

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**ROYAL INSURANCE COMPANY OF AMERICA**  
Naperville, Illinois

**ROYAL INDEMNITY COMPANY**  
Wilmington, Delaware

**AS OF  
December 15, 2003**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: February 2, 2004**

**ROYAL INDEMNITY COMPANY  
ROYAL INSURANCE COMPANY OF AMERICA**

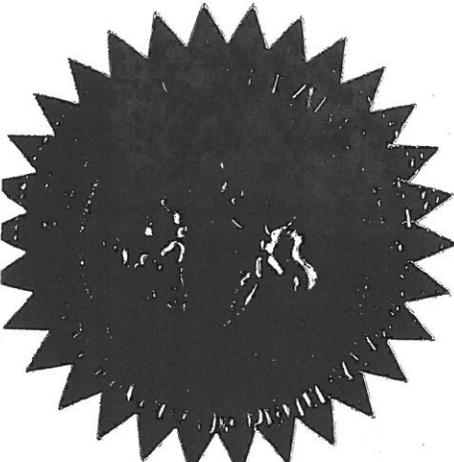
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

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:
	:	
ROYAL INDEMNITY COMPANY	:	Sections 605 and 623 of the
ROYAL INSURANCE COMPANY	:	Insurance Department Act, Act of
OF AMERICA	:	May 17, 1921, P.L. 789, No. 285
9300 Arrowpoint Boulevard	:	(40 P.S. §§ 235 and 253)
Charlotte, NC 28201	:	
	:	Sections 4(a) and 4(h) of the Act of
	:	June 11, 1947, P.L. 538, No. 246
	:	(40 P.S. § 1184)
	:	
	:	Act 1990-6, Title 75 Pennsylvania
	:	Consolidated Statutes, Sections
	:	1705(a)(1) and (4), 1738(c)(d)(1) and
	:	(2), 1791.1(b), 1792(b)(1) and 1793(b)
	:	
	:	Sections 1, 3(a)(1), 3(a)(5) and 3(a)(6)
	:	of the Act of July 3, 1986, P.L. 396,
	:	No. 86 (40 P.S. §§ 3401 and 3403)
	:	
	:	Sections 5(a)(4), 5(a)(9), 5(a)(9)(ii),
	:	5(a)(9)(iii), 5(a)(9)(iv) 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)
	:	
	:	Sections 2003(a)(1), 2003(a)(13),
	:	2003(a)(14), 2003(d), 2004 and
	:	2006(2) of Act 68 of 1998 (40 P.S.
	:	§§ 991.2003, 991.2004 and
	:	991.2006)
	:	
	:	Section 653 of the Insurance Company
	:	Law, Act of May 17, 1921, P.L. 682,
	:	No. 284 (40 P.S. § 813)
	:	

Respondent. : Title 31, Pennsylvania Code, Sections  
: 61.13, 62.3(e)(4), 69.52(b), 69.52(e),  
: 113.88, 146.3, 146.5(d) and 146.6  
:  
:  
:  
: Docket No. MC04-01-003

CONSENT ORDER

AND NOW, this 2<sup>nd</sup> day of February, 2004, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

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

- (a) Respondent is Royal Indemnity Company and Royal Insurance Company of America, and maintains its address at 9300 Arrowpoint Boulevard, Charlotte, North Carolina 28201.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2001 through June 30, 2002.
- (c) On December 16, 2003, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on January 14, 2004.
- (e) The Examination Report notes violations of the following:
  - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance

appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as determined by the Department, certify to the Department the names of all agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;

(ii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;

(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 1705(a)(1) and (4) of Act 1990-6, Title 75, Pa.C.S. § 1711(a), 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;

- (v) Sections 1738(c)(d)(1) of Act 1990-6, Title 75, Pa.C.S. § 1738(c)(d)(1) and (2), which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vi) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791.1(b), which requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (vii) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792(b)(1), which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500.00 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;
- (viii) Section 1793(b) of Act 1990-6, Title 75, Pa.C.S. § 1793(b), which requires all insurers to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to, a description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the

surcharge per policy period, per policyholder and the number of years any surcharge will be in effect. The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;

- (ix) 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;
- (x) Section 3(a)(1) of Act 86 (40 P.S. § 3401), 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 insureds;
- (xi) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice shall state the specific reasons for nonrenewal identifying the condition, factor or loss experience which caused the nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency;
- (xii) 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;

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

(xiv) 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;

- (xv) Section 5(a)(9)(ii) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice state the date, not less than 30 days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;
- (xvi) Section 5(a)(9)(iii) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation;
- (xvii) Section 5(a)(9)(iv) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of receipt of notice of cancellation, that the Commissioner review the action of the insurer;
- (xviii) 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, known as The Pennsylvania Fair Plan Act, or the Pennsylvania Assigned Risk Plan;

- (xix) Section 2003(a)(1) of Act 68 of 1998 (40 P.S. § 991.2003), which provides that an insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Age;
- (xx) Section 2003(a)(13) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from cancelling or refusing to write or renew a policy of automobile insurance for: (13) any accident which occurred under the following circumstances: (i) automobile lawfully parked;
- (xxi) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from cancelling or refusing to write or renew a policy of automobile insurance for: (14) Any claim under the comprehensive portion of the policy unless intentionally caused by the insured;
- (xxii) Section 2003(d) of Act 68 of 1998 (40 P.S. § 991.2003), which states that an insurer may not cancel or refuse to renew existing policies written through the terminated agent without offering each such insured coverage on a direct basis or offering to refer the insured to one or more new agents in the event the terminated agent could not find a suitable insurer acceptable to the policyholder for such business;

- (xxiii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which states that an insurer may not cancel a policy except for specified reasons;
- (xxiv) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires a cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The notice shall: (2) state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation or refusal to renew shall become effective. When the policy is being cancelled or not renewed for the reasons set forth in Section 2004(1) and (2), however, the effective date may be 15 days from the date of mailing or delivery;
- (xxv) Section 653 of the Insurance Company Law, Act 284 (40 P.S. § 813), which prohibits mid-term cancellation with exceptions for nonpayment of premium, or by request of the insured.
- (xxvi) Title 31, Pennsylvania Code, Section 61.13, which requires an insurer to maintain records of the number of cancellations and the reasons therefore, and shall file with the Department, a report summarizing the record of all such actions;

- (xxvii) Title 31, Pennsylvania Code, Section 62.3(e)(4), which requires applicable sales tax to be included as part of the replacement value;
- (xxviii) Title 31, Pennsylvania Code, Section 69.52(b), which 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;
- (xxix) Title 31, Pennsylvania Code, Section 69.52(e), which requires a PRO to provide a written analysis, including specific reasons for its decision, to insurers, which shall within five days of receipt, provide copies to providers and insureds;
- (xxx) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;
- (xxxi) 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;

(xxxii) Title 31, Pennsylvania Code, Section 146.5(d), which requires every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions and reasonable assistance so that first party claimants can comply with the policy conditions and reasonable requirements of the insurer; and

(xxxiii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot 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.

#### 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 Sections 605 and 623 (40 P.S. § 235 and 253) of the Insurance Department Act are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
  - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
  - (iii) issue an order to cease and desist.
  - (iv) impose such other conditions as the department may deem appropriate.
- (c) 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 (40 P.S. § 1196) 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)(5) and 3(a)(6) of Act 86 (40 P.S. §§ 3401 and 3403), 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)(4), 5(a)(9), 5(a)(9)(ii), 5(a)(9)(iii), 5(a)(9)(iv), 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. § 1171.9):

(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 Sections 2003(a)(1), 2003(a)(13), 2003(a)(14), 2003(d), 2004, 2006(2) 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).
  
- (h) Respondent's violation of Section 653 of The Insurance Company Law (40 P.S. §813) is punishable by the following, under Section 655 of The Insurance Company Law (40 P.S. § 815), which states the Commissioner shall have the power to suspend or revoke the license of any insurance company which violates any of the provisions of subdivision (d) of this article
  
- (i) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5(d) and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the 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 Thousand Dollars (\$20,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square,

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

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

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

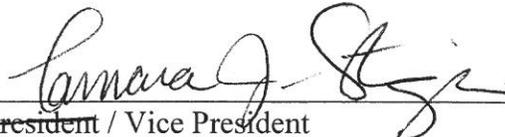
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

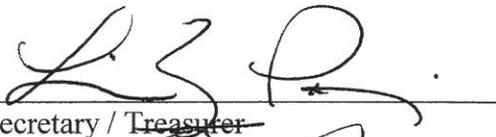
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order by the Insurance Department.

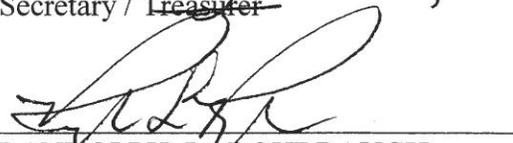
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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

BY: ROYAL INDEMNITY COMPANY  
ROYAL INSURANCE COMPANY  
OF AMERICA, Respondent

  
\_\_\_\_\_  
President / Vice President

  
\_\_\_\_\_  
Secretary / Treasurer

  
\_\_\_\_\_  
RANDOLPH L. ROHRBAUGH  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## I. INTRODUCTION

The market conduct examination was conducted at Royal Indemnity Company and Royal Insurance Company of America's offices located in Bridgeville, Pennsylvania and Syracuse, New York, from July 7, 2003, through August 29, 2003. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

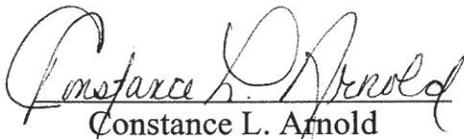
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

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



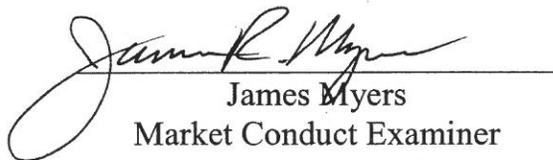
Chester A. Derk, Jr., AIE, HIA  
Market Conduct Division Chief



Constance L. Arnold  
Market Conduct Examiner



Metro Orange  
Market Conduct Examiner



James Myers  
Market Conduct Examiner

## II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Royal Indemnity Company and Royal Insurance Company of America, hereinafter referred to as "Company," at their offices located in Bridgeville, Pennsylvania and Syracuse, New York. 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, 2001, through June 30, 2002, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

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

5. Commercial Automobile

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

6. Workers' Compensation

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

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

### **III. COMPANY HISTORY AND LICENSING**

Royal Indemnity Company was incorporated on December 3, 1979 under the laws of Delaware under the temporary title of Royal Indemnity Company to act as the vehicle for the transfer of the corporate domicile of the Royal Indemnity Company from New York, New York, to Wilmington, Delaware, effective March 31, 1980. The predecessor company was incorporated September 30, 1910, under the laws of New York. It commenced business February 15, 1911, under the sponsorship of the Royal Insurance plc, London. In 1949, all the outstanding capital stock of its companion carrier, Eagle Indemnity Company of New York, was contributed to this company by the parent organization, Royal Insurance plc, London, England. The two companies were merged on June 30, 1950.

Royal Insurance Company of America was incorporated under the laws of Illinois as the Royal Globe Insurance Company on October 22, 1971, to act as a vehicle for the transfer of the corporate domicile of the Queen Insurance Company of America, New York, New York, to Illinois, effective December 31, 1971. The name was changed to its present form on June 27, 1980. The predecessor company, which was incorporated and commenced business in New York on September 11, 1891, represented a continuation of the business of the Queen Insurance Company of Liverpool, England, which was absorbed by the Royal of Liverpool in 1891.

#### **LICENSING**

Royal Indemnity Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2003. The Company is licensed in all states, District of Columbia and Guam. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of

Pennsylvania as \$53,718,105. Premium volume related to the areas of this review were: Fire \$5,913,561; Homeowners' Multiple Peril \$720; Commercial Multiple Peril (non-liability portion) \$7,990,450; Commercial Multiple Peril (liability portion) \$3,918,970; Inland Marine \$1,123,814; Workers; Compensation \$14,167,806; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$506,422; Private Passenger Auto Liability \$1,985,544 and Private Passenger Auto Physical Damage \$1,391,883; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$48,511; Other Commercial Auto Liability \$2,218,700 and Commercial Auto Physical Damage \$466,559.

Royal Insurance Company of America's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2003. The Company is licensed in all states and District of Columbia. The Company's 2002 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$89,168,570. Premium volume related to the areas of this review were: Fire \$1,093,789; Homeowners' Multiple Peril \$8,228,876; Commercial Multiple Peril (non-liability portion) \$1,448,953; Commercial Multiple Peril (liability portion) \$968,760; Inland Marine \$1,551,710; Workers; Compensation \$32,105,552; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,224,563; Private Passenger Auto Liability \$5,242,092 and Private Passenger Auto Physical Damage \$3,783,021; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$16,322; Other Commercial Auto Liability \$5,764,304 and Commercial Auto Physical Damage \$1,135,793.

#### IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following findings were made:

##### **Royal Indemnity Company**

*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 an operator with less than 3 years experience be part of a family account to be considered.

*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’s guideline stated the following: “Any owner or principal operator must be licensed in the U.S. a minimum of 3 years.”

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

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13). The Company’s guidelines referred to not at-fault accidents as criteria for refusal to write, which included adults, youthfals and on a per-policy basis.

*1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]*

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: Any claim under the comprehensive portion of the policy unless intentional caused by the insured. The Company’s guidelines referred to comprehensive and towing claims as criteria used to refuse to write a policy.

### **Royal Insurance Company of America**

*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 an operator with less than 3 years experience be part of a family account to be considered.

*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’s guideline stated the

following: “Any owner or principal operator must be licensed in the U.S. a minimum of 3 years.”

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

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the reasons specified in 2003(a)(13). The Company’s guidelines referred to not at-fault accidents as criteria for refusal to write.

*1 Violation Act 68, Section 2003(a)(14) [40 P.S. §991.2003(a)(14)]*

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: Any claim under the comprehensive portion of the policy unless intentional caused by the insured. The Company’s guidelines referred to comprehensive and towing claims as criteria used to refuse to write a policy.

## 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.

#### **Royal Indemnity Company**

The Company did not report any private passenger automobile 60-day cancellations during the experience period.

#### **Royal Insurance Company of America**

The universe of 79 personal automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 79 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

*2 Violations 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 used “operator’s licensed less than 5 years” as a reason for cancellation.

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.

**Royal Indemnity Company**

From the universe of 130 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

From the universe of 549 private passenger automobile files identified as midterm cancellations by the Company, 100 files were selected for review. All 100 files selected were received and reviewed. The 2 violations were based on 2 files, resulting in an error ratio of 2%.

The following findings were made:

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

Requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer. The 2 files noted were cancelled for other than permitted reasons.

3. Nonrenewals

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

The 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.

**Royal Indemnity Company**

The universe of 18 private passenger automobile files identified as nonrenewals by the Company was selected for review. The 18 files selected were received and reviewed. The 4 violations noted were based on 2 files, resulting in an error ratio of 11%.

The following findings were made:

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

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

*2 Violations Title 31, Pa. Code, Section 61.13*

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, a report summarizing the record of all such actions. The Company provided inaccurate semi-annual reports to the Department of their cancellations, refusals to write or renew.

**Royal Insurance Company of America**

From the universe of 119 private passenger automobile files identified as nonrenewals by the Company 50 files were selected for review. All 50 files selected were received and reviewed. The 4 violations noted were based on 2 files, resulting in an error ratio of 6%.

The following findings were made:

*2 Violations Act 68, Section 2003(d) [40 P.S. §991.2003(d)]*

States that an insurer may not cancel or refuse to renew existing policies written through the terminated agent without offering each such insured coverage on a direct basis or offering to refer the insured to one or more new agents in the event the terminated agent could not find a suitable insurer acceptable to the policyholder for such business. The 2 files noted were the result of nonrenewal notices being issued for agency termination and did not provide the required information to the insured.

*2 Violations Title 31, Pa. Code, Section 61.13*

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, a report summarizing the record of all such actions. The Company provided inaccurate semi-annual reports to the Department of their cancellations, refusals to write or renew.

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.

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

The universe of 5 automobile declinations was selected for review. The 5 files selected were received and reviewed. No violations were noted.

### **5. Rescissions**

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under which action by the insurer is prohibited. The review also determined compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

The universe of 1 private passenger automobile policy, which was rescinded, was selected for review. The file selected was 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. 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.

#### **Royal Indemnity Company**

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

#### **Royal Insurance Company of America**

The universe of 18 personal lines property policies, which were cancelled within the first 60 days of new business, was selected for review. The property policies consisted of homeowners, dwelling fire and boat owners. All 18 files selected were received and reviewed. No violations were noted.

## 2. Midterm Cancellations

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

The 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.

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

From the universe of 1,361 personal lines property policies, which were cancelled midterm during the experience period, 142 files were selected for review. The property policies consisted of homeowners, dwelling fire and boat owners. All 142 files requested were received and reviewed. The 3 violations noted were based on 2 files, which resulted in an error ratio of 1%.

The following findings were made:

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

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer.

The 2 violations noted were the result of cancellation notices being issued without the required information.

*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.

### 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.

#### **Royal Indemnity Company**

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

#### **Royal Insurance Company of America**

The universe of 92 personal lines property policies, which was nonrenewed during the experience period, was selected for review. The property policies consisted of homeowners, dwelling fire and boat owners. All 92

files were received and reviewed. The 29 violations were based on 29 files, resulting in an error ratio of 32%.

The following findings were made:

*28 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 28 violations noted, 9 were the result of an improper reason to nonrenew the policy. The remaining 19 violations resulted because the company did not provide a notice of nonrenewal to the insured.

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

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The violation was due to a nonrenewal notice being issued that did not provide a specific reason for the cancellation.

#### 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.

#### **Royal Indemnity Company**

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

#### **Royal Insurance Company of America**

The universe of 26 homeowner files, identified as declinations by the Company was selected for review. All 26 files selected were received and reviewed. No violations were noted.

#### 5. Rescissions

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 [40 P.S. §991.2003], which establishes conditions under which action by the insurer is prohibited. The review also determined compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

The universe of 92 personal lines property policies, which was rescinded, was selected for review. The files selected were received and reviewed. These files were not actual rescissions. Six policies were identified as midterm cancellations. The 6 violations were based on 6 files, resulting in an error ratio of 7%.

The following findings were made:

#### *6 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 6 violations were due to cancellation notices being issued that did not provide the required thirty days.

## **D. Commercial Automobile**

### **1. 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.

**Royal Indemnity Company**

The universe of 3 commercial automobile policies, which was cancelled during the experience period, was selected for review. All 3 files selected were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

The universe of 1 commercial automobile policies, which was cancelled during the experience period, was selected for review. The file selected was received and reviewed. No violations were noted.

2. Nonrenewals

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

**Royal Indemnity Company**

The universe of 13 commercial automobile policies identified as nonrenewals by the Company, was selected for review. All 13 files selected were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

The universe of 32 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 32 files selected

were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 9%.

The following findings were made:

*3 Violations 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 3 files noted were absent any evidence this requirement was complied with.

3. 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.

**Royal Indemnity Company**

The universe of 37 commercial automobile policies, which were renewed during the experience period, was selected for review. All 37 files selected were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 14%.

The following findings were made:

*5 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 5 files noted were absent any evidence this requirement was complied with.

### **Royal Insurance Company of America**

The universe of 37 commercial automobile policies, which were renewed during the experience period, was selected for review. All 37 files selected were received and reviewed. The 11 violations were based on 11 files, resulting in an error ratio of 30%.

The following findings were made:

#### *11 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 11 files noted were absent any evidence this requirement was complied with.

#### 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.

From the universe of 505 commercial automobile files identified as declinations by the Company, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

#### 5. Rescissions

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

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

#### **Royal Indemnity Company**

The universe of 3 commercial automobile files, identified as rescissions, was selected for review. The 3 files selected were received and reviewed. The files were cancelled flat and were not considered rescissions. No violations were noted.

#### **Royal Insurance Company of America**

The universe of 2 commercial automobile files, identified as rescissions, was selected for review. The 2 files selected were received and reviewed.

The files were cancelled flat and were not considered rescissions. No violations were noted.

## **E. Commercial Property**

### **1. 60-Day Cancellations**

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

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

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

The universe of 7 tenant occupied dwelling fire policies, which was cancelled within the first 60 days, was selected for review. The 7 files selected were received and reviewed. The violation noted resulted in an error ratio of 14%.

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit,

or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a cancellation notice which required supporting business.

## 2. Midterm Cancellations

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

The 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.

### **Royal Indemnity Company**

The universe of 6 commercial package policies, which were cancelled during the experience period, was selected for review. All 6 files selected were received and reviewed. No violations were noted.

### **Royal Insurance Company of America**

From the universe of 121 commercial property policies, which were cancelled during the experience period, 56 files were selected for review. The commercial policies consisted of tenant occupied dwelling fire, commercial package, commercial property and commercial inland marine. All 56 files selected were received and reviewed. The 11 violations noted were based on 11 files, resulting in an error ratio of 20%.

The following findings were made:

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

Requires that a cancellation 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.

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 10 files noted were absent any evidence 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.

**Royal Indemnity Company**

The universe of 29 commercial property policies identified as nonrenewals by the Company, was selected for review. The commercial property policies consisted of commercial inland marine, commercial property,

commercial package and commercial inland marine. All 29 files selected were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

The universe of 57 commercial package policies identified as nonrenewals by the Company, was selected for review. The commercial policies consisted of tenant occupied dwelling fire, commercial package, commercial property and commercial inland marine. All 57 files selected were received and reviewed. The 11 violations were based on 11 files, resulting in an error ratio of 20%.

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.

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

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

AND

*Title 31, Pa. Code, Section 113.88*

The reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and

education can understand it. Phrases such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation. The 3 files noted were absent any evidence this requirement was complied with.

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

Requires that a nonrenewal notice shall state that at the insured’s request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The 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.

**Royal Indemnity Company**

From the universe of 152 commercial property policies, which were renewed during the experience period, 26 files were selected for review. The commercial property policies consisted of commercial package and commercial property. All 26 files selected were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

*1 Violation 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 file noted was absent any evidence this requirement was complied with.

**Royal Insurance Company of America**

From the universe of 1,061 commercial package policies, which were renewed during the experience period, 94 files were selected for review. The commercial policies consisted of tenant occupied dwelling fire, commercial package, commercial inland marine and commercial property. All 94 files selected were received and reviewed. The 12 violations were based on 12 files, resulting in an error ratio of 13%.

The following findings were made:

*12 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 12 files noted were absent any evidence this requirement was complied with.

## 5. Declinations

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

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

From the universe of 749 commercial property files identified as declinations by the Company, 112 files were selected for review. The commercial files consisted of commercial package, commercial property, commercial inland marine and tenant occupied dwelling fire. All 112 files selected were received and reviewed. No violations were noted.

## 6. Rescissions

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

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

### **Royal Indemnity Company**

The universe of 4 commercial property files, identified as rescissions, was selected for review. The 4 files selected were received and reviewed. The files were cancelled flat and were not considered rescissions. No violations were noted.

### **Royal Insurance Company of America**

The universe of 33 commercial property files, identified as rescissions, was selected for review. The 33 files selected were received and reviewed. The files were cancelled flat and were not considered rescissions. No violations were noted.

## **F. Workers Compensation**

### **1. Midterm Cancellations**

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

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

### **Royal Indemnity Company**

The universe of 1 workers' compensation policy, which was cancelled during the experience period, was selected for review. The file selected was received and reviewed. No violations were noted.

### **Royal Insurance Company of America**

The universe of 9 workers' compensation policies, cancelled during the experience period, was selected for review. All 9 files were received and reviewed. The violation noted resulted in an error ratio of 11%.

The following finding was made:

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

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

2. Nonrenewals

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

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

**Royal Indemnity Company**

The universe of 42 workers' compensation policies which were nonrenewed during the experience period, was selected for review. All 42 files selected were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

From the universe of 90 workers' compensation policies which were nonrenewed during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

## 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.

#### Private Passenger Automobile – New Business Without Surcharges

##### **Royal Indemnity Company**

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

##### **Royal Insurance Company of America**

From the universe of 659 personal automobile policies identified as new business without surcharges by the Company, 100 files were selected for review. All 100 files requested were received and reviewed. The 1,322 violations were based on the universe of 659 files, resulting in an error ratio of 100%.

The following findings were made:

#### *1 Violation Act 1990-6, Section 8, Title 75, Pa. C.S. §1705(a)(1)&(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.

*1 Violation Act 1990-6, Section 12, Title 75, Pa. C.S. §1738(c)(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 file noted was absent any evidence this requirement was complied with.

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

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

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

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

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once

annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 659 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan.

Private Passenger Automobile – New Business With Surcharges

**Royal Indemnity Company**

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

**Royal Insurance Company of America**

The universe of 22 personal automobile policies identified as new business with surcharges by the Company was selected for review. All 22 files requested were received and reviewed. The 46 violations noted were based on the universe of 22 files, resulting in an error ratio of 100%.

The following findings were made:

*2 Violations Act 1990-6, Section 12, Title 75, Pa. C.S. §1738(c)(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 2 files noted were absent any evidence this requirement was complied with.

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

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and

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

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

Requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The 22 violations were the result of the Company not providing the insured with a copy of a surcharge disclosure plan.

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

##### **Royal Indemnity Company**

From the universe of 2,535 private passenger automobile policies renewed during the experience period, 100 files without surcharges were selected for review. All 100 files selected were received and reviewed. No violations were noted.

The following concern was made:

The Company's private passenger automobile rating manual page PV-35, Additional First Party Benefits Coverage b.(2) is misleading. It states the following: "the following additional premiums, which are not subject to classification rating or modification by any other rating rule except the passive restraint and motor driver improvement course discounts." The Company should change the wording to indicate that when the policy has a limited tort factor applied, the additional first party benefits coverage premium should also be modified by the limited tort factor.

### **Royal Insurance Company of America**

From the universe of 2,535 private passenger automobile policies renewed during the experience period, 100 files without surcharges were selected for review. All 100 files selected were received and reviewed. No violations were noted.

The following concern was made:

The Company's private passenger automobile rating manual page PV-35, Additional First Party Benefits Coverage b.(2) is misleading. It states the following: "the following additional premiums, which are not subject to classification rating or modification by any other rating rule except the passive restraint and motor driver improvement course discounts." The Company should change the wording to indicate that when the policy has a limited tort factor applied, the additional first party benefits coverage premium should also be modified by the limited tort factor.

### Private Passenger Automobile – Renewals With Surcharges

#### **Royal Indemnity Company**

The universe of 74 private passenger automobile policies renewed during the experience period with surcharges, was selected for review. All 74 files selected were received and reviewed. No violations were noted.

The following concern was made:

The Company's private passenger automobile rating manual page PV-35, Additional First Party Benefits Coverage b.(2) is misleading. It states the following: "the following additional premiums, which are not subject to

classification rating or modification by any other rating rule except the passive restraint and motor driver improvement course discounts.” The Company should change the wording to indicate that when the policy has a limited tort factor applied, the additional first party benefits coverage premium should also be modified by the limited tort factor.

### **Royal Insurance Company of America**

From the universe of 363 private passenger automobile policies renewed during the experience period with surcharges, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

The following concern was made:

The Company’s private passenger automobile rating manual page PV-35, Additional First Party Benefits Coverage b.(2) is misleading. It states the following: “the following additional premiums, which are not subject to classification rating or modification by any other rating rule except the passive restraint and motor driver improvement course discounts.” The Company should change the wording to indicate that when the policy has a limited tort factor applied, the additional first party benefits coverage premium should also be modified by the limited tort factor.

### **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.

### Homeowners - New Business Without Surcharges

#### **Royal Indemnity Company**

The universe of 1 homeowner policy written as new business without surcharges during the experience period was selected for review. The file was received and reviewed. No violations were noted.

#### **Royal Insurance Company of America**

From the universe of 2,071 homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 files selected 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.

### Homeowners – Renewals Without Surcharges

#### **Royal Indemnity Company**

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

#### **Royal Insurance Company of America**

From the universe of 2,064 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 3%.

The following findings were made:

*3 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 3 violations were due to incorrect territories listed on the policy, which resulted in an overcharge of \$5.

#### **D. Dwelling Fire**

##### **1. New Business**

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

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

##### **Royal Indemnity Company**

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

##### **Royal Insurance Company of America**

From the universe of 195 dwelling fire policies written as new business during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

## 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.

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

From the universe of 1,266 dwelling fire policies renewed during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

*1 Violation Act 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 violation noted was due to an incorrect territory applied to the policy, which did not result in a premium difference.

## VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

### **A. Automobile Property Damage Claims**

#### **Royal Indemnity Company**

From the universe of 105 private passenger automobile property damage claims reported during the experience period, 25 claim files were selected

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

### **Royal Insurance Company of America**

From the universe of 304 private passenger automobile property damage claims reported during the experience period, 50 claim files were selected for review. All 50 files requested 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 violation noted was absent any evidence this requirement was complied with.

## **B. Automobile Comprehensive Claims**

### **Royal Indemnity Company**

From the universe of 177 private passenger automobile comprehensive claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

From the universe of 565 private passenger automobile comprehensive claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

**C. Automobile Collision Claims**

**Royal Indemnity Company**

From the universe of 196 private passenger automobile collision claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

**Royal Insurance Company of America**

From the universe of 443 private passenger automobile collision claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

**D. Automobile Total Loss Claims**

**Royal Indemnity Company**

The universe of 43 private passenger automobile total loss claims reported during the experience period was selected for review. All 43 files selected 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 62.3(e)(4)*

Requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value. The file noted did not have sales tax included in the replacement value of the vehicle.

**Royal Insurance Company of America**

From the universe of 137 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

*1 Violation 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 violation noted was due to an incomplete claim file. The claim file did not have any documentation of a total loss evaluation of the vehicle.

**E. Automobile First Party Medical Claims**

**Royal Indemnity Company**

From the universe of 63 private passenger automobile first party medical claims reported during the experience period, 25 claim files were selected for review. All 25 files requested were received and reviewed. The 4 violations noted were based on 2 files, resulting in an error ratio of 8%.

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 2 violations noted resulted because the bill was not paid 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 2 violations are the result of the Company not paying the first party medical bill within 30 days.

**Royal Insurance Company of America**

From the universe of 147 private passenger automobile first party medical claims reported during the experience period, 75 claim files were selected

for review. All 75 files requested were received and reviewed. The 19 violations were based on 10 files, resulting in an error ratio of 13%.

The following findings were made:

*9 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 9 violations noted resulted because the bills were not paid within 30 days.

*9 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 9 violations are the result of the Company not paying the first party medical bill within 30 days and any applicable interest due.

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

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The violation noted was the result of not providing the application for benefits within ten working days.

**F. Automobile First Party Medical Claims Referred to a PRO**

**Royal Indemnity Company**

This Company did not report any first party medical claims referred to a peer review organization.

**Royal Insurance Company of America**

The universe of 7 private passenger automobile first party medical claims referred to a peer review organization was selected for review. All 7 files requested were received and reviewed. The 4 violations were based on 4 files, resulting in an error ratio of 57%.

The following findings were made:

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

Requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt. The 4 violations noted were absent any evidence this requirement was complied with.

## **G. Homeowner Claims**

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

From the universe of 1,265 homeowner claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

## **H. Dwelling Fire Claims**

### **Royal Indemnity Company**

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

### **Royal Insurance Company of America**

The universe of 68 dwelling fire claims reported during the experience period was selected for review. All 68 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

#### *2 Violations Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay

and state when a decision on the claim may be expected. The 2 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 §1827] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted.

## 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 69 pieces of advertising, which included brochures, pictures and agent's kits. 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 41 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 41 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 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 other than permitted reasons.

The following synopsis reflects the nature of the 41 complaints that were reviewed.

Royal Indemnity Company

• 5	Cancellation/Nonrenewal	63%
• 1	Billing	12%
• 2	Claims Related	25%
<hr/>		<hr/>
8		100%

Royal Insurance Company of America

• 19	Cancellation/Nonrenewal	58%
• 12	Claims Related	36%
• 1	Coverage Issue	3%
• 1	Premium Dispute	3%
<hr/>		<hr/>
33		100%

## XI. LICENSING

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

The following findings were made:

### **Royal Indemnity Company**

*1 Violation The Insurance Department Act, Section 623 (40 P.S. §253)  
Doing Business With Unlicensed Brokers*

Any entity or the appointed agent of an entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following producer was found to be writing policies and was not found in the Insurance Department records as having a broker's license or a certificate of qualification.

Program Insurance Management

### **Royal Insurance Company of America**

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

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

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

Hamilton Insurance

Bill Fralic Insurance Services, Inc.

*4 Violations The Insurance Department Act, Section 623 (40 P.S. §253)*

*Doing Business With Unlicensed Brokers*

Any entity or the appointed agent of an entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following producers were found to be writing policies and were not found in the Insurance Department records as having a broker's license or a certificate of qualification.

The Blackwater Agency, LLC  
Technology Systems & Solutions Insurance  
Risk Strategies Company, LLC  
Robert E. Ryan

## **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 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 noted in the Report do not occur in the future.
2. 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.
3. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due. The interest amount must be paid and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
4. The Company must ensure all agents, agencies and brokers are properly licensed and appointed, prior to accepting any business from an agent or broker.
5. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.

6. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
7. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003, 2004 and 2006 [40 P.S. §991.2003, 2004 and 2006] so that the violations noted in the Report do not occur in the future.
8. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations of the types noted in the Report do not occur in the future.
9. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that violations of the types noted in the Report do not occur in the future.
10. The premium overcharge noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.
11. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 86, Section 3 [40 P.S. §3403] so that the violations noted in the Report do not occur in the future.
12. Total loss claims must be reviewed for compliance with Title 31, Pa. Code, Section 62.3(e)(4). Applicable sales tax must be paid to the

insured and proof of such payments must be provided to the Insurance Department within 30 days of the Report issue date.

13. Within 30 days of the report issue date, the Company shall revise and reissue its underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance by reason of the prohibited conduct described in the Report of Examination and are compliant with Pennsylvania law.

**XIII. COMPANY RESPONSE**



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704 522-3200

January 14, 2004

VIA AIRBORNE EXPRESS

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

RE: Examination Warrant Number: 03-M08-008
Royal Insurance Company of America NAIC #26980
Royal Indemnity Company NAIC #24678

Dear Mr. Derk,

Royal Insurance Company of America and Royal Indemnity Company, hereinafter referred to as "Company", received the Report of Examination, hereinafter referred to as "Report", on December 17, 2003. The Scope of Examination in the Report states "the experience period of July 1, 2001, through June 30, 2002", but the experience period should be January 1, 2002 to December 31, 2002.

This letter will summarize our response to the recommendations outlined in the Report.

Claims Handling Requirements

Recommendation #1: The Company should review and revise internal procedures to ensure compliance with the claim handling requirements of Title 31, Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations noted in the Report do not occur in the future.

Company Response:

The Company has discussed with the claim staff the Pennsylvania claim handling requirements and a copy of Chapter 146 has distributed to the staff. We are also verifying compliance with the requirements by conducting periodic self-audits, file reviews, and payment reviews. Best Practices, which includes, Pennsylvania Insurance Regulations are included in our claim staff and supervisor objectives.

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**Recommendation #2:** 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.

Company Response:

The Company has reviewed Title 31, Pa Code, Section 69.52(b) with its claim staff who are responsible for handling Pennsylvania first party medical claims. Claims staff is aware that these claims must be paid within 30 days and if not, interest in the amount of 12% annum is due. The Pennsylvania PIP claims are now consolidated with two handlers to provide more specialization and familiarity with the Pennsylvania Unfair Claims Settlement Practices. Best Practices, which includes, Pennsylvania Insurance Regulations, are included in our claim staff and supervisor objectives.

**Recommendation #3:** The Company must review first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due. The interest amount must be paid, and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

We have paid the interest due on all identified late payments and a list of all payments will be forwarded per your request under separate cover.

**Recommendation #13:** Total loss claims must be reviewed for compliance with Title 31, Pa. Code, Section 62.3 (f)(5). Applicable sales tax must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

The Company has reviewed Title 31, Pa Code, Section 62.3(f)(5) with claim staff. We are also verifying compliance with the requirements by conducting periodic self-audits, file reviews and payment reviews. Best Practices, which includes, Pennsylvania Insurance Regulations are included in our claim staff and supervisor objectives.

We have also paid the sales tax to the insured, and proof of this payment will be forwarded per your request under separate cover.

Agency Licensing

**Recommendation # 5:** The Company must ensure all agents, agencies and brokers are properly licensed and appointed, prior to accepting any business from an agent or broker.

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Company Response:

We currently have procedures in place to ensure the business we accept is from a licensed and appointed agent/broker. We have reinforced these procedures via communications to our internal staff to ensure that the proper licensing is verified before business is accepted. We have also provided additional training, where necessary, on the proper usage of our internal licensing verification system.

**Underwriting, Rating and Terminations**

**Recommendation #6:** The company must review Act 205, Section 5(a)(4)[40 P.S. 1171.5] (a)(4)] to ensure that the violation relative to supporting coverage does not occur in the future.

Company Response:

We have revised our automobile underwriting guidelines (effective 11/1/03) to remove the reference to supporting coverage. A Producer Bulletin was sent to all Royal & SunAlliance agents in October introducing this guideline revision. A copy of this Bulletin and the revised underwriting guidelines are attached as "Exhibit A".

**Recommendation #7:** The Company must review Act 205, Section 5(a)(9)[40 P.S. 1171.5] to ensure compliance with cancellation and nonrenewal notice requirements.

Company Response:

We have instructed our staff to verify permissible reasons for cancellation and nonrenewal, and that notices include proper wording.

With respect to the 19 violations resulting from the Company not providing a nonrenewal notice to the insured, we have amended our internal procedures to ensure that all insureds receive a timely and proper notice of nonrenewal. This change in procedure was communicated to the Pennsylvania underwriting staff and is monitored via our periodic self-audit process.

We have also communicated to the Pennsylvania underwriting staff the fact that the non-renewal of homeowners business due to 'terminated agent' is specifically prohibited. This, too, will be monitored via our self-audit process.

The violations regarding boat policies were discovered during the audit when we realized our system was programmed incorrectly, allowing only 18 days advance notice of

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cancellation. This problem was corrected less than a day after the auditors brought it to our attention.

**Recommendation #8:** The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2003, 2004 and 2006[40 P.S. 991.2003, 2004 & 2006]

Company Response:

As noted above, we have revised our underwriting guidelines effective 11/1/03. In addition, we have reviewed and reinforced with our staff other areas identified within Act 68, which includes improper reason for mid-term cancellation, inadequate number of days and improper wording on nonrenewal notice when nonrenewing for terminated agent for automobile policies. We will review during our periodic self-audits.

**Recommendation #9:** The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations of the types noted in the Report do not occur in the future.

Company Response:

The Company has reviewed and understands the requirements of Title 75, Pa. C.S. 1793(b) and will implement as appropriate.

**Recommendation #10:** The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. 1791.1(a) and (b) to ensure that violations of the types noted in the Report do not occur in the future.

Company Response:

The Company has reviewed and understands the requirements of Title 75, Pa. C.S. 1793(b) and will implement as appropriate.

**Recommendation #11:** The premium overcharged noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

A transaction to refund the \$5 overcharge was processed on 8/20/03 and a check was subsequently issued to our insured for this amount. We will forward evidence of the refund per your request under separate cover.

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**Recommendation #12:** The Company must review internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 86, Section 3 [40 P.S. 3403].

Company Response:

In researching this issue, we discovered that the ODEN system does not include this information on the notice of nonrenewal unless the underwriter specifically states that the dwelling is tenant-occupied. If this is not specifically stated, the request defaults to owner-occupied and the loss information is not offered to the insured on the notice. We have made all personal lines underwriters aware of this issue and the need to specify the occupancy of the dwelling when requesting a notice of nonrenewal.

We currently have a compliance procedure manual in place that outlines the appropriate time line for non-renewals and cancellations for commercial lines policies. We also utilize the ODEN on-line manual to make sure we are sending out appropriate notices that includes the mandatory requirements. We have reviewed both with our staff and have also instructed them to include a statement regarding providing loss information as required by Pennsylvania statutes.

**Recommendation #14:** Within 30 days of the Report issue date, the Company shall revise and reissue its underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance by reason of the prohibited conduct described in the Report of Examination and are compliant with Pennsylvania law.

Company Response:

All recommended guideline revisions were made and implemented effective 11/1/03. A copy of this bulletin and the revised underwriting guidelines are attached, as noted above in "Exhibit A".

The Report also includes 2 violations of Title 31, Pa. Code, Section 61.13 for failing to maintain an accurate semi-annual reports to the Department of cancellations, refusal to write and non-renewal activity. We have assigned this responsibility to an individual who will have full accountability for providing this information in a timely fashion, on a semi-annual basis. The data for this report will be compiled every six months, beginning with year-end 2003, and forwarded to the Pennsylvania Insurance Department.

On August 31, 2003 we signed a definitive agreement with Travelers Indemnity Company ("Travelers") to sell the renewal rights for the majority of our commercial lines business in the risk management, marine and middle market sectors and as well the standard and preferred personal lines business comprised primarily of personal

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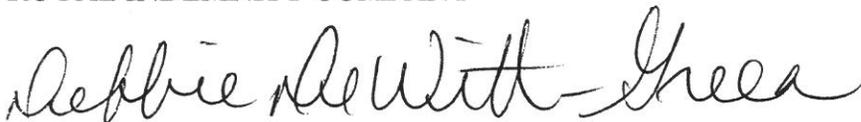
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automobile and homeowners business. The agreement allows Travelers to begin offering renewals to our affected commercial lines insureds effective immediately, and to our standard/preferred insureds beginning no later than December 31, 2003. In instances where a policy is not renewed by Travelers or another carrier, we are prepared to meet our legal obligations to our policyholders and producers. We are no longer accepting new business from our agents.

We again would like to take this opportunity to thank you and your examiners for your professionalism and cooperation during the examination process. If you have any questions or need any additional information, please call me directly at (704) 522-3427.

Sincerely,

ROYAL INSURANCE COMPANY OF AMERICA  
ROYAL INDEMNITY COMPANY

A handwritten signature in cursive script that reads "Debbie DeWitt-Green".

Debbie DeWitt-Green  
Compliance Consultant  
Legal & Regulatory Services  
Enclosures

Cc: A. Fitzgerald  
J. Klein  
J. Foster  
D. Harrison  
V. Willis  
J. Mallery  
E. Leber  
R. Petrillo

**PENNSYLVANIA AUTOMOBILE ELIGIBILITY REQUIREMENTS**  
All Companies

These requirements represent minimum eligibility requirements for each pricing program. Acceptance and continuance of a risk depends on the quality of all available underwriting information. Other factors such as job, residence, and financial stability, lifestyle, moral hazards, account potential, etc will be considered when making a final risk decision. Although the applicant may meet the prescribed guidelines for a pricing tier, there may be some unanticipated, unacceptable underwriting characteristics and we may elect to decline to terminate the coverage or assign to a higher pricing program. All Applications must be postmarked within **5 working days** of the effective dates. **In cases where these standards are in conflict with any statute or insurance regulation, the standard is voided and the company will not use or apply it in the relevant jurisdiction.**

Characteristics	Special	Standard	Preferred	Super Preferred	Regal
<b>Minimum Liability Limits:</b> - CSL - Split Limits	Financial Responsibility	Financial Responsibility	\$100,000 50/100/25	\$300,000 100/300/50	\$300,000 100/300/50
<b>An Owner or Principal Operator:</b> Must be licensed in the US a minimum of __ years.	No Restrictions	3	5	7	9
<b>Operator:</b> - Any Operator Licensed less than 5 years must have zero incidents. - Operators with a physical or mental impairment affecting his/her ability to drive are ineligible. Operators who have modified their vehicles with devices that compensate for their physical impairments are eligible.					
<b>At Fault Accidents in the past 3 years:</b> - Limit per Policy <b>None if CLS Message is Special</b>	1	1	1 under Threshold	None	None
<b>Not At Fault Accidents in the past 3 years:</b> - Limit per Operator	No Restrictions	1	1	1	None
<b>Convictions in the past 3 years:</b> - Limit per Operator - No Serious Moving Convictions, including but not limited to DWI, leaving the scene of an accident, reckless driving, speeding 20 or more mph over the limit, etc.	1 Limit 2 per Policy	1	1	None	None
<b>Total Occurrences in the past 3 years:</b> - Limit per Operator		2 Multi-car (may not be for the same operator) 1 Single-car	2 Multi-car (may not be for the same operator) 1 Single-car	1	None
<b>Comprehensive or Towing Claims:</b>  *Any prior total theft or attempted theft is subject to prior approval.	No Restrictions	2 Comps and 2 Tows	2 Comps Multi-Car 1 Comp Single Car 2 Tows	1 Comp No Total Theft 2 Tows	1 Comp No Total Theft 2 Tows
<b>Ineligible Vehicle Types or Conditions:</b> -Vehicle designed as a "High Loss Potential Vehicle" based on the company's latest listing. -Any Vehicle more than __model years old unless there are newer vehicles covered under the policy. <b>Ineligible for All Tiers:</b> -Any 'Grey Market' Vehicle -Any Reconstructed Vehicle or in Poor Condition. -Pickups or vans used in business by artisans or trades-people and/or vehicle used for delivery purposes.	Prior Approval  15 years	Prior Approval  15 years	Ineligible  12 years	Ineligible  10 years (one veh must have full coverage)	Ineligible  10 years (one veh must have full coverage)
<b>Previous Non-Standard or Involuntary Prior Carrier:</b>	Eligible with Zero Incidents and Prior Approval	Eligible with Zero Incidents and Prior Approval	Ineligible	Ineligible	Ineligible
<b>Previously Cancelled or Non-Renewed:</b> For Underwriting Reasons and Non-Payments:	Eligible with Zero Incidents and Prior Approval	Eligible with Zero Incidents and Prior Approval	Ineligible	Ineligible	Ineligible
<b>Financial Score Message:</b>	Special or better	Fair or better	Good or better	Good or better	Excellent

"EXHIBIT A"

Royal & SunAlliance Personal Insurance

# PRODUCT REVISION

*for all personal lines co-workers.*

## Pennsylvania Automobile Revision

Effective: November 1, 2003 – New & Renewal Business

Royal & SunAlliance Personal Insurance has revised our automobile guidelines in Pennsylvania. The new guidelines are included and apply to all companies, including American & Foreign. If you have any further questions, please call our customer service team at 800-423-3577.