

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**RUTGERS CASUALTY INSURANCE
COMPANY**

Cherry Hill, New Jersey

**AS OF
August 17, 2005**

COMMONWEALTH OF PENNSYLVANIA

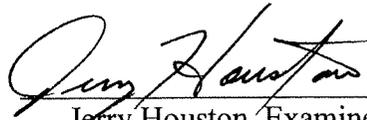


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 12, 2005

VERIFICATION

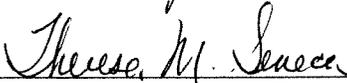
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



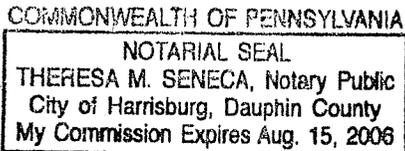
Jerry Houston, Examiner-In-Charge

Sworn to and Subscribed Before me

This 11 Day of July, 2005



Notary Public



RUTGERS CASUALTY INSURANCE COMPANY

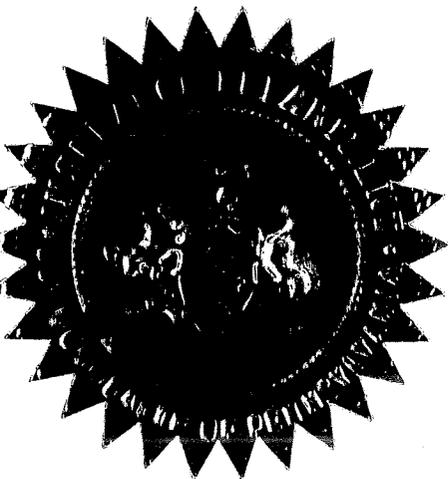
TABLE OF CONTENTS

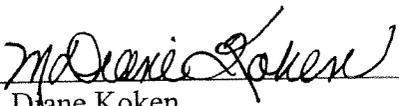
Order		
I.	Introduction.....	1
II.	Scope of Examination.....	3
III.	Company History/Licensing.....	4
IV.	Underwriting Practices and Procedures.....	5
V.	Underwriting	
	A. Private Passenger Automobile.....	6
	B. Assigned Risk.....	8
VI.	Rating	
	A. Private Passenger Automobile.....	9
	B. Assigned Risk.....	17
VII.	Claims.....	18
VIII.	Forms.....	23
IX.	Advertising.....	25
X.	Consumer Complaints.....	26
XI.	Licensing.....	29
XII.	Recommendations.....	32
XIII.	Company Response.....	35

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:
: :
RUTGERS CASUALTY : Sections 641.1-A and 671-A of
INSURANCE COMPANY : Act 147 of 2002 (40 P.S. §§ 310.41
2250 West Chapel Avenue : and 310.71)
Cherry Hill, New Jersey 08002 :
: Act 1990-6, Sections 1716, 1791.1(a)
: and 1791.1(b) (Title 75, Pa.C.S. §§
: 1716 and 1791)
: :
: Sections 4(a) and 4(h) of the Act of
: June 11, 1947, P.L. 538, No. 246
: (40 P.S. § 1184)
: :
: Sections 2003(a)(2), 2004 and 2006(2)
: of Act 68 of 1998 (40 P.S. §§991.2003
: 991.2004 and 991.2006)
: :
: Title 31, Pennsylvania Code, Section
: 62.3(e)(4), 69.22(c), 69.52(b) and
: 146.5(a)
: :
: Title 75, Pennsylvania Consolidated
: Statutes, Section 1161(a) and (b), and
: 1822
: :
Respondent. : Docket No. MC05-08-012

CONSENT ORDER

AND NOW, this 12th day of *October*, 2005, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

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

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

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

FINDINGS OF FACT

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

- (a) Respondent is Rutgers Casualty Insurance Company, and maintains its address at 2250 West Chapel Avenue, Cherry Hill, New Jersey 08002.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.

- (c) On August 17, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on September 14, 2005.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Section 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the

date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

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

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

- (vi) 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;

- (vii) Section 2003(a)(2) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Residence or operation of a motor vehicle in a specific geographic area;

- (viii) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which 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;

- (ix) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a cancellation notice and state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be 15 days from the date of mailing or delivery;

- (x) Title 31, Pennsylvania Code, Section 62.3(e)(4), which requires that applicable sales tax on the replacement cost of a motor vehicle shall be included as part of the replacement value;

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

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

- (xiii) Title 31, Pennsylvania Code, Section 146.5(a), which requires that every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge receipt of the notice unless payment is made within the period of time. If an acknowledgment is made by means other than writing, an appropriate notation of the acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice;
- (xiv) Title 75, Pennsylvania Consolidated Statutes, Section 1161(a) and (b), which states:
- (a) Except as provided in sections 1162 and 1163, a person who owns or possesses or transfers a vehicle located or registered in this Commonwealth which qualifies as a salvage vehicle shall make application to the Department for a certificate of salvage for that vehicle, and
- (b) An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. If an owner retains possession

of a vehicle which is damaged to the extent that it qualifies for vehicle replacement payment, the owner shall apply for a certificate of salvage immediately. In this case, an insurer shall not pay vehicle replacement value until the owner produces evidence to the insurer that the certificate of salvage has been issued; and

- (xv) Title 75, Pennsylvania Consolidated Statutes, Section 1822, which requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the 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 641.1-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

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

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

(d) Respondent's violations of Sections 2003, 2004 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S.

§ 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

(e) Respondent's violations of Title 31, Pennsylvania Code, Section 146.5(a) are are punishable 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).

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 Forty Thousand Dollars (\$40,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

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

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

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

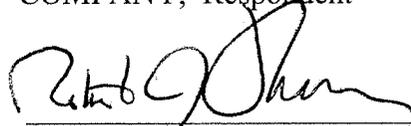
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

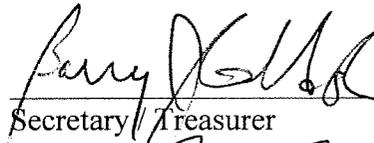
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

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

BY: RUTGERS CASUALTY INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Rutgers Casualty Insurance Company's office located in Cherry Hill, New Jersey, from April 12, 2005, through May 5, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

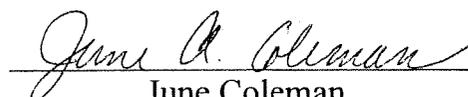
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

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

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


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


Jerry L. Houston, CPCU
Market Conduct Examiner


June Coleman
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Rutgers Casualty Insurance Company, hereinafter referred to as "Company," at their office located in Cherry Hill, New Jersey. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2004, through December 31, 2004, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations.
 - Rating - Proper use of all classification and rating plans and procedures.
2. Claims
3. Forms
4. Advertising
5. Complaints
6. Licensing

III. COMPANY HISTORY AND LICENSING

Rutgers Casualty Insurance Company was incorporated under the laws of New Jersey on December 21, 1981 and commenced business on December 31, 1981 as a stock insurer.

LICENSING

Rutgers Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in New Jersey, New York and Pennsylvania. The Company's 2004 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$11,691,729. Premium volume related to the areas of this review was: Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$11,691,729.

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. The Company does not have a written guideline for private passenger automobile as part of their rating manual. Their guideline is an integral part of the uploading software provided to their agents. No violations were noted.

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.

From the universe of 1,379 personal automobile files identified as being cancelled in the first 60 days of new business, 100 files were selected for review. All 100 files selected were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 9,403 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 violation noted resulted in an error ratio of 1%.

The following finding was made:

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

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

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.

From the universe of 189 private passenger automobile files identified as nonrenewals by the Company, 100 files were selected for review. All 100

files selected were received and reviewed. The 25 violations noted, were based on 25 files, resulting in an error ratio of 25%.

The following findings were made:

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

Discrimination Prohibited. An insurer may not cancel or refuse to write or renew a policy of automobile insurance for residence or operation of a motor vehicle in a specific geographic area. The Company nonrenewed the policy because the insured no longer lived in Philadelphia on the 25 files noted.

B. Private Passenger Automobile – Assigned Risk

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

VI. RATING

A. Private Passenger Automobile

1. New Business

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

The primary purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) [40 P.S. §1184], which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at that time. Files were also reviewed to determine compliance with all provisions of Act 6 of 1990 and Act 68, Section 2005(c) [40 P.S. §991.2005(c)], which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance or as a result of any other factors.

Private Passenger Automobile – New Business Without Surcharges

From the universe of 4,230 personal automobile policies identified as new business without surcharges by the Company, 115 files were selected for review. All 115 files requested were received and reviewed. The 8,468 violations were based on the universe of 4,230 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The 8 violations were the result of policies being issued with an improper territory which resulted in overcharges of \$452 and undercharges of \$180.

4,230 Violations Title 75, Pa. C.S §1791.1(b)

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

4,230 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical

benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The 4,230 violations noted were the result of the Company not providing the itemized invoice to the insured at the time of application.

Private Passenger Automobile – New Business With Surcharges

From the universe of 643 personal automobile policies identified as new business with surcharges by the Company, 115 files were selected for review. All 115 files requested were received and reviewed. The 1,291 violations noted were based on the universe of 643 files, resulting in an error ratio of 100%.

The following findings were made:

5 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. Of the 5 violations noted, 4 violations were the result of policies being issued with an improper territory. The

remaining violation was due to an improper surcharge. These violations resulted in overcharges of \$1,225.

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The 643 files noted were the result of the Company not providing the itemized invoice to the insured at the time of application.

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

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

2. Renewals

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

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile – Renewals Without Surcharges

From the universe of 11,374 private passenger automobile policies renewed without surcharges during the experience period, 100 files were selected for

review. All 100 files selected were received and reviewed. The 22,753 violations noted were based on the universe of 11,374, resulting in an error ratio of 100%.

The following findings were made:

*5 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 5 violations were the result of policies being issued with an improper territory which resulted in overcharges of \$260 and undercharges of \$288.

11,374 Violations Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical

benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company did not provide the itemized invoice to the insured at the time of renewal.

11,374 Violations Title 75, Pa. C.S §1791.1(b)

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

Private Passenger Automobile – Renewals With Surcharges

From the universe of 659 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. The 1,327 violations noted were based on the universe of 659, resulting in an error ratio of 100%.

The following findings were made:

9 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. Of the 9 violations noted, 5 violations were the result of policies being issued with an improper surcharge. The remaining 4 violations were the result of an improper territory. These violations resulted in overcharges of \$2,344 and an undercharge of \$94.

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages. The Company did not provide the itemized invoice to the insured at the time of renewal.

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

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

B. Private Passenger Automobile – Assigned Risk

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

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Total Loss Claims
- C. Automobile First Party Medical Claims
- D. Automobile First Party Medical Claims Referred to a PRO

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

From the universe of 2,005 private passenger automobile property damage claims reported during the experience period, 100 files were selected for review. All 100 files requested were received and reviewed. No violations were noted.

B. Automobile Total Loss Claims

From the universe of 139 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 140 violations noted were based on the universe of 139, resulting in an error ratio of 100%.

The following findings were 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.

139 Violations Title 75, Pa. C.S. 1161(a)&(b) – Certificate of Salvage Required.

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which

title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company did not maintain evidence in the claim file that a certificate of salvage had been issued prior to paying the replacement value.

C. Automobile First Party Medical Claims

From the universe of 1,656 private passenger automobile first party medical claims reported during the experience period, 100 claim files were selected for review. All 100 files requested were received and reviewed. The 40 violations noted were based on 28 files, resulting in an error ratio of 28%.

The following findings were made:

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

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill.

The 6 violations noted were due to the insurer not notifying the insured and/or the provider that the first-party limits had been exhausted.

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

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made

in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company did not acknowledge the claim within 10 working days.

25 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 25 violations noted resulted because the bill was not paid within 30 days.

8 Violations Title 75, Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on 8 claims that were not paid within 30 days.

D. Automobile First Party Medical Claims Referred to a PRO

Although the Company did not report any automobile first party medical claims that were referred to a peer review organization during the experience period, the Company was requested to provide any contracts that they have in place with a peer review organization. The Company provided a contract that was in place with a peer review organization during the experience period. No violations were noted.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

The following findings were made:

Automobile Rating – Renewals Without Surcharges

11,374 Violations Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning at the time of renewal.

Automobile Rating – Renewals With Surcharges

659 Violations Title 75, Pa. C.S. §1822

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning at the time of renewal.

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 did not report any advertising material during the experience period. Internet advertising was 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 173 consumer complaints received during the experience period and provided all consumer complaint logs requested. Of the 173 complaints reported, 27 complaint files were selected and reviewed.

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

The following findings were made:

1 Violation Act 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.

AND

*Adjudication: Bucciarelli/American International,
PH99-08-034 (2000).*

When an insurer cancels a policy for nonpayment of premium, the insurer has the burden of proving that the insured failed to make necessary payments. Cancellation for nonpayment of premium was sent although the file documented that the insured paid the annual premium in full at the time the policy was issued.

1 Violation Title 31, Pa. Code, Section 69.22(c)

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill. The violation noted was due to the insurer not notifying the insured and provider that the first-party limits were exhausted.

1 Violation Title 31, Pa. Code, Section 69.52(b)

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The violation noted resulted because the bills were not paid within 30 days.

1 Violation Act 68, Section 2003(a)(2) [40 P.S. §991.2003(a)(2)]

Discrimination Prohibited. An insurer may not cancel or refuse to write or renew a policy of automobile insurance for residence or operation of a motor vehicle in a specific geographic area. The Company nonrenewed the policy due to the insured no longer living in Philadelphia.

The following synopsis reflects the nature of the 27 complaints that were reviewed.

• 18	Cancellation/Nonrenewal	67%
• 5	Claims Related	19%
• 2	Premium	7%
• 2	Miscellaneous	7%
<hr/>		<hr/>
27		100%

XI. LICENSING

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

The following findings were made:

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

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

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

Abats Auto Tags
La Cinco Agency

Olney Business Center

5 Violations Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)

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

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

(1) Delineates the services to be provided; and

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

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.

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

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

the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

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

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

Allstar Insurance Agency
Steven J. Goodman
Albert C. Leach
John Thomas Melvin
D. Marshall & Associates

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation and nonrenewal notice requirements of Act 68, Sections 2003 and 2006 [40 P.S. §991.2003 and 2006], so that the violations noted in the Report do not occur in the future.
2. The Company must review Act 246, Section 4 [40 P.S. §1184] and take appropriate measures to ensure the automobile rating violations listed in the report do not occur in the future.
3. The Company must review Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that violations of providing an itemized invoice listing minimum coverages and tort options at the time of application and every renewal thereafter as noted in the Report do not occur in the future.
4. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that sales tax is included in the replacement value of a motor vehicle.
5. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the insured is properly notified that first-party medical benefits have been exhausted.

6. 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.
7. 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 to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1716 do not occur in the future.
8. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained prior to paying the replacement value and are retained with the claim file.
9. The Company must ensure that all renewals contain a statement that clearly states in substance the following: “Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete information or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.” This is to ensure that violations noted under Title 75, Pa. C.S. §1822 do not occur in the future.
10. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S.

§310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

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

XIII. COMPANY RESPONSE

September 13, 2005

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

Re: Market Conduct Examination Response

Dear Mr. Derk:

This letter constitutes the response of Rutgers Casualty Insurance Company (the "Company") to the Market Conduct Report of Examination issued by the Pennsylvania Insurance Department (the "Department") on August 17, 2005. The responses below correspond to the various referenced sections of that Examination Report.

V. Underwriting, A. Private Passenger Automobile, Section (2). Midterm Cancellations

The Department alleges the Company failed on one occasion to provide 15 days notice of a mid-term cancellation based upon a nonpayment of premium. The Company disagrees. The policy at issue was properly cancelled for nonpayment of premium. A proper cancellation notice was issued to the insured, with cancellation to be effective on January 27, 2004. The insured issued his check to our agent, drawn on the insured's bank account on January 7, 2004, as payment for premium due on the policy. The agent had advanced his own monies (via agency/bank sweep) on January 7, 2004, which payment was credited to the premium on this account. The insured's check was returned by the insured's bank for insufficient funds. As a result of the check being returned, it is the Company's position that the insured did not pay the premium by the established cancellation date, due to the fact there were insufficient funds to cover the insured's check.

V. Underwriting, A. Private Passenger Automobile, Section (3). Nonrenewals

The Department alleges the Company nonrenewed 25 policies because the insured no longer lived in Philadelphia. The Company notes that its marketing focus is on the underserved Philadelphia urban area. The policies in question were nonrenewed when the insureds moved from a Philadelphia address to a suburban location. The Company has instructed its staff that geographical location cannot be used as a basis for nonrenewal.

VI. Rating, A. Private Passenger Automobile, Section (1). New Business Without Surcharges

The Department alleges that eight policies were rated using an improper territory. The Company has re-rated all eight policies and sent refunds to the insureds who had been overcharged. Insureds receiving an undercharge will be billed in accordance with the proper rate at the next rating cycle.

Notice of Tort Option. The Department alleges the Company failed to provide a notice of tort option to insureds at the time of application. The Company disagrees. The Company provides a tort option selection form to all insureds at the time of the application for coverage. The notice is identical, word for word, to the language set forth in 75 Pa.C.S. §1791.1(b) and contains the exact explanation of the tort options as set forth in Section 1791.1(b). The only difference in the Company's notice is that the following introductory phrase was omitted: "The laws of the Commonwealth of Pennsylvania give you the right to choose either of the following two tort options." Thus, the alleged violations result only from the Company failing to include this introductory phrase in its notice. The Company has now included the above-referenced phrase in its tort option form. The Company also disagrees with the number of alleged violations. The failure to include the introductory language was a one-time error. While this error was applicable to each notice, the Company believes it is appropriate for the oversight to be viewed as a single incident rather than multiple repeated violations.

Itemized Invoice. The Department alleges the Company failed to provide insureds with an itemized invoice at the time of application. The Company disagrees in part. The Company acknowledges it does not issue a separate invoice at the point of sale, although the Company issues a Declaration page at the point of sale that states the premium charge for the policy. The Department is aware that literally all of the Company's customers select the mandatory minimum liability and first party medical benefit coverages. Accordingly, the Company's Declaration page reflects the premium charge for the minimum mandated coverages. The Company will change its procedure and create a separate invoice including the following language as required by 75 Pa.C.S., §1791.1(a), in at least 10-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefits coverage. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The Company also disagrees with the number of alleged violations. The failure to state the premium for the minimum mandatory limits was a one-time error. While it is acknowledged this error was applicable to each consumer, the Company

believes it is appropriate for the oversight to be viewed as a single incident rather than multiple repeated violations.

VI. Rating, A. Private Passenger Automobile, Section (1). New Business With Surcharges

The Department alleges that four policies were rated using an improper territory. The Company has re-rated all four policies and sent refunds to the insureds who had been overcharged. The Department also alleges that one policy received an improper surcharge. The Company disagrees and has previously provided the Department a copy of the insured's MVR indicating two violations, for which a proper surcharge was applied.

The Department alleges the Company failed to provide insureds with an itemized invoice at the time of application. The Company disagrees and responds in the same manner as stated in the above section entitled *Itemized Invoice*.

The Department alleges the Company failed to provide a notice of tort option to insureds at the time of application. The Company disagrees and responds in the same manner as stated in the above section entitled *Notice of Tort Option*.

VI. Rating, A. Private Passenger Automobile, Section (2). Renewals Without Surcharges

The Department asserts that five policies were rated using an improper territory. The Company has re-rated all five policies and sent refunds to the insureds who had been overcharged.

The Department alleges the Company failed to provide insureds with an itemized invoice at the time of renewal. The Company disagrees and responds in the same manner as stated in the New Business section entitled *Itemized Invoice*.

The Department alleges the Company failed to provide a notice of tort option to insureds at the time of renewal. The Company has change its procedures to provide the require notice at the time of renewal.

VI. Rating, A. Private Passenger Automobile, Section (2). Renewals With Surcharges

The Department contends that nine policies were rated using an improper territory or an improper surcharge. The Company has re-rated all nine policies and sent refunds to the insureds who had been overcharged. Insureds receiving an undercharge will be billed in accordance with the proper rate at the next rating cycle.

The Department alleges the Company failed to provide insureds with an itemized invoice at the time of renewal. The Company disagrees and responds in the same manner as stated in the New Business section entitled *Itemized Invoice*.

The Department alleges the Company failed to provide a notice of tort option to insureds at the time of renewal. The Company has change its procedures to provide the required notice at the time of renewal.

VI. Claims, B. Automobile Total Loss Claim

The Department alleges that the Company failed, on one instance, to include sales tax in determining the replacement value of the vehicle. The Company disagrees because the Company did not pay replacement value on this claim. Rather, the Company paid only transportation value and, accordingly, sales tax would not be included. The vehicle in question was a 1982 Pontiac with 240,000 miles and, therefore, had no replacement value.

The Department alleges that the Company failed to obtain certificates of salvage from claimants before the Company paid replacement cost value on the loss. The Company disagrees. In many of the claims cited, because of the age of these vehicles, the amount of damage exceeded the replacement value of the vehicle. However, the damage did not necessarily render the vehicle unsafe to drive, or unable to successfully pass a state inspection. Thus, it is inaccurate to characterize these claims as "total losses." Further, requiring the claimant to junk a drivable vehicle is a serious and unwarranted imposition upon the consumer. Nevertheless, given the Department's position that the Company must obtain a salvage certificate from the claimant before the Company pays a claim where the damages exceed the replacement value of the vehicle, the Company will instruct claimants to obtain a certificate of salvage and will decline to pay such claims until the salvage certificate is provided to the Company. The Company will use a notice similar to the notice attached hereto to inform claimants of this requirement.

VI. Claims, C. Automobile First Party Medical Claims

The Department alleges that, on six occasions, the Company failed to notify the insured, in addition to the provider, when the first party limits were exhausted. The Company has amended its procedures to send the notice to both the insured and the provider.

The Department alleges that, on one occasion, the Company failed to acknowledge a claim within 10 working days. The Company agrees, and will work to ensure that its standard processes, which require acknowledgement within 10 working days, are adhered to on a consistent basis.

The Department alleges that, in 25 instances, the Company failed to pay a provider invoice within 30 days after receipt of sufficient documentation, when the matter had not been referred to a PRO. The Company has reinforced the need to adhere to the 30-day limitation with its staff. However, it is the Company's position that the Legislature recognized that companies might pay certain invoices late and, accordingly, requires the payment of interest as the sole penalty for a late payment.

The Department alleges that the Company failed to pay interest on eight provider invoices that were not paid within the required 30 day period. The Company has now paid interest on all eight claims.

VIII. Forms, Automobile Rating – Renewals Without Surcharges

The Department alleges the Company failed to provide the fraud warning required by 75 Pa.C.S. §1822 at the time of renewals. The Company does not use a renewal application for its business. The original application, which contains the required fraud warning, continues to be the application for renewal coverage. At renewal, the insured receives a Declarations page, which has now been amended to include the fraud warning.

VIII. Forms, Automobile Rating – Renewals With Surcharges

The Department alleges the Company failed to provide the fraud warning required by 75 Pa.C.S. §1822 at the time of renewals. The Company does not use a renewal application for its business. The original application, which does contain the required fraud warning, continues to be the application for renewal coverage. At renewal, the insured receives a Declarations page, which has now been amended to include the fraud warning.

X. Consumer Complaints

The Department alleges the Company cancelled one policy for nonpayment of premium, even though the insured paid the annual premium in full at the time the policy was issued. The Company agrees that a cancellation notice was sent on November 30, 2004, with a stated cancellation date of December 19, 2004. There was a computer glitch during the policy period which resulted in an incorrect receivable balance of \$40 remaining as due on November 30, 2004. Upon receipt of notice from the Department, dated December 10, 2004, questioning the cancellation notice, the Company took immediate action and corrected the computer glitch to prevent the policy from canceling. Accordingly, the policy never cancelled.

The Department asserts the Company failed to notify one insured, in addition to the provider, that the first party limits were exhausted. The Company has amended its procedures to send the notice to both the insured and the provider.

The Department alleges the Company failed to pay one provider invoice within 30 days after receipt of sufficient documentation, when the matter had not been referred to a PRO. The Company has reinforced the need to adhere to the 30-day limitation with its staff. However, it is the Company's position that the Legislature recognized that companies might pay certain invoices late and, accordingly, required the payment of interest as the sole penalty for that late payment.

The Department asserts the Company nonrenewed one policy due to the insured no longer living in Philadelphia. The Company has instructed its staff that geographical location cannot be used as a reason for nonrenewal, even though the Company desires to maintain its marketing focus on the urban Philadelphia area.

XI. Licensing

The Department alleges the Company accepted business from three producers who did not hold a Pennsylvania producer's license. The producer names cited by the Department are the

“trading as” names for the producers, who are licensed under their legal names, rather than the fictitious name. The Company has amended its procedures so that only the name appearing on the producer’s license issued by the Department is listed in the Company’s systems or on the policy.

The Department asserts that five producers were writing policies as an agent for the Company but that the producers had not been appointed by the Company. The Company agrees that three of the producers were not properly appointed due to an oversight. Regarding the other two producers, there was a discrepancy in the tax identification numbers as reported for these agents. The Company has now corrected that discrepancy.

XII. Recommendations

1. Company has reinforced its procedures with its staff to help ensure that cancellation and nonrenewal notices comply with all applicable legal requirements.
2. The Company has reviewed the rating requirements with its staff to help ensure that policies are correctly rated in the future.
3. The Company has amended its processes to provide an itemized invoice at the time of application and at renewal. Also, the Company has amended its Notice of Tort Options to include the introductory language found in the statute, and will provide such notice at the time of application and at renewal.
4. The Company has reviewed with its claims staff the need to include sale tax if and when replacement value is paid.
5. The Company has amended its process to notify both the insured and the provider when first party medical benefits have been exhausted.
6. The Company has reminded its claim staff of the need to consistently pay first party medical bills within 30 days of receipt of sufficient documentation, unless the claim has been referred to a PRO.
7. The Company has paid interest on those provider invoices which were paid more than 30 days after receipt of sufficient documentation, as cited in the Report of Examination, and has reviewed with its claims staff the need to pay such interest consistently if the invoice is not paid within the 30-day period.
8. The Company will require that claimants obtain a certificate of salvage if the amount of damages exceeds the replacement value of the vehicle. As instructed by the Department, the Company will decline to pay such claims until the claimant provides the Company with the salvage certificate. The Company will notify claimants of this requirement using a notice similar to the notice attached hereto.

September 13, 2005

Page 7

9. The Company has included the fraud warning on its renewal Declarations page.
10. The Company has reviewed its producer licensing and appointment processes with staff to ensure that only the name that appears on the producer's license as issued by the Department is used, and that all producer appointments are timely and correctly processed.
11. The premium overcharges noted in the Report of Examination have been refunded to the insureds. Evidence of such refunds has been provided to the Department under separate cover.

Rutgers thanks the Department for this opportunity to respond to the Report of Examination, and the Department's courtesies during the examination process.

Sincerely,



Robert J. Thomas
Chief Financial Officer

RJT/md

Attachment