

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**REAMSTOWN MUTUAL INSURANCE
COMPANY**

Reamstown, Pennsylvania

**AS OF
April 4, 2005**

COMMONWEALTH OF PENNSYLVANIA

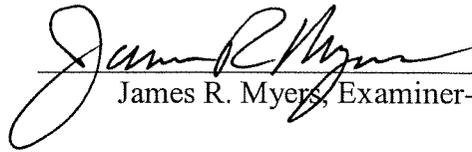


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 18, 2005

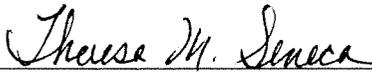
VERIFICATION

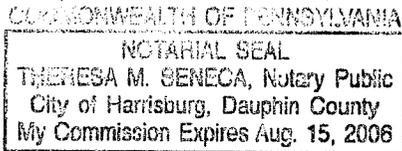
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


James R. Myers, Examiner-in-Charge

Sworn to and Subscribed Before me

This 28 Day of March, 2005


Notary Public



REAMSTOWN MUTUAL INSURANCE COMPANY

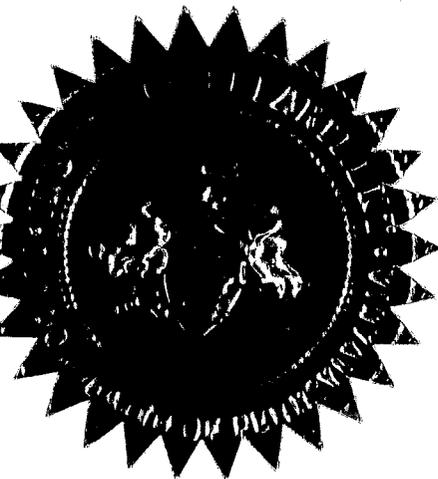
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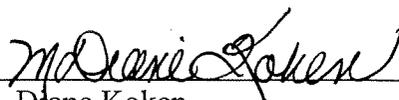
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
REAMSTOWN MUTUAL : Section 671-A of Act 147 of 2002
INSURANCE COMPANY : (40 P.S. § 310.71)
20 South Reamstown Road : :
Reamstown, PA 17567 : Section 903(a) of the Insurance
: Department Act, Act of May 17, 1921,
: P.L. 682, No. 284 (40 P.S. §323.3)
: :
: Sections 4(a) and 4(h) of the Act of
: June 11, 1947, P.L. 538, No. 246
: (40 P.S. §§ 1184)
: :
: Sections 1, 3(a)(1), 3(a)(2), 3(a)(3) and
: 4(b) of the Act of July 3, 1986, P.L.
: 396, No. 86 (40 P.S. §§ 3401, 3403
: and 3404)
: :
: Sections 5(a)(9), 5(a)(9)(ii) and
: 5(a)(9)(v) of the Unfair Insurance
: Practices Act, Act of July 22, 1974,
: P.L. 589, No. 205 (40 P.S. §§ 1171.5)
: :
: Title 31, Pennsylvania Code, Sections
: 59.6(6) and 146.6
: :
: Title 18, Pennsylvania Code, Section
: 4117(k)
: :
Respondent. : Docket No. MC05-04-001

CONSENT ORDER

AND NOW, this 18th day of May, 2005, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Reamstown Mutual Insurance Company, and maintains its address at 20 South Reamstown Road, Reamstown, Pennsylvania 17567.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2003 through June 30, 2004.

- (c) On April 4, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on May 2, 2005.
- (e) The Examination Report notes violations of the following:
 - (i) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (ii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;
 - (iii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every

rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

- (iv) Section 1 of Act 86 (40 P.S. § 3401), which requires a policy of insurance covering property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;
- (v) 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;
- (vi) 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;
- (vii) Section 3(a)(3) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall provide at least 60 days advance notice of the effective date of cancellation, whichever is less;
- (viii) Section 4(b) of Act 86 (40 P.S. § 3404), which requires unearned premium to be returned to the insured not later than 30 days after the effective date of

termination where commercial property or casualty risks are cancelled in mid-term by the insured;

- (ix) 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;

- (x) 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 thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;
- (xi) Section 5(a)(9)(v) of Act 205 (40 P.S. § 1171.5), which requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”;
- (xii) Title 31, Pennsylvania Code, Section 59.6(6), which states if the reason is a substantial change or an increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it is due;
- (xiii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

- (xiv) 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.”

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:
- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
 - (b) Respondent’s violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;

- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;
- (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

(d) Respondent's violations of Sections 1, 3(a)(1), 3(a)(2), 3(a)(3) and 4(b) of Act 86 (40 P.S. §§ 3401, 3403 and 3404), 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.

- (e) Respondent's violations of Sections 5(a)(9), 5(a)(9)(ii) and 5(a)(9)(v) 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. § 171.9):
- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (f) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (g) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Twenty-Eight Thousand Dollars (\$28,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

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

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

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

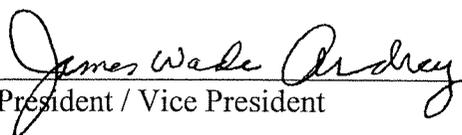
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

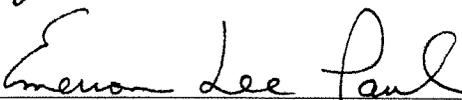
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: REAMSTOWN MUTUAL INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Reamstown Mutual Insurance Company's office located in Reamstown, Pennsylvania, from February 28, 2005, through March 10, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

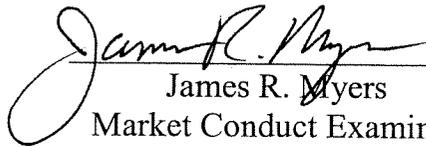
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

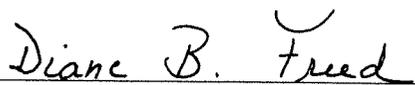
The undersigned participated in this examination and in preparation of this Report.



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



James R. Myers
James R. Myers
Market Conduct Examiner
Examiner In Charge



Diane B. Freed
Diane Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Reamstown Mutual Insurance Company, hereinafter referred to as “Company,” at their office located in Reamstown, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2003, through June 30, 2004, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and rescissions.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Dwelling Fire
 - Rating – Proper use of all classification and rating plans and procedures.
3. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations and renewals.
4. Claims
5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Reamstown Mutual Insurance Company was incorporated on April 10, 1895 as a mutual insurer in the Commonwealth of Pennsylvania and commenced business in May 1895. On August 16, 1986, the Company reinsured all business and assumed all obligations of West Salem Mutual Fire Insurance Company. At the same time West Salem's name was changed to Reamstown Mutual Fire Insurance Company. In January 1987, all post assessment fire policies and policyholders were transferred from Reamstown Mutual Insurance to Reamstown Mutual Fire. On October 1, 2001, Reamstown Mutual Fire Insurance Company, who primarily wrote fire and allied line coverage on a post assessment basis for up to 200% of annual premium in the farm land regions of Pennsylvania, was merged into Reamstown Mutual Insurance Company. On January 1, 2003, Reamstown Mutual entered into a transaction with Bakerstown Mutual Fire Insurance Company whereby Bakerstown reinsured its entire schedule of policies with Reamstown via assumption reinsurance in exchange for select assets of Bakerstown. Additionally, Reamstown assumed all remaining assets and liability and obligations of Bakerstown existing immediately prior to the effective date of the transaction.

LICENSING

Reamstown Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on April 10, 1895. The Company is licensed in Pennsylvania. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$5,115,347. Premium volume related to the areas of this review were: Fire \$516,168; Farm Owners' Multiple Peril \$548,821; Homeowners' Multiple Peril

\$2,283,603; Commercial Multiple Peril (non-liability portion) \$1,120,159;
Commercial Multiple Peril (liability portion) \$187,318 and Inland Marine \$6,553.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, mobile homeowners, farm owners and dwelling fire. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. UNDERWRITING

A. Personal Lines Property

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 138 personal lines property policies, which were cancelled within the first 60 days of new business, 55 files were selected for review. The property policies consisted of homeowners, mobile homeowners, owner occupied dwelling fire and personal inland marine. All 55 files selected were received and reviewed. Of the 55 files reviewed, 27 were identified as nonrenewals, 3 midterm cancellations and 1 rescission. 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.

From the universe of 588 personal lines property policies, which were cancelled midterm during the experience period, 170 files were selected for review. The property policies consisted of homeowners, mobile homeowners, owner occupied dwelling fire and personal inland marine. All 170 files requested were received and reviewed. The violation noted resulted in an error ratio of .5%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 59.6(6)

If the reason is a substantial change or an increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it is due. The Company cancelled the policy for nonpayment of premium and did not provide the amount due and the date it was due.

3. Nonrenewals

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

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

cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 217 personal lines property policies, which were nonrenewed during the experience period, 108 files were selected for review. The property policies consisted of homeowners, mobile homeowners, owner occupied dwelling fire and personal inland marine. All 108 files requested were received and reviewed. Of the 108 files reviewed, one file was identified as a midterm cancellation. The 99 violations noted were based on 54 files, resulting in an error ratio of 50%.

The following findings were made:

41 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 41 violations were due to an improper reason to nonrenew the policy. The reason

noted on the cancellation notices was agent no longer represents the company.

13 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.

AND

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 13 files noted did not indicate that a notice of nonrenewal was sent to the insured.

4 Violations 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 4 violations were due to cancellation notices being issued that did not provide the required thirty days.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”.

The 41 violations noted were the result of cancellation notices being issued without the required information.

4. Rescissions

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

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

The universe of 19 personal lines property policies, which were rescinded, was selected for review. The property rescissions consisted of homeowners, mobile homeowners and owner occupied dwelling fire. All 19 files requested were received and reviewed. No violations were noted.

B. Commercial Property

1. 60-Day Cancellations

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

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

The universe of 22 commercial property policies, which were cancelled within the first 60 days was selected for review. The commercial property files consisted of tenant occupied dwelling fire, commercial fire, commercial package and farm owners. All 22 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 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.

From the universe of 232 commercial property policies, which were cancelled during the experience period, 162 files were selected for review.

The commercial property files consisted of commercial package, commercial fire, tenant occupied dwelling fire and farm owners. All 162 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 2%.

The following findings were made:

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

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

2 Violations Act 86, Section 4(b) [40 P.S. §3404(b)]

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The 2 files noted were absent any evidence that this requirement was complied with.

3. Nonrenewals

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

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

The universe of 53 commercial property policies identified as nonrenewals by the Company was selected for review. All 53 files selected were received and reviewed. The 8 violations were based on 8 files, resulting in an error ratio of 15%.

The following findings were made:

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

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 file noted was absent any evidence this requirement was complied with.

7 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 7 files noted were absent any evidence this requirement was complied with.

4. Renewals

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

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

From the universe of 1,398 commercial property policies, which were renewed during the experience period, 100 files were selected for review.

All 100 files selected were received and reviewed. The 13 violations noted were based on 13 files, resulting in an error ratio of 13%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The 13 files noted were absent any evidence this requirement was complied with.

VI. RATING

A. Homeowners

1. New Business

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

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

Homeowner Rating – New Business Without Surcharges

From the universe of 1,574 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.

Homeowner Rating – New Business With Surcharges

From the universe of 126 homeowner policies written as new business with surcharges during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 4,565 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

Homeowner Rating – Renewals With Surcharges

From the universe of 43 homeowner policies renewed with surcharges during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. No violations were noted.

B. Dwelling Fire

1. New Business

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it

proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

From the universe of 117 dwelling fire policies written as new business during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 8 violations noted were based on 8 files within the universe of 117 files, resulting in an error ratio of 7%.

The following findings were made:

8 Violations Act 246, The Casualty and Surety Rate Regulatory Act, Section 4 (40 P.S. §1184)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied a nonfiled surcharge for seasonal dwellings. The Company must rerate these policies and refund the overcharge to the insured.

2. Renewals

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

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file

with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

From the universe of 1,135 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. The 171 violations noted were based on 171 files within the universe of 1,135 policies, resulting in an error ratio of 15%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied a nonfiled surcharge for seasonal dwellings. The Company must rerate these policies and refund the overcharge to the insured.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Dwelling Fire Claims

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

A. Homeowner Claims

From the universe of 502 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 17 violations noted were based on 17 files, resulting in an error ratio of 34%.

The following findings were made:

17 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 17 violations noted were absent any evidence this requirement was complied with.

B. Dwelling Fire Claims

From the universe of 44 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 4 files noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

4 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 4 violations noted were absent any evidence this requirement was complied with.

VIII. FORMS

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

Homeowner Claims

3 Violations Title 18 Pa. C.S. §4117(k)(1)

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on an inventory report and 2 personal property inventory forms.

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 19 pieces of advertising which included newspaper and magazine ads and brochures. 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 9 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 9 complaints reported, were selected and reviewed.

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

The following findings were made:

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

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

premium when due or for any other reasons approved by the Commissioner. The Company nonrenewed the policy because the agent no longer represents the Company, which is not a valid reason for nonrenewal.

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

Requires that a cancellation notice shall advise the insured of his possible eligibility for insurance under the act of July 31, 1968 (P.L. 738, No. 233), known as “The PA Fair Plan Act”. The violation noted was the result of a cancellation notice being issued without the required information.

The following synopsis reflects the nature of the 9 complaints that were reviewed.

• 7	Cancellation/Nonrenewal	78%
• 1	Claims Related	11%
• 1	Premium Related	11%
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9		100%

XI. LICENSING

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

The following findings were made:

23 Violations Insurance Department Act, No. 147, Section 671-A (40 P.S.

§310.71) Effective 06/04/2003

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineate the services to be provided; and

(2) Provide full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the

insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

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

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

Inter-County Agency, Inc.
Arthur M. Yeager Agency, Inc.
Consumers Insurance Group, Inc.
Baron Insurance Group, Inc.
George C. Hartsock
Miller Insurance Associates, Inc.
The Hess Agency, Inc.
Insurance Services United
Farina Insurance, LTD
BCF Insurance
O'Dell and Company, Inc.
RBLA of PA, Inc.
Glenn Insurance Agency, Inc.

John D. Hill Agency, Inc.
Yoder Insurance, Inc.
Jacob H. Ruhl, Inc.
Boyer Insurance Agency, Inc.
J.D. Insurance, Inc.
Gibbel Insurance Agency, Inc.
Melanie Garman-Shaffer
Campbell-Kautter Insurance Associates
Lewis Casualty, Inc.
Steve E. Orris

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 Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
2. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, claim acceptance and denials as noted in the Report do not occur in the future.
3. The Company must review Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the dwelling fire rating violations listed in the report do not occur in the future.
4. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.
5. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 4 [40 P.S. §§3403 and 3404], so that the violations noted in the Report do not occur in the future.
7. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1-A [40 P.S. §310.41a] and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from a producer.
8. The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all claim forms, as noted in the Report, do not occur in the future.

XIII. COMPANY RESPONSE

Reamstown Mutual Insurance Company
Reamstown Mutual Fire Insurance Company
20 S. Reamstown Rd., P.O. Box 477, Reamstown, PA 17567

April 28, 2005

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

Re: Examination Warrant Number 04-M22-047

Dear Mr. Derk:

This letter acknowledges the receipt and review of the Report of Examination for the Reamstown Mutual Insurance Company for the period of July 1, 2003 through June 30, 2004. We wish to provide the following comment/response to the recommendations listed on the report.

1. The company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure Compliance with cancellation and non renewal notice requirements so that violations noted in the Report do not occur in the future.

We have reviewed Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] and have made the appropriate internal changes to correct this error and see that the violations as noted in the report do not occur again.

2. 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 related to status letters, claim acceptance and denials as noted in the report do not occur in the future.

We have reviewed Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and have instituted measures to correct the violations found. All claimants will be notified within 30 days of submission of their claim as to the disposition of the claim. If the claim is not concluded within the next 45 days a letter will be issued to the claimant noting the delay and a decision stating when resolution the claim can be expected. This letter will be generated every 45 days until the claim is concluded.

3. The Company must review Act 246, Section 4 {40 P.S.§1184} and take appropriate measures to ensure the dwelling fire rating violations listed in the report do not occur in the future.

We have reviewed Act 246, Section 4 {40 P.S.§1184} and have set up procedures to have all computer generated rates reviewed by both underwriting and management prior to being used in the issuance of new and renewal policies. This will prevent the oversight that occurred in the dwelling fire rating program on our computer system.

4. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

The company has currently issued premium refunds to those pre-paid policyholders affected by the dwelling fire overcharge. All Post-Assessment policyholders affected by the overcharge will be receiving credit on their Assessment billing in September of 2005. We will provide the department with documentation regarding the issuance of these refunds.

5. The Company must review Act 86, Section 1 [40 P.S.§ 3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.

We have corrected our underwriting procedures to ensure that all commercial policyholders receive notification of any premium increase so we are in compliance with Act 86, Section 1 [40 P.S.§ 3401].

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

The company has reviewed, updated, and revised our internal procedures and computer systems so we are in compliance with Act 86, Sections 3 and 4 [40 P.S. § 3403] regarding commercial cancellations and nonrenewal requirements.

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

Upon notice of the auditor of our violation of Act 147 the company immediately filed the appropriate licensing appointment forms as well as all documentation necessary with the Insurance Department to correct the violation and ensure compliance with all relevant sections Act 147.

8. The Company must review Title 18 Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all claim forms, as noted in the Report, do not occur in the future

We have reviewed Title 18 Pa. C.S. §4117(k) (1) and made the appropriate changes to all claims forms as well as changes to our computer system. Our claims staff has also been informed and they have instituted changes to ensure that the violations as noted are corrected and will not occur in the future.

We wish to thank the Insurance Department for this opportunity to review our company and its help to bring us into compliance with all Insurance Department laws and regulations. The examiners were prompt, courteous, and very professional. We have gained valuable insight from this experience.

Sincerely,
Reamstown Mutual Insurance Company



Matthew A. Schnader
Co. Mgr./Assistant Secretary