

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

PRAETORIAN INSURANCE COMPANY
Itasca, Illinois

**AS OF
February 10, 2009**

COMMONWEALTH OF PENNSYLVANIA

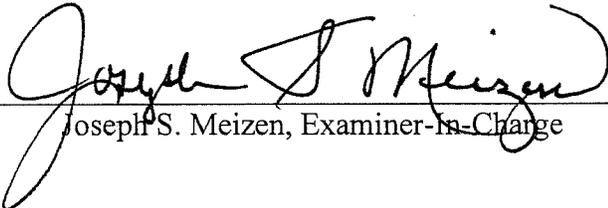


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 8, 2009

VERIFICATION

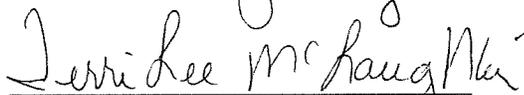
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Joseph S. Meizen, Examiner-in-Charge

Sworn to and Subscribed Before me

This 29th Day of January, 2009



Notary Public

Terri Lee McLaughlin
Notary Public
Allegan County, Michigan
My commission expires: 12/22/2012

PRAETORIAN INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
PRAETORIAN INSURANCE	:	Sections 641.1-A and 671-A of Act 147
COMPANY	:	of 2002 (40 P.S. §§ 310.41a and 310.71)
88 Pine Street	:	
Wall Street Plaza	:	Act 1990-6, Sections 1705(a)(1) and (4),
New York, NY 10005	:	1731(b) and (c), 1731(c)(1), 1786(e)(3),
	:	1791, 1791.1(a) and (b), and 1793(b) and
	:	(c) (Title 75 Pa.C.S. §§ 1705, 1731, 1786,
	:	1791 and 1793)
	:	
	:	Section 2006(4) of Act 68 of 1998 (40
	:	P.S. §991.2006(4))
	:	
	:	Sections 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)
	:	
	:	Section 5(a)(9)(ii) of the Unfair Insurance
	:	Practices Act, Act of July 22, 1974,
	:	P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Section
	:	59.9(b), 62.3(e)(4) and (7), 69.22, 69.42,
	:	69.43 and 113.88
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Section 1161(a) and (b)
	:	
Respondent.	:	Docket No. MC09-02-019

CONSENT ORDER

AND NOW, this 8th day of April, 2009, this Order is hereby
issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to
the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Praetorian Insurance Company, and maintains its address at 88 Pine Street, Wall Street Plaza, New York, New York 10005.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience periods from July 1, 2006 through June 30, 2007.
- (c) On February 10, 2009, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on March 12, 2009.

(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 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;

(iii) Sections 1705(a)(1) & (4) of Act 1990-6, Title 75, Pa.C.S. § 1705, which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;

(iv) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the named insured to be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form;

- (v) Section 1731(c)(1) of Act 1990-6, Title 75, Pa.C.S. § 1731, which states on policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists;

- (vi) Section 1786(e)(3) of Act 1990-6, Title 75, Pa.C.S. § 1786, which states an insurer who has issued a contract of motor vehicle liability insurance and knows or has reason to believe that the contract is only for the purpose of providing proof of financial responsibility shall notify the Department if the insurance has been cancelled or terminated by the insured or by the insurer. The insurer shall notify the Department not later than ten days following the effective date of the cancellation or termination;

- (vii) Section 1791 of Act 1990-6, Title 75, Pa.C.S. § 1791, which states it shall be presumed that the insured has been advised of the benefits available under this chapter provided the notice is given to the insured at time of application;

- (viii) 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 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;

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

- (x) Section 1793(b) of Act 1990-6, Title 75, Pa.C.S. § 1793, which requires the insurer to provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and shall 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;

- (xi) Section 1793(c) of Act 1990-6, Title 75, Pa.C.S. §1793(c) states when an insurer cancels a motor vehicle insurance policy within the first 60 days of new business, the insurer shall within 30 days of canceling the policy return to the insured all premiums paid under the policy less any proration for the period the policy was in effect. Premiums are overdue if not paid to the insured within 30 days after canceling the policy. Overdue return premiums shall bear interest at the rate of 12% per annum from the date the return premium became due;
- (xii) Section 2006(4) of Act 68 (40 P.S. §991.2006(4)), which requires that a cancellation notice advise the insured of his right to request in writing that the Insurance Commissioner review the action of the insurer;
- (xiii) 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;
- (xiv) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires that a midterm cancellation or nonrenewal notice shall state the specific reasons for the cancellation or nonrenewal. The reasons shall identify the condition, factor or loss experience which caused the midterm cancellation or nonrenewal. The notice shall provide sufficient information or data for the insured to correct the deficiency;

- (xv) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which 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;
- (xvi) Section 5(a)(9)(ii) of Act 205 (40 P.S. § 1171.5) prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (xvii) Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day;
- (xviii) 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;
- (xix) Title 31, Pennsylvania Code, Section 62.3(e)(7), which states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss

evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion;

- (xx) 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;
- (xxi) Title 31, Pennsylvania Code, Section 69.42, which states an insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under § 69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer;
- (xxii) Title 31, Pennsylvania Code, Section 69.43, which states an insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under § 69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or

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

(xxiii) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for nonrenewal 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 nonrenewal; and

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

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Sections 641.1-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 Section 2006(4) 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).

(d) Respondent's violations of Act 86, Sections 1 and 3 (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 Section 5(a)(9)(ii) 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 Title 31, Pennsylvania Code, Section 59.9(b) 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 described above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.

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

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

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

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

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

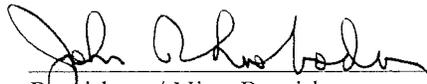
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

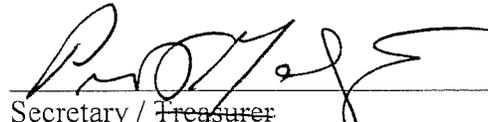
11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: PRAETORIAN INSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



RONALD A. GALLAGHER, JR.
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Praetorian Insurance Company's office located in Saddle Brook, New Jersey from July 28, 2008, through August 15, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

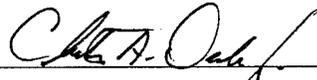
Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was 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%.

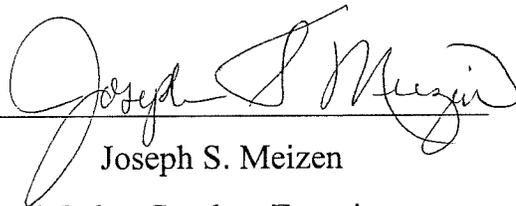
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

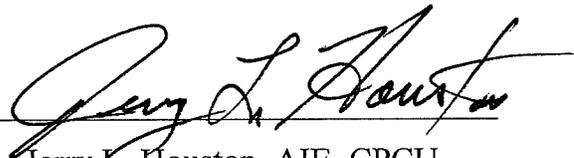
The undersigned participated in this examination and in preparation of this Report.



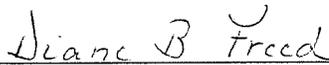
Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



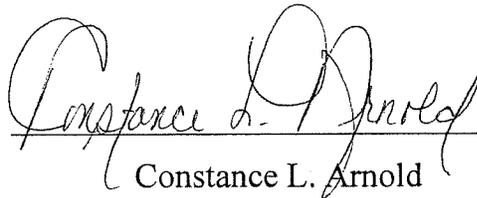
Joseph S. Meizen
Market Conduct Examiner



Jerry L. Houston, AIE, CPCU
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner



Constance L. Arnold
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Praetorian Insurance Company, hereinafter referred to as "Company," at their office located in Saddle Brook, 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 July 1, 2006, through June 30, 2007, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting – Appropriate and timely notices of midterm cancellations, 60-day cancellations and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Assigned Risk
 - Underwriting – Appropriate and timely notices of nonrenewal and midterm cancellation.
 - Rating – Proper use of all classification and rating plans and procedures.
3. Property
 - Underwriting – Appropriate and timely notices of midterm cancellations, 60-day cancellations and declinations.
4. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, declinations and renewals.

5. Commercial Automobile

- Underwriting – Appropriate and timely notices of midterm cancellations, declinations and renewals.

6. Workers' Compensation

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

7. Claims

8. Forms

9. Advertising

10. Complaints

11. Licensing

III. COMPANY HISTORY AND LICENSING

The Company was incorporated under the laws of the State of Illinois on July 20, 1979 and began business on August 7, 1979, as a multiple line property and casualty company, which was titled Insurance Corporation of Hannover. The Company was organized by interests identified with Hannover Rueckversicherungs Aktiengesellschaft (Hannover Re), a reinsurance corporation organized under the laws of Germany.

In December 2002, the Hannover Re group of companies restructured its holding company system and ownership of the Company was transferred from Hannover Re to Hannover Finance, Inc. (HFI). HFI then contributed all of the Company's shares to its wholly owned subsidiary, Clarendon National Insurance Company ("CNIC").

Effective July 1, 2005, CNIC sold the Company to Hannover Finance, Inc., who in turn contributed the Company to the Praetorian Financial Group, Inc. ("PFG").

Effective July 1, 2006, the Company changed its name to Praetorian Insurance Company ("PIC").

Hannover Re subsequently agreed to sell 100% of the PFG Group, including PIC, to QBE Holdings, Inc. This transaction/sale was effective May 31, 2007.

LICENSING

Praetorian Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2008. The Company is licensed in all states, the District of Columbia and Puerto Rico. The Company's 2007 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$17,168,659. Premium volume related to the areas of this review were: Commercial multiple peril (non-liability portion) \$2,877,075; Commercial multiple peril (liability portion) \$2,878,705; Inland Marine \$2,090,675; Workers' Compensation \$465,597; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$467,979; Other Private Passenger Auto Liability \$1,540,319 and Private Passenger Auto Physical Damage \$68,661; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$34,290; Other Commercial Auto Liability \$1,714,014 and Commercial Auto Physical Damage \$555,561.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and underwriting guides were furnished for private passenger automobile 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.

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.

The universe of 9 private passenger automobile files identified as being cancelled in the first 60 days of new business was selected for review. All 9 files were received and reviewed. The 12 violations noted were based on 9 files, resulting in an error ratio of 100%.

The following findings were made:

3 Violations Title 75, Pa. C.S. §1793(c)

When an insurer cancels a motor vehicle insurance policy within the first 60-days of new business, the insurer shall within 30 days of canceling the policy return to the insured all premiums paid under the policy less any proration for the period the policy was in effect. Premiums are overdue if not paid to the insured within 30 days after canceling the policy.

Overdue return premiums shall bear interest at the rate of 12% per annum from the date the return premium became due. The Company failed to return unearned premium within 30 days of canceling the policy for the 3 files noted.

9 Violations Title 75, Pa. C.S. §1786(e)(3)

An insurer who has issued a contract of motor vehicle liability insurance and knows or has reason to believe that the contract is only for the purpose of providing proof of financial responsibility shall notify the department if the insurance has been cancelled or terminated by the insured or by the insurer. The insurer shall notify the department not later than ten days following the effective date of the cancellation or termination. The Company failed to notify the Department of Transportation of cancellations within 10 days as required.

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.

The universe of 23 private passenger automobile files identified as midterm cancellations by the Company was selected for review. All 23 files were

received and reviewed. The 40 violations noted were based on 23 files, resulting in an error ratio of 100%.

The following findings were made:

17 Violations Act 68, Section 2006(4) [40 P.S. §991.2006(4)]

Requires that a cancellation notice advise the insured of his right to request in writing that the Insurance Commissioner review the action of the insurer. The Company failed to provide the required information on the cancellation notice for the 17 files noted.

23 Violations Title 75, Pa. C.S. §1786(e)(3)

An insurer who has issued a contract of motor vehicle liability insurance and knows or has reason to believe that the contract is only for the purpose of providing proof of financial responsibility shall notify the department if the insurance has been cancelled or terminated by the insured or by the insurer. The insurer shall notify the department not later than ten days following the effective date of the cancellation or termination. The Company failed to notify the Department of Transportation of cancellations within 10 days as required.

B. Private Passenger Automobile – Assigned Risk

Praetorian Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

1. 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 Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743 and 1744 [75 Pa. C.S. §1742, 1743 an 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

From the universe of 808 private passenger automobile assigned risk policies cancelled during the experience period, 38 files were selected for review. All 38 files were received and reviewed. The 808 violations noted were based on the universe of 808, resulting in an error ratio of 100%.

The following findings were made:

808 Violations Title 75, Pa. C.S. §1786(e)(3)

An insurer who has issued a contract of motor vehicle liability insurance and knows or has reason to believe that the contract is only for the purpose of providing proof of financial responsibility shall notify the department if the insurance has been cancelled or terminated by the insured or by the insurer. The insurer shall notify the department not later than ten days following the effective date of the cancellation or termination. The Company failed to notify the Department of Transportation of cancellations within 10 days as required.

2. Nonrenewal

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

The purpose of the review was to determine compliance with Title 75, Pennsylvania Consolidated Statutes, Sections 1742, 1743, 1744 [75 Pa. C.S. §1742, 1743 and 1744], and all the rules of the Pennsylvania Assigned Risk Plan and Manual.

The universe of 14 private passenger assigned risk policies nonrenewed during the experience period was selected for review. All 14 files were received and reviewed. The 14 violations noted were based on 14 files, resulting in an error ratio of 100%.

The following findings were made:

14 Violations Title 75, Pa. C.S. §1786(e)(3)

An insurer who has issued a contract of motor vehicle liability insurance and knows or has reason to believe that the contract is only for the purpose of providing proof of financial responsibility shall notify the department if the insurance has been cancelled or terminated by the insured or by the insurer. The insurer shall notify the department not later than ten days following the effective date of the cancellation or termination. The Company failed to notify the Department of Transportation of cancellations within 10 days as required.

C. Property

1. 60-Day Cancellations

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

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

From the universe of 514 inland marine policies which were cancelled within the first 60 days of new business, 25 files were selected for review. The inland marine policies consisted of pet insurance. All 25 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 12%.

The following findings were made:

3 Violations Title 31, Pa. Code, Section 59.9(b)

Requires an insurer give at least 30 days notice of termination and provided it gives notice no later than the 60th day. The Company did not give the required 30 days notice of cancellation for the 3 files noted.

2. Midterm Cancellations

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

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

From the universe of 1,146 inland marine policies which were cancelled midterm during the experience period, 25 files were selected for review. The inland marine policies consisted of pet insurance. All 25 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 16%.

The following findings were made:

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

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

The Company failed to provide 30 days notice of cancellation for the 4 files noted.

3. 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.

The universe of 1 inland marine application declined during the experience period was selected for review. The file was received and reviewed. No violations were noted.

D. Commercial Property

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.

The universe of 9 commercial package policies cancelled midterm during the experience period was selected for review. All 9 files were 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.

The universe of 6 commercial package policies nonrenewed during the experience period was selected for review. All 6 files were received and reviewed. The 9 violations noted were based on 6 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires that a nonrenewal notice shall state the specific reasons for the nonrenewal. The reasons shall identify 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.

AND

Title 31, Pa. Code, Section 113.88

The reason given for nonrenewal 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 nonrenewal. The reason for nonrenewal was not specific in the 6 files noted.

3 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 Company did not provide the offer of loss information on the notice as required for the 3 files noted.

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.

From the universe of 56 commercial package policies renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

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 defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 22 commercial package declinations reported by the Company during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

E. 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.

The universe of 2 commercial automobile policies cancelled midterm during the experience period was selected for review. Both files 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 measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 25 commercial automobile policies renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. No violations were noted.

3. 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 defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 23 commercial automobile declinations reported by the Company during the experience period, 10 files were selected for review. All 10 files were received and reviewed. 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.

The universe of 2 workers' compensation policies identified as midterm cancellations was selected for review. Both files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 100%.

The following findings were made:

2 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 Company did not provide the offer of loss information on the notice as required for the 2 files 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 measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 36 workers' compensation policies which were renewed during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 50%.

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 Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 5 files 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.

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

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

Private Passenger Automobile – New Business Without Surcharges

From the universe of 328 private passenger automobile policies identified as new business without surcharges, 25 files were selected for review. All 25 files were received and reviewed. The 1,968 violations noted were based on the universe of 328 files, resulting in an error ratio of 100%.

The following findings were made:

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

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time of application.

328 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.

328 Violations Title 75, Pa. C.S. §1705(a)(1)&(4)

Requires every insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy to provide each applicant with the notice required by paragraph (1). A

policy may not be issued until the applicant has been provided an opportunity to elect a tort option. The notice shall be a standardized form as adopted by the Commissioner. The Company failed to provide the required disclosure of tort options at the time of application.

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

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

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

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and

premiums for the insured's existing coverages. The Company failed to provide the insured with an itemized invoice listing the minimum motor vehicle coverages and the premium charge to purchase the minimum mandated coverages at the time of application.

328 Violations Title 75, Pa. C.S. §1731(b) & (c)

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The Company failed to provide the signed written rejection form for uninsured and underinsured motorist coverage.

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

The universe of 1 private passenger automobile policy renewed without surcharges during the experience period was selected for review. The file was received and reviewed. The 4 violations noted were based on 1 file, resulting in an error ratio of 100%.

The following findings were made:

1 Violation Title 75, Pa. C.S. §1793(b)

Requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the surcharge disclosure plan to the insured at the time of renewal.

1 Violation 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.

1 Violation Title 75, Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages. The Company failed to provide the insured with an itemized invoice listing the minimum motor vehicle coverages and the premium charge to purchase the minimum mandated coverages at the time of renewal.

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

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The policy renewal did not reflect the prominent notice as required.

B. Private Passenger Automobile – Assigned Risk

Praetorian Insurance Company reports its premium writings for private passenger automobile to the Pennsylvania Assigned Risk Plan. As a result, the Company receives all assignments from the Pennsylvania Assigned Risk Plan.

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 primary purpose of the review was to determine compliance with Act 246, The Casualty and Surety Rate Regulatory Act, 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. Review was also made of all the rules and rates of the Assigned Risk Plan, compliance with all provisions of Act 6 of 1990, as well as Title 75, Pa. C.S. Sections 1741, 1742, 1743 and 1744 [40 P.S. §1741, 1742, 1743 and 1744], which establishes the Assigned Risk Plan and requires insurers

to abide by the rules of the Plan.

Assigned Risk Private Passenger Automobile – New Business – Clean

From the universe of 1,822 assigned risk private passenger automobile new business policies written as clean during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – New Business – Other Than Clean

From the universe of 518 assigned risk private passenger automobile new business policies written as other than clean during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

Assigned Risk Private Passenger Automobile – Renewals – Clean

From the universe of 1,144 assigned risk private passenger automobile renewal policies written as clean during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 1,073 violations noted were based on the universe of 1,144 policies, resulting in an error ratio of 94%.

The following findings were made:

1,073 Violations Title 75, Pa. C.S. §1731(c)(1)

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or

underinsured motorists. The policy renewal did not reflect the prominent notice on all policies within the universe where uninsured and underinsured motorist coverage has been rejected.

Assigned Risk Private Passenger Automobile – Renewals – Other Than Clean

From the universe of 265 assigned risk private passenger automobile renewal policies written as other than clean during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 238 violations noted were based on the universe of 265 files, resulting in an error ratio of 90%.

The following findings were made:

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

On policies in which either uninsured or underinsured motorist coverage has been rejected, the policy renewals must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. The policy renewal did not reflect the prominent notice on all policies within the universe where uninsured and underinsured motorist coverage has been rejected.

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

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 217 private passenger automobile property damage claims reported during the experience period, 39 files were selected for review. All 39 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

The universe of 1 private passenger automobile comprehensive claim reported during the experience period was selected for review. The file was received and reviewed. No violations were noted.

C. Automobile Collision Claims

The universe of 2 private passenger automobile collision claims reported during the experience period was selected for review. Both files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

The universe of 16 private passenger automobile total loss claims reported during the experience period was selected for review. All 16 files were received and reviewed. The 11 violations noted were based on 8 files, resulting in an error ratio of 50%.

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

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

(b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in

Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company failed to maintain a copy of the Pennsylvania certificate of salvage for the file noted.

7 Violations 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 7 claim files noted did not have the correct sales tax included in the replacement value of the vehicle.

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

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

E. Automobile First Party Medical Claims

From the universe of 67 private passenger automobile first party medical claims reported during the experience period, 28 files were selected for review. All 28 files were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 18%.

The following findings were made:

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

Requires the insurer when an insured's first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider's bill. The Company failed to provide notice to the provider and insured when the insured's first-party limits had been exhausted for the 3 files noted.

2 Violations Title 31, Pa. Code, Section 69.42

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

AND

Title 31, Pa. Code, Section 69.43

An insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than

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

F. Automobile First Party Medical Claims Referred to a PRO

The Company did not report any first party medical claims referred to a peer review organization. The Company was asked to provide a copy of all peer review contracts in place during the experience period. A contract was received and reviewed. 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 Title 75, Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage.

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 stated they do not use any form of advertising. The Company's website 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 10 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 10 complaints were requested, received and reviewed.

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

No violations were noted.

The following synopsis reflects the nature of the 10 complaints that were reviewed.

•	8	Cancellation/Nonrenewal	80%
•	1	Rating	10%
•	1	Miscellaneous	10%
	<hr/>		<hr/>
	10		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:

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

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

Ace Insurance Agency
CIC Insurance Brokers

CTK Insurance Services, Inc.
Imperial Auto Tags and Ins., Inc.
JBA Associates
King Insurance Agency, Inc.
Program Ins. Management of Sarasota, Inc./dba Chem Plan

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

(40 P.S. §310.71)

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

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

(1) Delineates the services to be provided; and

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

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

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

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

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

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

A Agency Insurance, Inc.
Addis Group, LLC
Adorniram Insurance Agency, Inc.
AIA-DCAP Corp.
Bassetts Auto Insurance Agency, Inc.
Block Insurance Agency
Hyon C. Choe
John A. Contessa
Philip Denardo
Aldo L. Didomenico
Dougherty & Conrad
Pedro E. Febres
Fredericktown Real Estate Company
Insurance Man, Inc.
Walter R. Johnson
Kimberley Vassal Insurance Services, Ltd.
Robert Martin
Massamont Insurance Agency, Inc.
Jeffrey W. Niebling
Javier Ortega-Benitez
Lorraine Palazzo
Stanley G. Park
PH Insurance Agency, Inc.

Oswaldo Rivera
Royal Underwriters, Inc.
Sassa & Concannon, Inc.
Nathan J. Snavely
Ralph J. Snow
Sterling Insurance Agency, Inc.
Leonard C. Triggiani
Ronald M. Wardezak

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 Title 75, Pa. C.S. §1793(c) to ensure that when the Company cancels a motor vehicle insurance policy within the first 60 days of new business, the Company shall within 30 days of canceling the policy, return all premiums paid under the policy less any proration for the period the policy was in effect.
2. The Company must review Title 75, Pa. C.S. §1786(e)(3) to ensure that the Department of Transportation is notified within 10 days of terminating a motor vehicle insurance policy.
3. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Section 2006 [40 P.S. §991.2006], so that the violations noted in the Report do not occur in the future.
4. The Company must review Title 31, Pa. Code, Section 59.9(b) to ensure that the violations relative to providing 30 days notice of cancellation to the insured, as noted in the Report, do not occur in the future.
5. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that the violations regarding the requirement for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Section 3 [40 P.S. §§3403], so that the violations noted in the Report do not occur in the future.
7. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
8. The Company must review Title 75, Pa. C.S. 1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and every renewal thereafter, as noted in the Report, do not occur in the future.
9. The Company must review Title 75, Pa. C.S. §1791.1(a) and (b) violations to ensure that an itemized invoice listing minimum coverages and tort options are provided at the time of application and every renewal thereafter.
10. The Company must review Title 75, Pa. C.S. §1791 violations to ensure that the notice of available benefits is given to the insured at the time of application as noted in the Report.
11. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1705(a)(1)(4) do not occur in the future.

12. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage forms are obtained and retained with the underwriting file. This is to ensure that violations noted under Title 75, Pa. C.S. §1731(b) & (c) do not occur in the future.

13. On policies in which either uninsured or underinsured coverage has been rejected, the policy renewal must contain notice in prominent type that the policy does not provide protection against damages caused by uninsured or underinsured motorists. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that the violations noted under Title 75, Pa. C.S. §1731(c)(1) do not occur in the future.

14. The Company must review Title 31, Pa. Code, Section 62.3(e)(4) with its claim staff to ensure that the correct sales tax is included in the replacement value of a motor vehicle. The Company must review all claims where the correct sales tax was not included in the replacement value of a motor vehicle. The correct sales tax 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.

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

16. The Company must review Title 31, Pa. Code, Section 69.22 with its claim staff to ensure that the provider and insured are properly notified that first-party medical benefits have been exhausted.
17. The Company must review Title 31, Pa. Code, Sections 69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.
18. The Company must review Title 75, Pa. C.S. §1161(a)&(b) with its claim staff to ensure that salvage certificates are obtained and are retained with the claim file.
19. 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.

XIII. COMPANY RESPONSE



March 12, 2009
Mr. Chester A. Derk, Jr. AIE, HIA
Market Conduct Division Chief
Pennsylvania Insurance Department
1227 Strawberry Square
Harrisburg, PA 17120

**Re: Examination Warrant Number 08-M30-006
Praetorian Insurance Company**

Dear Mr. Derk,

Thank you for the time that you and your staff spent with us over the course of this examination. We truly appreciate the time that you, Mr. Yanosky, and your staff spent with us in Harrisburg discussing how we do business and the changes we needed to make to be in compliance with Pennsylvania requirements. It has always been our desire to write business in accordance with Pennsylvania statutes. The examination pointed out the areas in which we needed to improve, and we want to tell you the corrective actions that we have already put into place, as well as the corrective actions that are being implemented. We will use the same numbering sequence here that you used in the Report.

1. We changed the cancellation procedure to ensure that return premiums are paid within 30 days of cancellation. We made this change during the course of the exam, and during the course of the exam we returned interest that was due on prior return premium transactions that fell outside the 30 day period.
2. Prior to the examination we changed the computer program to report policy terminations to the Department of Transportation, to ensure that they are reported within 10 days of termination. The policies where we did not report within the proper timeframe were terminated prior to the correction.
3. During the course of the exam we changed wording in the cancellation notices to include notification to the policyholder that they have the right to request that the Insurance Commissioner review the insurance company's action. In one terminated program it was quicker to send a cover letter to the insured with the required language along with the cancellation notice, rather than wait for the programmers to make the change in the notice itself, so we opted for the former to come into compliance most expediently.
4. The Pet Health program had an error in its cancellation programming causing less than 30 days advance notice of cancellation to appear. The programming error was corrected during the course of the exam.

5. The Pet Health program had an error in its cancellation programming causing less than 30 days advance notice of cancellation to appear. The programming error was corrected during the course of the exam.
6. We reviewed with the underwriters the requirement to be sufficiently specific in giving reasons for nonrenewal, and gave examples of insufficiently specific reasons. We also added this to our internal compliance audit checklist for Pennsylvania policies to check on an ongoing basis.
7. We will file an amendatory endorsement for approval, to attach to all Pennsylvania policies at issuance, informing the policyholder that if a renewal policy is offered, their premium might increase. We anticipate finalizing the endorsement internally within the next 90 days. Meanwhile, we have reminded the underwriters to send at least 30 days advance notice of premium increases.

Recommendations 8, 9, 10, 11, 12, 13 all relate to the mandatory take-out policies from the assigned risk plan. New procedures have been put into place to treat them as new business, rather than a renewal with voluntary rates. The examination period included the start of the Praetorian voluntary market, which is a sole result of the "Mandatory take-out program" in the assigned risk and not the regular voluntary solicitation of business. We do not write any voluntary business other than the mandatory take-out policies. The Mandatory take-out program did cause some confusion internally, which the examination has cleared up. The attachment titled "PA MCE PIC Takeout Application Procedures 20090115" describes the changes we have put in place as a result of the examination.

14. All jurisdictions were reviewed for proper sales tax and copies of checks for corrected amounts to the claimants are attached. (Attachment "PA MCE PIC Sales Tax Corrections 20090227")
15. We have revised our claim letter to include wording that the valuation is enclosed.
16. Our procedures were modified 4/1/2008 to ensure that both the provider and the insured are notified that benefits have been exhausted.
17. We have nothing additional.
18. Electronic copies of the salvage certificates had been kept with our salvage vendor. Copies of the salvage certificates are now printed and placed in our claim files.
19. JBA Associates has submitted their application for a nonresident license, and once it is issued Praetorian will send in an appointment.

We issued a procedure to address producer commissions on mandatory take-out policies (Attachment "PA MCE PIC Producer Procedure for Mandatory Take-out Policies 20090115")

We issued a procedure to address producer commissions on policies where the producer's license has been revoked (Attachment "PA MCE PIC Procedure for Revoked Producers 20090115")

Praetorian has gathered additional information to appoint business entities where it had previously relied on appointments of individuals at the business entities, and we are appointing the entities.

Lastly, we have created a Pennsylvania Exception Page Checklist based on these examination recommendations (Attachment "PA Checklist") and added it to our internal compliance audit forms that we use when we do our own internal compliance audits of our programs. We have added the Pennsylvania Exception Page to make sure we check on an ongoing basis to ensure compliance in our existing programs as well as in any new programs we might write in the future.

Sincerely,

*Catherine Torrey on behalf of
Chuck Bolton*

Chuck Bolton, CPCU
Vice President
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