company's intent and actual practice to offer a quotation to applicants who meet its underwriting requirements and not to offer a quotation to those who do not appear to meet the company's underwriting requirements, the company shall consider such refusal to render a quote as a refusal to write as defined in Act 68, and comply with all provisions of the act;

(xxvi) Title 31, Pennsylvania Code, Section 69.42, which states an insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined. Medicare co-insurance and deductibles may not be excluded in payments made by the insurer;

(xxvii) Title 31, Pennsylvania Code, Section 69.43, which states an insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under § 69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations

made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under § 69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount;

(xxviii) Title 31, Pennsylvania Code, Section 69.52(a), which requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral;

(xxix) 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;

- (xxx) Title 31, Pennsylvania Code, Section 69.53(e), requires a provider to provide a written analysis including specific reasons for its decision to insurers, which shall within 5 days of receipt, provide copies to providers and insureds;
- (xxxii) Title 31, Pennsylvania Code, Section 146.3, requires the claim files of the insurer be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;
- (xxxiii) 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;
- (xxxiiii) 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;

(xxxiv) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;

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

(xxxvi) Title 75, Pa. C.S. § 1822, which requires, 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 any 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 \$15,000.00.

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 5(a)(4) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (c) In addition to any penalties imposed by the Department for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 –

1171.5), the Department 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).
- (d) 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).
- (e) Respondent's violations of Sections 2, 3 and 7 of Act 86 (40 P.S. §§ 3402, 3403 and 3407), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:

- (i) Order that the insurer cease and desist from the violation.
 - (ii) Impose a fine or not more than \$5,000 for each violation.
- (f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 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 Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

6. In the event the 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 it 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 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 delegate 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: METROPOLITAN PROPERTY &
CASUALTY INSURANCE COMPANY,
METROPOLITAN CASUALTY
INSURANCE COMPANY, METROPOLITAN
DIRECT PROPERTY & CASUALTY
INSURANCE COMPANY, Respondent

A. Taira Wilson

~~President~~ Vice President and General
Counsel

Walter C. Freary

Secretary ~~Treasurer~~
Assistant GENERAL Counsel & Secretary

Terrance A. Keating

COMMONWEALTH OF PENNSYLVANIA

By: Terrance A. Keating
Deputy Chief Counsel

I. INTRODUCTION

The market conduct examination was conducted at Metropolitan Property and Casualty Insurance Company, Metropolitan Casualty Insurance Company and Metropolitan Direct Property and Casualty Insurance Company's office located in Warwick, Rhode Island, from September 26, 2006, through November 16, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss

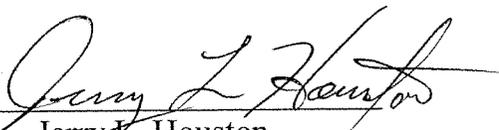
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

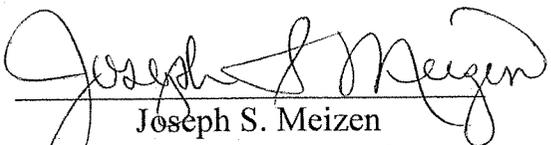
The undersigned participated in this examination and in preparation of this Report.



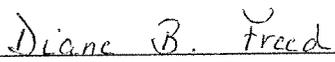
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



Jerry L. Houston
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Metropolitan Property and Casualty Insurance Company, Metropolitan Casualty Insurance Company and Metropolitan Direct Property and Casualty Insurance Company, hereinafter referred to as “Company,” at their office located in Warwick, Rhode Island. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2005, through June 30, 2006, 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, midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.

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

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

4. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Metropolitan Property and Casualty Insurance Company was incorporated on August 31, 1972, under the laws of Delaware as the Metropolitan Property and Liability Insurance Company and began business on December 8, 1972. Effective January 11, 1990, the word "Liability" in the name was changed to "Casualty." Effective February 10, 1995, the Company redomesticated from Delaware to Rhode Island.

Metropolitan Casualty Insurance Company was incorporated on October 7, 1981, under the laws of Delaware and began business on April 1, 1982. Effective February 10, 1995, the Company redomesticated from Delaware to Rhode Island.

Metropolitan Direct Property and Casualty Insurance Company was incorporated May 24, 1949, under the laws of Georgia as The Great Southern Insurance Company and began business June 1, 1949. The name was changed on April 25, 1952, to Southern General Insurance Company and on October 4, 1972, to First General Insurance Company. A former subsidiary, Progressive Fire Insurance Company of Atlanta, was absorbed by merger as of August 6, 1958. On February 1, 1993, the Company redomesticated from Georgia to Rhode Island. The present name was approved on February 13, 1998, by the State of Rhode Island.

LICENSING

Metropolitan Property and Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except Alaska and California. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as

\$13,220,451. Premium volume related to the areas of this review were: Homeowner's Multiple Peril \$7,710,869; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$423,096; Other Private Passenger Auto Liability \$2,104,051 and Private Passenger Auto Physical Damage \$2,538,299.

Metropolitan Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except Alaska, California, Hawaii, Michigan, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Vermont and Wyoming. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$15,087,426. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,433,277; Other Private Passenger Auto Liability \$6,585,628 and Private Passenger Auto Physical Damage \$7,068,521.

Metropolitan Direct Property and Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except Hawaii, Maine, Massachusetts, Minnesota, New Hampshire, Vermont and Wyoming. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$12,925,202. Premium volume related to the areas of this review were: Homeowner's Multiple Peril \$3,097,096; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,032,147; Other Private Passenger Auto Liability \$4,688,842 and Private Passenger Auto Physical Damage \$4,027,264.

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 Pennsylvania automobile product guides were furnished for private passenger automobile, homeowners and dwelling fire/landlords programs. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company required supporting business in the Landlords Broad Named Perils and Condo Guidelines, Page 3, 2/03 edition.

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

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: Age. The Company stated that principal operators must have at least 5 years driving experience as licensed drivers to be eligible in their Antique Auto Underwriting Guidelines.

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.

Metropolitan Property and Casualty Insurance Company

This Company did not report any private passenger automobile policies cancelled within the first 60 days of new business.

Metropolitan Casualty Insurance Company

From the universe of 233 private passenger automobile policies cancelled within the first 60 days of new business, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

The universe of 9 private passenger automobile policies cancelled within the first 60 days of new business was selected for review. The violation resulted in an error ratio of 11%.

The following finding was made:

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

Requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The file noted did not contain any evidence that a cancellation notice was sent to the insured.

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.

Metropolitan Property and Casualty Insurance Company

From the universe of 246 private passenger automobile files identified as midterm cancellations by the Company, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 1,300 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 767 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

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

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

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.

Metropolitan Property and Casualty Insurance Company

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

Metropolitan Casualty Insurance Company

From the universe of 195 private passenger automobile files identified as nonrenewals by the Company, 75 files were selected for review. All 75 files were received and reviewed. The violation resulted in an error ratio of 1%.

The following finding was made:

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

Requires that nonrenewal by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation. The file noted did not contain any evidence that a nonrenewal notice was sent to the insured.

Metropolitan Direct Property and Casualty Insurance Company

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

4. Declinations

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

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

Metropolitan Property and Casualty Insurance Company

This Company did not write or decline any new private passenger automobile business during the experience period.

Metropolitan Casualty Insurance Company

The Company was asked to provide a list of all applicants who had been declined or refused to be written for private passenger automobile coverage and none were reported. A review of Company records and procedures indicated applicants were refused, but names and addresses had not been captured so the number of refusals could not be determined. A written notice to these applicants was not sent.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 51.61(3)

An advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of a premium rate which the company would charge for such insurance unless: If it is the company's intent and actual practice to offer a quotation to applicants who meet its underwriting requirements and not to offer a quotation to those who do not appear to meet the company's underwriting requirements, the company shall consider such refusal to render a quote as a refusal to write as

defined in the act of June 5, 1968, P.L. 140 (40 P.S. §1008.1 et seq.) and comply with all applicable provisions of the act.

AND

Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

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. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant.

AND

Title 75, Pa. C.S. §1799.3(f)

Notice of refusal to write. If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the Commissioner. An applicant receiving a notice of reasons under this subsection may obtain review by the Commissioner pursuant to the Automobile Insurance Policy Act. The Company failed to provide a notice of refusal to write private passenger automobile insurance to applicants giving a specific reason with a right of review by the Commissioner and on a form approved by the Insurance Commissioner.

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company failed to record applicants who were refused private passenger automobile insurance and make records available for review.

Metropolitan Direct Property and Casualty Insurance Company

The Company was asked to provide a list of all applicants who had been declined or refused to be written for private passenger automobile coverage and none were reported. A review of Company records and procedures indicated applicants were refused, but names and addresses had not been captured so the number of refusals could not be determined. A written notice to these applicants was not sent.

The following findings were made:

1 Violation Title 31, Pa. Code, Section 51.61(3)

An advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of a premium rate which the company would charge for such insurance unless: If it is the company's intent and actual practice to offer a quotation to applicants who meet its underwriting requirements and not to offer a quotation to those who do not appear to meet the

company's underwriting requirements, the company shall consider such refusal to render a quote as a refusal to write as defined in the act of June 5, 1968, P.L. 140 (40 P.S. §1008.1 et seq.) and comply with all applicable provisions of the act.

AND

Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

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. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant.

AND

Title 75, Pa. C.S. §1799.3(f)

Notice of refusal to write. If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the Commissioner. An applicant receiving a notice of reasons under this subsection may obtain review by the Commissioner pursuant to the Automobile Insurance Policy Act. The Company failed to provide a notice of refusal to write private passenger automobile insurance to applicants giving a specific reason with a right of review by the Commissioner and on a form approved by the Insurance Commissioner.

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company failed to record applicants who were refused private passenger automobile insurance and make records available for review.

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.

C. Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for

discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

Metropolitan Property and Casualty Insurance Company

From the universe of 317 personal property policies which were cancelled in the first 60 days of new business, 65 files were selected for review. All 65 policies were received and reviewed. The property policies consisted of homeowners and tenant homeowners. No violations were noted.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 224 personal property policies which were cancelled in the first 60 days of new business, 40 files were selected for review. All 40 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

Metropolitan Property and Casualty Insurance Company

From the universe of 1,080 property policies which were cancelled midterm during the experience period, 150 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 150 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 1%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 2 files noted were cancelled for an improper reason. The invalid reasons were: "The condition of property" and "Have not been able to verify interior renovations".

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 600 property policies which were cancelled midterm during the experience period, 150 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 150 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

Metropolitan Property and Casualty Insurance Company

From the universe of 149 property policies which were nonrenewed during the experience period, 57 files were selected for review. All 57 files were received and reviewed. The policies consisted of homeowners and tenant homeowners. The 29 violations noted were based on 29 files, resulting in an error ratio of 51%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. Of the 29 violations, 5 violations were due to the Company not sending notice of nonrenewal to the insured. The remaining 24 violations were due to improper reason for nonrenewal. Of the 24 violations, 22 were nonrenewed due to the agent no longer representing the Company, 1 file was nonrenewed for no insurable interest and the remaining file was nonrenewed for an increase in hazard but the Company failed to send a fix-it letter and did not establish an increase in hazard.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

The universe of 13 property policies which were nonrenewed during the experience period was selected for review. All 13 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 31%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company nonrenewed the 3 files noted for an improper reason. The reasons for nonrenewal were: Pit bull on the premises with no bite history, Company could not determine if there was an insurable interest and failure to protect the home from plumbing losses.

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

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

The Company failed to provide 30 days notice of nonrenewal.

4. Declinations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

Metropolitan Property and Casualty Insurance Company

The universe of applicants for homeowner and tenant homeowner could not be determined. The Company was asked to provide a listing of all applicants that had been refused to be written or declined. A review of Company records and procedures indicated applicants were refused coverage, but names and addresses were not captured and recorded.

The following finding was made:

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

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has

complied with the laws of this Commonwealth. The Company failed to record applicants who were refused homeowner and tenant homeowner coverage and make available records for review.

Metropolitan Casualty Insurance Company

This Company did not write or decline any property coverage during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

The universe of applicants for homeowner and tenant homeowner could not be determined. The Company was asked to provide a listing of all applicants that had been refused to be written or declined. A review of Company records and procedures indicated applicants were refused coverage, but names and addresses were not captured and recorded.

The following finding was made:

1 Violation Insurance Department Act, Section 903(a) [40 P.S. §323.3]
Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The Company failed to record applicants who were refused homeowner and tenant homeowner coverage and make available records for review.

D. Commercial Property

1. 60-Day Cancellations

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

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

Metropolitan Property and Casualty Insurance Company

The universe of 31 landlord/tenant occupied dwelling fire policies which were cancelled within the first 60 days was selected for review. All 31 files were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 23%.

The following findings were made:

3 Violations Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The Company did not provide at least 30 days notice of cancellation for the 3 files noted.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 4 files noted contained a cancellation notice which required supporting business.

Metropolitan Casualty Insurance Company

This Company did not report any commercial property 60-day cancellations during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

This Company did not report any commercial property 60-day cancellations during the experience period.

2. Midterm Cancellations

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

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

Metropolitan Property and Casualty Insurance Company

From the universe of 112 landlord/tenant occupied dwelling fire policies which were cancelled during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 3 violations noted were based on 1 file, resulting in an error ratio of 2%.

The following findings were made:

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

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

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

Requires that a cancellation notice be clearly labeled "Notice of Cancellation". The cancellation notice was not labeled correctly.

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The file contained a cancellation notice which did not provide the required information.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

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

3. Nonrenewals

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

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

Metropolitan Property and Casualty Insurance Company

The universe of 22 landlord/tenant occupied dwelling fire policies identified as nonrenewals during the experience period was selected for review. All 22 files were received and reviewed. The 44 violations noted were based on 22 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not

provide at least 60 days notice of nonrenewal for the 11 files noted.

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

Requires that a cancellation notice be clearly labeled “Notice of Cancellation”. The Company did not label the notice, “Notice of Nonrenewal”.

6 Violations Act 86, Section 3(a)(1) [40 P.S. §3401]

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any evidence that a notice of nonrenewal was mailed to the insured for the 6 files noted.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 5 files noted contained a nonrenewal notice which required supporting business.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

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

4. Declinations

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

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

Metropolitan Property and Casualty Insurance Company

The universe of commercial property files could not be determined. The Company was asked to provide a list of applicants who were declined or refused to be written for coverage for commercial property in the Landlords program. A review of Company records and procedures indicated applicants who were refused, but no names or addresses were captured and no written notice was sent.

The following finding was made:

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

Company failed to keep records of applicants who were refused coverage under the Landlords program.

Metropolitan Casualty Insurance Company

This Company did not write or decline any commercial property policies within the experience period.

Metropolitan Direct Property and Casualty Insurance Company

This Company did not write or decline any commercial property policies within the experience period.

5. Renewals

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

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

Metropolitan Property and Casualty Insurance Company

From the universe of 1,008 landlord/tenant occupied dwelling fire policies which were renewed during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

This Company did not report any commercial property renewals 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

Metropolitan Property and Casualty Insurance Company

This Company did not report any private passenger automobile new business policies during the experience period.

Metropolitan Casualty Insurance Company

From the universe of 2,792 private passenger automobile policies identified as new business without surcharges by the Company, 75 files were selected for review. All 75 files were received and reviewed. The 19 violations noted were based on 18 files, resulting in an error ratio of 24%.

The following findings were made:

3 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 3 violations noted were the result of policies issued with limited tort and no evidence of a signed limited tort selection form.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

15 Violations Title 75, Pa. C.S. §1705(a)(1)

Each insurer shall notify in writing each named insured of the availability of two alternatives of full tort and limited tort insurance described in subsections (c) and (d). The notice shall be standardized form adopted by the Commissioner. The Company failed to include comparison costs of full and limited tort.

Metropolitan Direct Property and Casualty Insurance Company

The universe of 29 private passenger automobile policies identified as new business without surcharges by the Company was selected for review. All 29 files were received and reviewed. The 127 violations noted were based on the universe of 29 files, resulting in an error ratio of 100%.

29 Violations Title 75, Pa. C.S. §1791.1(a)

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 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 premiums for the insured's existing coverages. The Company failed to provide the required notice at the time of application.

29 Violations Title 75, Pa. C.S. §1791.1(b)

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

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

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the 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 Company did not provide a copy of the surcharge disclosure plan to the insured at the time of application.

29 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required wording at the time of application.

3 Violations Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 3 violations noted were the result of policies issued with limited tort and no evidence of a signed limited tort selection form.

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

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the file noted.

7 Violations Title 75, Pa. C.S. §1705(a)(1)

Each insurer shall notify in writing each named insured of the availability of two alternatives of full tort and limited tort insurance described in subsections (c) and (d). The notice shall be standardized form adopted by the Commissioner. The Company failed to include comparison costs of full and limited tort.

Private Passenger Automobile – New Business With Surcharges

Metropolitan Property and Casualty Insurance Company

The Company did not report any private passenger automobile new business policies during the experience period.

Metropolitan Casualty Insurance Company

From the universe of 309 private passenger automobile policies identified as new business with surcharges by the Company, 75 files were selected for review. All 75 files were received and reviewed. The 15 violations noted were based on 15 files, resulting in an error ratio of 20%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The violation noted was the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

14 Violations Title 75, Pa. C.S. §1705(a)(1)

Each insurer shall notify in writing each named insured of the availability of two alternatives of full tort and limited tort insurance described in subsections (c) and (d). The notice shall be standardized form adopted by the Commissioner. The Company failed to include comparison costs of full and limited tort for the 14 files noted.

Metropolitan Direct Property and Casualty Insurance Company

The universe of 7 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 7

files were received and reviewed. The 29 violations noted were based on the universe of 7 files, resulting in an error ratio of 100%.

The following findings were made:

7 Violations Title 75, Pa. C.S. §1791.1(a)

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 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 premiums for the insured’s existing coverages. The Company failed to provide the required notice at the time of application.

7 Violations Title 75, Pa. C.S §1791.1(b)

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

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

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the 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 Company did not provide a copy of the surcharge disclosure plan to the insured at the time of application.

7 Violations Title 75, Pa. C.S. §1791

Requires the Company to advise the insured of the benefits and limits available under this Chapter in bold print of at least ten-point type at the time of application for original coverage. The Company did not provide the required wording at the time of application.

1 Violation Title 75, Pa. C.S. §1705(a)(4)

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The violation noted was the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

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

Metropolitan Property and Casualty Insurance Company

From the universe of 1,630 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 8,195 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 5,029 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 591 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 1,146 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for

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

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 811 private passenger automobile policies renewed with surcharges during the experience period, 75 files were selected for review. All 75 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.

C. Homeowners

1. New Business

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

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

a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – New Business Without Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 2,497 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

This Company did not report any homeowner new business policies without surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 791 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Homeowner Rating – New Business With Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 156 homeowner policies written as new business with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

This Company did not report any homeowner new business policies with surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

This Company did not report any homeowner new business policies with surcharges during the experience period.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 8,939 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

This Company did not report any homeowner policies renewed without surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 3,517 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 608 homeowner policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowners policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Metropolitan Casualty Insurance Company

This Company did not report any homeowner policies renewed with surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

The universe of 1 homeowner policy renewed with surcharges during the experience period was selected for review. The file was received and reviewed. No violations were noted.

The following concern was made:

Concern: The homeowners policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

D. Tenant Homeowners

1. New Business

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

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

Tenant Homeowner Rating – New Business Without Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 467 tenant homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

This Company did not report any tenant homeowner policies written as new business without surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 404 tenant homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Tenant Homeowner Rating – New Business With Surcharges

Metropolitan Property and Casualty Insurance Company

The universe of 3 tenant homeowner policies written as new business with surcharges during the experience period was selected for review. All 3 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The tenant homeowner policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. In addition to this, many of these surcharged policies did not include a surcharge disclosure statement on the declarations page provided, which would notify the insured that the policy is surcharged and the reason for this surcharge. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

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

2. Renewals

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

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

Tenant Homeowner Rating – Renewals Without Surcharges

Metropolitan Property and Casualty Insurance Company

From the universe of 1,057 tenant homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

This Company did not report any tenant homeowner policies renewed without surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 882 tenant homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Tenant Homeowner Rating – Renewals With Surcharges

Metropolitan Property and Casualty Insurance Company

The universe of 26 tenant homeowner policies renewed with surcharges during the experience period was selected for review. All 26 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The tenant homeowner policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. In addition to this, many of these surcharged policies did not include a surcharge disclosure statement on the declarations page provided, which would notify the insured that the policy is surcharged and the reason for this surcharge. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Metropolitan Casualty Insurance Company

This Company did not report any tenant homeowner policies renewed with surcharges during the experience period.

Metropolitan Direct Property and Casualty Insurance Company

This Company did not report any tenant homeowner policies renewed with surcharges 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

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

Metropolitan Property and Casualty Insurance Company

From the universe of 110 private passenger automobile property damage claims reported during the experience period, 25 files were selected for

review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 469 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

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.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 295 private passenger automobile property damage claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

Metropolitan Property and Casualty Insurance Company

From the universe of 83 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 648 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 327 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

Metropolitan Property and Casualty Insurance Company

From the universe of 107 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Metropolitan Casualty Insurance Company

From the universe of 530 private passenger automobile collision claims reported during the experience period, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 286 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

Metropolitan Property and Casualty Insurance Company

From the universe of 47 private passenger automobile total loss claims reported during the experience period, 32 files were selected for review. All 32 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

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.

Metropolitan Casualty Insurance Company

From the universe of 260 private passenger automobile total loss claims reported during the experience period, 77 files were selected for review. All 77 files were received and reviewed. No violations were noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 131 private passenger automobile total loss claims reported during the experience period, 78 files were selected for review.

All 78 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

Metropolitan Property and Casualty Insurance Company

From the universe of 56 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 9 violations noted were based on 5 files, resulting in an error ratio of 20%.

The following findings were made:

5 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 did not pay the claim noted within 30 days.

3 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 the claim that was not paid within 30 days.

1 Violation Title 31, Pa. Code, Section 146.3

The claim files of an insurer shall be subject to examination by the Commissioner or by duly appointed designees. Such files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. The Company could not provide the correct re-pricing for this file. As a result, the Department could not determine if interest was paid on the bill cited for being paid more than 30 days after being received.

Metropolitan Casualty Insurance Company

From the universe of 306 private passenger automobile first party medical claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 13 violations noted were based on 9 files, resulting in an error ratio of 18%.

The following findings were made:

6 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 did not pay the claim noted within 30 days.

3 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 the claim that was not paid within 30 days.

2 Violations 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 2 files noted.

2 Violations Title 31, Pa. Code, Section 69.42

An insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the

Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer.

AND

Title 31, Pa. Code, Section 69.43

An insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount. The Company failed to have medical bills re-priced or adjusted for cost containment for the 2 files noted.

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 165 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 7 violations noted were based on 5 files, resulting in an error ratio of 20%.

The following findings were made:

3 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 did not pay the claim noted within 30 days.

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 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 the claim that was not paid within 30 days.

2 Violations Title 31, Pa. Code, Section 69.42

An insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer.

AND

Title 31, Pa. Code, Section 69.43

An insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount

will not be construed as a demand for payment in excess of the permissible payment amount. The Company failed to have medical bills re-priced or adjusted for cost containment for the 2 files noted.

F. Automobile First Party Medical Claims Referred to a PRO

Metropolitan Property and Casualty Insurance Company

The universe of 3 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 3 files were received and reviewed. The Company was requested to provide copies of any contracts with the Peer Review Organization it has contracted. The contracts were received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 33%.

The following findings were made:

1 Violation 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 the provider bill when submitted to a Peer Review Organization after 30 days.

1 Violation Title 31, Pa. Code, Section 69.53(e)

A provider shall provide a written analysis including specific reasons for its decision to insurers, which shall within 5 days of receipt, provide copies to providers and insureds. The Company did not provide the copies of the peer review report in a timely manner.

Metropolitan Casualty Insurance Company

The universe of 29 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 29 files were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. The 7 violations noted were based on 6 files, resulting in an error ratio of 21%.

The following findings were made:

2 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 the provider bill when submitted to a Peer Review Organization after 30 days.

2 Violations Title 31, Pa. Code, Section 69.53(e)

A provider shall provide a written analysis including specific reasons for its decision to insurers, which shall within 5 days of receipt, provide copies to providers and insureds. The Company did not provide the copies of the peer review report in a timely manner.

3 Violations Title 31, Pa. Code, Section 69.52(a)

Requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to

believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral. The 3 violations noted were the result of the Company not notifying the provider, in writing, upon referring bills to a PRO.

Metropolitan Direct Property and Casualty Insurance Company

The universe of 33 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 33 files were received and reviewed. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed. The 7 violations noted were based on 6 files, resulting in an error ratio of 18%.

The following findings were made:

1 Violation 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 the provider bill when submitted to a Peer Review Organization after 30 days.

4 Violations Title 31, Pa. Code, Section 69.53(e)

A provider shall provide a written analysis including specific reasons for its decision to insurers, which shall within 5 days of receipt, provide copies to providers and insureds. The

Company did not provide the copies of the peer review report in a timely manner.

2 Violations Title 31, Pa. Code, Section 69.52(a)

Requires an insurer to refer a provider's bill to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral. The 2 violations noted were the result of the Company not notifying the provider, in writing, upon referring bills to a PRO.

G. Homeowner Claims

Metropolitan Property and Casualty Insurance Company

From the universe of 517 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

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.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

From the universe of 241 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

H. Tenant Homeowners

Metropolitan Property and Casualty Insurance Company

The universe of 31 tenant homeowner claims reported during the experience period was selected for review. All 31 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

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.

Metropolitan Casualty Insurance Company

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

Metropolitan Direct Property and Casualty Insurance Company

The universe of 29 tenant homeowner claims reported during the experience period was selected for review. All 29 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.7(a)(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. No insurer shall deny a claim on the grounds of a specific policy provision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The Company did not provide specific policy provisions, conditions or exclusions in the denial letter.

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:

2 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 Company did not provide the fraud warning on a physician's statement Form #MPL0025-000 and Form MPL template.

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the required fraud warning notice on the homeowner supplemental form #MPL9192-000.

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 75 pieces of advertising which included brochures, agent's kits, mail solicitations, newsletters, newspaper and TV ads. Internet advertising was also reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 50 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 50 complaints were requested, received and reviewed.

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

The following findings were made:

1 Violation Act 68, Section 2003(e)(12) [40 P.S. §991.2003(e)(12)]

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four (24) month period when the operator's record indicates that the named insured presently bears five points or fewer, unless: The driver's license or motor vehicle registration of the named insured has been suspended or revoked. The Company nonrenewed the policy for an improper reason. The named insured's license was not suspended.

1 Violation Act 68, Section 2003(13)(ix) [40 P.S. §991.2003(13)(ix)]

An insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reason: Accidents which occurred more than 36 months prior to the later of the inception of the insurance policy or the upcoming anniversary date of the policy. The Company cancelled the policy for an improper reason. The accident was outside the 36 month period.

The following synopsis reflects the nature of the 50 complaints that were reviewed.

• 21	Cancellation/Nonrenewal	42%
• 17	Claims	34%
• 6	Rates	12%
• 5	Policyholder Service	10%
• 1	Billing	2%
<hr/>		<hr/>
50		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 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.

No violations were noted.

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 cancellation notice requirements of Act 68, Sections 2003, 2004, 2006 and 2008 [40 P.S. §§991.2003, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.
3. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
4. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 2, 3 and 7 [40 P.S. §§3402, 3403 and 3407], so that the violations noted in the Report do not occur in the future.

5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
6. The Company must review Title 75, Pa. C.S. §1791.1(a) to ensure that an itemized invoice listing minimum coverages is provided at the time of application, as noted in the Report, and does not occur in the future.
7. The Company must review Title 75, Pa. C.S. §1791.1(b) to ensure that the notice of tort options is provided at the time of application, as noted in the Report, and does not occur in the future.
8. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and every renewal thereafter, as noted in the Report, does not occur in the future.
9. The Company must review Title 75, Pa. C.S. §1791 to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
10. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option with comparison costs and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1) & (4) do not occur in the future.

11. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. §1738(d)(1) and (2) do not occur in the future.
12. 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 incomplete claim files, status letters, providing necessary claim forms and denial of claims do not occur in the future.
13. 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. 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 review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are re-priced for cost containment as required.
15. The Company must review Title 31, Pa. Code, Section 69.53(e) to ensure providers and insureds receive a copy of the peer review report within 5 days of receipt.

16. The Company must review Title 31, Pa. Code, Section 69.52(a) to ensure providers are notified, in writing, when a bill is referred to a Peer Review Organization.

17. The Company must ensure that all claim forms contain the required fraud warning notice.

18. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting coverage.

XIII. COMPANY RESPONSE

March 29, 2007

Mr. Chester Dirk
Market Conduct Division Chief
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, PA 17120

RE: Response to the Report of Market Conduct Examination Warrant: 06-M19-017

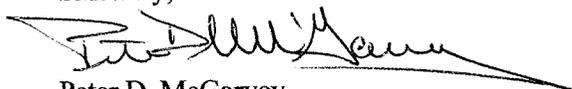
Dear Mr. Dirk:

On behalf of Metropolitan Property and Casualty Insurance Company, Metropolitan Direct Property & Casualty Insurance Company, and Metropolitan Casualty Insurance Company [hereafter collectively referred to as "Metropolitan"], this letter will serve as the response to the Report of the Market Conduct Examination Warrant: 06-M19-017 [hereafter referred to as the "Report"], which was received with your cover letter dated February 28, 2007. We have reviewed the Report and respectfully submit this response.

This response will address the recommendations beginning on page seventy-three of the Report. The recommendations made in the Report identify measures that the Department believes are necessary as a result of the number of violations or the nature of the violations noted in the Report. With respect to the remaining areas covered in the Report, but not addressed in the recommendations or within this response, Metropolitan wishes to note that the remaining areas reveal a single or statistically insignificant number of unique errors and not a trend. Those instances are a reflection of human errors and deviations from Metropolitan's established procedures and practices and do not require institutional corrective actions.

Please feel free to contact Metropolitan with any questions or concerns.

Sincerely,



Peter D. McGarvey
Compliance Consultant – Market Conduct Exam Coordinator
MetLife Corporate Ethics and Compliance
(518)783-7401 ext. 8515

XIII. COMPANY RESPONSE

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003, 2004, 2006 and 2008 [40 P.S. 991.2003, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.

Company response:

In reviewing the examination results, it has been determined that maintaining a copy of the cancellation notice mailed to customers is included in General Underwriting Practices. Those few exceptions found under Act 68, Sections 2003, 2004, 2006 and 2008 represent isolated incidents and not within our normal company practices. To ensure continuing compliance, a corporate communication will be sent to all field underwriters reminding them of the requirement and importance of maintaining a company copy of the cancellation on file. Internal auditing will be conducted to monitor continued compliance.

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

Company response:

We will implement procedures for agents and sales consultants to document instances where an individual was not provided with a quote because they did not appear to meet the company's underwriting guidelines.

3. The Company must review Act 205, Section 5(a)(9) [40 P.S. 1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and non-renewal notices, as noted in the Report, do not occur in the future.

Company response:

To place this recommendation in context, 150 policies were reviewed during the examination, resulting in two (2) exceptions, or a 1% error ratio, relative to midterm cancellations. The violations cited in Act 205, Section 5(a) (9) represent isolated or statistically insignificant incidents that do not reflect Metropolitan's general underwriting practice and do not warrant any changes in our established internal process. The knowledge base reference material field underwriting uses to guide them in their adverse action accurately reflects the reasons for midterm cancellations and nonrenewals. To ensure continuing compliance, a corporate communication will be sent to field underwriters reminding them of said requirement and the importance of adhering to the limited reasons to midterm cancel and non-renew both homeowner and tenant policies. Internal auditing will be conducted to monitor continued compliance.

We believe the criticism for improper nonrenewals of 22 policies due to the agent no longer representing Metropolitan is unjustified. Pursuant to its contract with Independent agents, Metropolitan provides written notice of such an event. These 22 policies were non-renewed subsequent to the twelve (12) month period after notice of termination was given to the agent.

4. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and non-renewal requirements of Act 86, Sections 2, 3 and 7 [40 P.S. 3402, 3403 and 3407], so that the violations noted in the Report do not occur in the future.

Company response:

We are working with our Information Technology department to amend the number of days notice provided on Landlord Tenant policies to 60 days, from the currently programmed 30 days. This will satisfy those exceptions noted in Act 86, Sections 2, 3, and 7. Upon installation of this change, field underwriting will be notified of the change through a corporate communication. The internal knowledge base information used as reference will be updated. Internal auditing will be conducted to monitor continued compliance.

5. The Company must review Act 205, Section 5(a) (4) [40 P.S. 1171.5(a) (4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.

Company response:

The practice of requiring supporting homeowner insurance when accepting a Landlord Tenant policy has been discontinued. Company guidelines have been amended and filed with the state removing the requirement. New guideline edition date is 11/2006. Internal auditing will be conducted to monitor continued compliance.

6. The Company must review Title 75, Pa. C.S. 1791.1(a) to ensure that an itemized invoice listing minimum coverage is provided at the time of application, as noted in the Report, and does not occur in the future.

Company response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

7. The Company must review Title 75, Pa. C.S. 1791.1(b) to ensure that the notice of tort options is provided at the time of application, as noted in the Report, and does not occur in the future.

Company response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

8. The Company must review Title 75, Pa. C.S. 1793 (b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and every renewal thereafter, as noted in the Report, and does not occur in the future.

Company response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

9. The Company must review Title 75, Pa. C.S. 1791 to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.

Company response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

10. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option with comparison costs and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. 1705(a) (1) and (4) do not occur in the future.

Company Response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

11. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under Title 75, Pa. C.S. 1738(d) (1) and (2) do not occur in the future.

Company Response:

We will revise our guidelines and procedures to make it clear to our sales consultants and underwriters that Metropolitan does not consider a policy to be bound until all mandatory PIP, Tort and UM forms are executed and returned by a potential customer. These forms, including an itemized invoice listing minimum coverage, tort options, surcharge disclosure plan and notice of available benefits, will be included in an application package to be sent to potential customers. This process ensures that policy will be bound accurately, pursuant to the customer's explicit determination.

12. 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 incomplete claims files, status letters, providing necessary claim forms and denial of claims do not occur in the future.

Company response:

In order to place this recommendation in context, the "majority" of the violations cited in the Report under Title 31, Pennsylvania Code, Chapter 146; Unfair Claims Practices reference Section 146.6. There were only 4 violations out of 822 claims reviewed or less than ½ of 1%. There were 2 violations under Section 146.3. Only 1 violation was noted for 146.3 and 146.7(a) (1). The violations cited in the Report under Chapter 146 represent isolated or statistically insignificant incidents that do not reflect Metropolitan's general claims settlement practices and do not warrant revision of Metropolitan's established internal control procedures.

To ensure continuing compliance, a communication was sent to our Rocky Hill Field claim office on December 21, 2006 and training was completed in our Bloomington Field Claim office on March 7, 2007.

13. 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. Those claims that have not been paid within 30 days shall bear interest 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.

Company response:

Title 31, Pa. Code, Section 69.52(b) was reviewed with the Bloomington Field Claim Office adjusting staff, supervisors, and manager on March 7, 2007. Furthermore, the management had decided to designate Pennsylvania No Fault specialists to enable a focus on the unique handling of Pennsylvania requirements to ensure compliance. The outstanding interest payments were made in October 2006. Copies of the cashed checks will be provided under separate cover for all but one file for which the check has not been cashed. A copy of the financial screen documenting the payment will be provided for that file.

14. The Company must review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are re-priced for cost containment as required.

Company response:

Metropolitan appreciates the Department's clarification on the application of Act 6 reductions on prescriptions. Training was held March 7, 2007 in our Bloomington, Minnesota office with our Pennsylvania Personal Injury Protection adjusters, supervisors, and manager. We would ask that the Department consider that these minor calculation errors were to the benefit of these few customers.

15. The Company must review Title 31, Pa. Code Section 69.53(e) to ensure providers and insureds receive a copy of the peer review report within 5 days of receipt.

Company response:

Title 31, Pa. Code, Section 69.53(e) was reviewed with the Bloomington Field Claim Office adjusting staff, supervisors, and manager on March 7, 2007. Furthermore, the management had decided to designate Pennsylvania No Fault specialists to enable a focus on the unique handling of Pennsylvania requirements to ensure compliance.

16. The Company must review Title 31, Pa. Code, Section 69.52(a) to ensure providers are notified, in writing, when a bill is referred to a Peer Review Organization.

Company response:

Title 31, Pa. Code, Section 69.52(a) was reviewed with the Bloomington Field Claim Office adjusting staff, supervisors, and manager on March 7, 2007. Furthermore, the management had decided to designate Pennsylvania No Fault specialists to enable a focus on the unique handling of Pennsylvania requirements to ensure compliance.

17. The Company must ensure that all claim forms contain the required fraud warning notice.

Company response:

Metropolitan wishes to place this recommendation in context. In the claims portion of the examination, 822 files were sampled. The Report cites one violation of Title 75 Pa. C.S. 1822. This represents an error ratio of approximately 1/8th of 1%. Furthermore, each claim file may have possessed several documents requiring fraud language.

Metropolitan did review this requirement with claims adjusting, supervising, and managing staff during our March 7, 2007 training.

18. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that guidelines do not require supporting coverage.

Company response:

The practice of requiring supporting homeowner insurance when accepting a Landlord Tenant policy has been discontinued. Company guidelines have been amended and filed with the state removing the requirement. New guideline edition date is 11/2006. Internal auditing will be conducted to monitor continued compliance.