

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

SAFEGUARD INSURANCE COMPANY
Farmington, Connecticut

**AS OF
July 6, 2005**

COMMONWEALTH OF PENNSYLVANIA

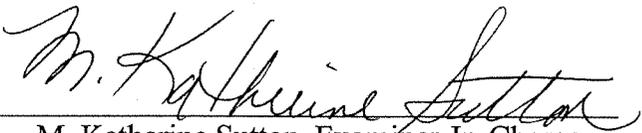


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 22, 2005

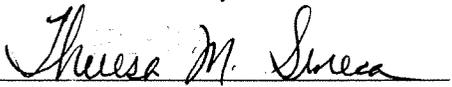
VERIFICATION

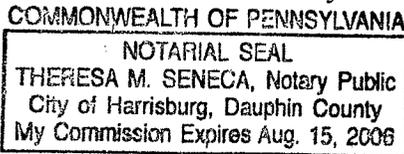
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


M. Katherine Sutton, Examiner-In-Charge

Sworn to and Subscribed Before me

This *20* Day of *June*, 2005


Notary Public



SAFEGUARD INSURANCE COMPANY

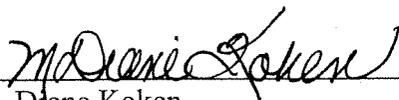
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner



Safeguard Insurance Company

Docket No.
MC05-07-001

Market Conduct Examination as of the
close of business on April 15, 2005

ORDER

A market conduct examination of Safeguard Insurance Company was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, et seq., for the period July 1, 2003 through June 30, 2004. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

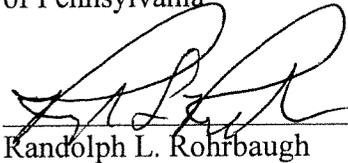
1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with all recommendations contained in the attached Report.

4. 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.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania



(August 22, 2005)

Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Safeguard Insurance Company's offices located in Cherry Hill, New Jersey and Charlotte, North Carolina, from March 21, 2005, through April 15, 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%.

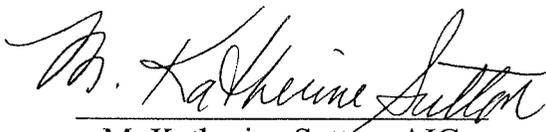
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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



M. Katherine Sutton, AIC
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner

II. SCOPE OF EXAMINATION

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

The examination focused on Company operations in the following areas:

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

5. Workers' Compensation

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

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

Safeguard Insurance Company was incorporated June 28, 1867, with the title Orient Insurance Company, under the laws of Connecticut. It began business in January 1872.

On December 31, 1956, two former companion carriers, London & Lancashire Indemnity Company (formed in 1915) and Safeguard Insurance Company of New York (organized in 1915), were merged into the Orient Insurance Company. The surviving company adopted the present title.

Two former companion carriers, the United States branches of the Law Union and Rock Insurance Company, Ltd. and The London & Lancashire Insurance Company, Ltd., were absorbed by merger on December 31, 1958 and September 30, 1975, respectively.

LICENSING

Safeguard Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2005. The Company is licensed in all states and the District of Columbia. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$5,916,503. Premium volume related to the areas of this review were: Homeowners multiple peril \$2,045,345; Commercial multiple peril (non-liability portion) \$226,276; Commercial multiple peril (liability portion) \$154,521; Workers' Compensation \$1,426,935; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$225,644; Private Passenger Auto Liability \$803,255 and

Private Passenger Auto Physical Damage \$609,322; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$1,093; Commercial Auto Liability \$146,140 and Commercial Auto Physical Damage \$134,216.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for private passenger automobile and homeowners. 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. 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 46 private passenger automobile files identified as midterm cancellations by the Company was selected for review. All 46 files selected 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 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 13 private passenger automobile files identified as nonrenewals by the Company was selected for review. All 13 files selected

were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 15%.

The following findings were 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 nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The file noted contained a cancellation notice that did not provide the notice required, 60 days from the date of mailing.

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

An insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of one accident within the thirty-six (36) month period prior to the upcoming anniversary date of the policy.

AND

Act 68, Section 2003(a)(13)&(14)

Discrimination Prohibited. An insurer may not cancel or refuse to write or renew a policy of automobile insurance for a not at-fault accident or any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The file noted was nonrenewed due to one at-fault accident and a glass claim.

3. Declinations

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

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

From the universe of 1,117 private passenger automobile files identified as declinations, 100 files were selected for review. All 100 files selected were received and reviewed. The policies reviewed were all issued and subsequently cancelled or nonrenewed by the Company or at the request of the insured. No violations were noted.

4. Report of Cancellations, Nonrenewals and Refusals to Write

The purpose of the review was to determine compliance with the provisions of Title 31, Pa. Code, Section 61.13 regarding records and reports to the Insurance Department of cancellations, nonrenewals and refusals to write.

The Company was requested to provide copies of reports to the Insurance Department of Private Passenger Automobile policies, which had been cancelled, nonrenewed or refused to be written within the experience period. The Company provided the 2 semi-annual reports for the experience period. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a

Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

C. Personal Lines Property

1. 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 262 personal lines property policies, which were cancelled midterm during the experience period, 40 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 40 files requested were received and reviewed. No violations were noted.

2. Nonrenewals

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

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9)

[40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 180 personal lines property policies, which were nonrenewed during the experience period, 60 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 60 files were received and reviewed. The 27 violations noted were based on 27 files, resulting in an error ratio of 45%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The 27 violations were the result of an improper reason for nonrenewal.

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.

From the universe of 1,678 personal property policies reported as declinations during the experience period, 135 files were selected for review. All 135 files were received and reviewed. The policies consisted of homeowner and tenant homeowner. All of the policies had been issued and subsequently cancelled or nonrenewed by the Company. No violations were noted.

D. Commercial Automobile

1. Midterm Cancellations

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

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

The universe of 3 commercial automobile policies identified as midterm cancellations was selected for review. All 3 files selected 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 7 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 7 files selected were received and reviewed. No violations were noted.

E. 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 11 commercial package policies, which were cancelled during the experience period was selected for review. All 11 files selected 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 9 commercial package policies identified as nonrenewals by the Company was selected for review. All 9 files selected were received and reviewed. The violation noted resulted in an error ratio of 11%.

The following finding was made:

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide a notice of nonrenewal. The file did not contain any documentation to substantiate a notice was mailed, the reason for the nonrenewal or if the notice met format requirements.

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

The universe of 2 commercial package files identified as declinations by the Company was selected for review. The 2 files selected were received and reviewed. The policies were issued and subsequently cancelled by the insured. No violations were noted.

4. Renewals

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

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

The universe of 4 commercial package policies which were renewed during the experience period was selected for review. All 4 files selected 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 1 workers' compensation policy identified as a midterm cancellation was selected for review. The file was received and reviewed. No violations were noted.

2. Nonrenewals

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

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

The universe of 32 workers' compensation policies which were nonrenewed during the experience period was selected for review. All 32 files selected were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 13%.

The following findings were made:

1 Violation 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. The file noted did not provide a specific reason for nonrenewal.

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

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

2 Violations Insurance Company Law, Section 653 [40 P.S. §813]

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

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 did not write any new business private passenger automobile policies during the experience period.

2. Renewals

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

The purpose of the review was to 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 601 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

Private Passenger Automobile – Renewals With Surcharges

The universe of 12 private passenger automobile policies renewed with surcharges during the experience period was selected for review. All 12 files selected were received and reviewed. No violations were noted.

B. Private Passenger Automobile – Assigned Risk

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

C. Homeowners

1. New Business

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

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

The Company did not write any new business homeowner policies during the experience period.

2. Renewals

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

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

From the universe of 2,223 homeowner policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

The universe of 77 private passenger automobile property damage claims reported during the experience period was selected for review. All 77 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

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.

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide the claimant with the required status letter.

B. Automobile Comprehensive Claims

The universe of 68 private passenger automobile comprehensive claims reported during the experience period was selected for review. All 68 files requested were received and reviewed. No violations were noted.

C. Automobile Collision Claims

The universe of 57 private passenger automobile collision claims reported during the experience period was selected for review. All 57 files requested 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 selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 13%.

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.

1 Violation Title 75, Pa. C.S., Section 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 file noted did not reflect that the salvage certificated was obtained.

E. Automobile First Party Medical Claims

The universe of 18 private passenger automobile first party medical claims reported during the experience period was selected for review. All 18 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 11%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.5(d)

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The 2 violations noted were the

result of not providing claimants with the necessary claim forms within ten working days after notice of the injury.

F. Automobile First Party Medical Claims Referred to a PRO

The universe of 1 automobile first party medical claims that was referred to a peer review organization by the Company was selected for review. The file selected was received and reviewed. The Company was also asked to provide a copy of the all peer review contracts in place during the experience period. The contracts was received and reviewed. The 2 violations were based on 1 file, resulting in an error ratio of 100%.

The following findings were made:

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

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

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

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

G. Homeowner Claims

From the universe of 139 homeowner claims reported during the experience period, 25 files were selected for review. All 25 files selected 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 Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide the claimant with the required status letters.

VIII. FORMS

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

The following findings were made:

Homeowner Claims

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

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company did not provide the fraud warning on claim forms for the 3 files 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 did not use any method of advertising during the experience period.

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. The 10 complaints reported were selected for review. Of the 10 requested, 6 were received and reviewed.

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

The following findings were made:

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

Requires every company subject to examination to keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its business in such manner and for such time as may be required in order that the Department may readily verify whether the Company has complied with the laws of this Commonwealth. The 4 files noted were not produced by the Company.

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

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

The following synopsis reflects the nature of the 6 complaints that were reviewed.

•	4	Cancellation/Nonrenewal	67%
•	2	Claim Related	33%
•	<hr/>		<hr/>
	6		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 agents during the experience period and a listing of all agents 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 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.

Global Insurance Network
L.E. Mahoney
SGA

2 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.

Talbot Agency, Inc.
Mang Insurance Agency

XII. RECOMMENDATIONS

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

1. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure compliance with cancellation and nonrenewal notice requirements so that the violations noted in the Report do not occur in the future.
2. The Company 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.
3. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, as noted in the Report, do not occur in the future.
4. 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.
5. The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all

applications and claim forms, as noted in the Report, do not occur in the future.

6. The Company must review and revise internal control procedures to ensure compliance with cancellation requirements of Act 68, Sections 2003(b) and 2003(a)(13) & (14) [40 P.S. §991.2003], so that the violations noted in the Report do not occur in the future.
7. The Company must review Insurance Company Law, Section 653 [40 P.S. §813], to ensure that violations regarding cancellation of a workers' compensation policy, as noted in the Report, do not occur in the future.
8. 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.
9. 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.
10. The Company must review Title 31, Pa. Code, Chapter 69 with its claim staff to ensure that violations relative to peer review organization requirements, as noted in the Report, do not occur in the future.

XIII. COMPANY RESPONSE



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Phone
704 522-2000
Fax
704 522-3200

August 4, 2005

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

VIA OVERNIGHT MAIL

Re: Examination Warrant Number: 04-M08-027
Security Insurance Company of Hartford (NAIC # 553-24902) successor in
interest to Safeguard Insurance Company (NAIC # 553-24694)

Dear Mr. Derk:

Security Insurance Company of Hartford successor in interest to Safeguard Insurance
Company, herein known as "the Company", received your July 6, 2005 letter and copy of
the final draft of the findings of the routine Market Conduct Examination. As you
instructed, we have reviewed the draft report and this letter contains the company's
response to the recommendations raised in the draft report. Please note that the
Department's recommendations are noted in bold and are followed by our response to that
recommendation.

The Company respectfully states that the errors identified in the examination process
were unintentional errors and that the Company strives to comply with Pennsylvania
insurance statutes and regulations at all times.

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

Company response:

This error was identified during a market conduct examination conducted on another
Member Company within our group of companies. When we were advised of the error
during that examination, which was closed in January 2004, we revised our processes and
procedures to be in compliance with Pennsylvania statutes and regulations. We also

communicated the change to all Pennsylvania underwriting staff at that time and have monitored nonrenewal actions since then. The Company respectfully notes that the 27 violations that were a result of an improper reason for nonrenewal during that same review period thus were issued prior to the revisions to our procedures. The examiners were provided with copies of the revised procedures and verbally noted that the improper reason was not used after the new processes were implemented.

Recommendation 2: The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of review Act 86, Section 3 [40 P.S. §3403], so that the violations noted in the Report do not occur in the future.

Company response: These were inadvertent errors by the underwriting staff. The Company conducted remedial training with the staff emphasizing the importance of compliance with Pennsylvania statutes and regulations as well as Company processes and procedures on for handling commercial nonrenewal notices.

Recommendation 3: The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, as noted in the Report do not occur in the future.

Company response: The Company reviewed the claim handling procedures with respect to status letters to assure compliance Title 31, Pennsylvania Code, Chapter 146 and conducted refresher training with the staff on this topic emphasizing the importance of compliance with Pennsylvania statutes and regulations.

Recommendation 4: 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.

Company response: Effective December 31, 2004 Safeguard Insurance Company was merged into Security Insurance Company of Hartford. As a result, no agents and brokers will be submitting business to Safeguard Insurance Company.

Recommendation 5: The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all applications and claim forms, as noted in the Report do not occur in the future.

Company response: These were inadvertent errors by the claims staff. The Company conducted remedial training with the staff emphasizing the importance of compliance with Pennsylvania statutes and regulations as well as Company processes and procedures regarding the inclusion of a fraud warning on all claim forms.

Recommendation 6: The Company must review and revise internal control procedures to ensure compliance relative to cancellation requirements of review Act 68, Sections 2003 (b) and 2003 (a)(13) & (14) [40 P.S. §991.2003], so that the violations noted in the Report do not occur in the future.

Company response: The Company respectfully states that these were unintentional errors. The Company conducted refresher training with the staff emphasizing the importance of compliance with Pennsylvania cancellation requirements stated in Act 68 as noted above.

Recommendation 7:The Company must review Insurance Company Law, Section 653 [40 P.S. §813], to ensure that the violations regarding cancellation of a workers' compensation policy, as noted in the Report do not occur in the future.

Company response: The Company respectfully states that these were unintentional errors. The Company reviewed all internal procedures to assure compliance with Pennsylvania's cancellation provisions for workers compensation and conducted refresher training with the staff on this topic emphasizing the importance of compliance with Pennsylvania statutes and regulations.

Recommendation 8: 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.

Company response: The Company has revised the internal claim handling procedures to assure consistent application of Title 31, Pa. Code Section 62.3 (e) regarding the inclusion of sales tax in the replacement value of a motor vehicle. The Company conducted refresher training with the appropriate claims staff on this topic.

The Company has also elected to pay the sales tax to the claimant on the claim file noted in the single violation.

Recommendation 9: The Company must review Title 75, Pa. C.S. §1161(a) & (b) with its claim staff to ensure salvage certificates are obtained and are retained with the claim file.

Company response: The Company respectfully states that this was an unintentional error. The Company has conducted refresher training with the staff on this topic emphasizing the importance of compliance with Pennsylvania insurance law.

Recommendation 10: The Company must review Title 31, Pa. Code, Chapter 69 with its claim staff to ensure that violations relative to peer review organization requirements, as noted in the Report do not occur in the future.

Company response: The Company respectfully states that these were unintentional errors. The Company reviewed the claim handling procedures with respect to peer review organization requirements to assure compliance Title 31, Chapter 69 and conducted

refresher training with the staff on this topic emphasizing the importance of compliance with Pennsylvania statutes and regulations.

We also want to take this opportunity to thank you and your examiners for your professionalism and cooperation during the examination process. If you have any questions or need any additional information, please call me directly at (704) 522-2663.

Sincerely,

SECURITY INSURANCE COMPANY OF HARTFORD SUCCESSOR IN INTEREST
TO SAFEGUARD INSURANCE COMPANY



Diana L. DeToma
Senior Compliance Consultant
Legal & Regulatory Services

Enclosures

C: D. Haver
A. Fitzgerald
D. Harrison
K. Glass
S. Clark
D. Palme
J. Dasti