

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**STATE AUTO PROPERTY & CASUALTY
INSURANCE COMPANY**

Greer, South Carolina

**STATE AUTO NATIONAL INSURANCE
COMPANY**

Columbus, Ohio

**AS OF
January 3, 2007**

**COMMONWEALTH OF
PENNSYLVANIA**

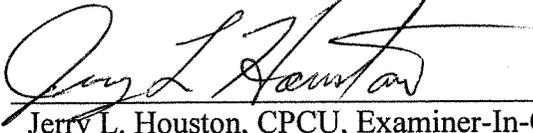


**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: February 8, 2007

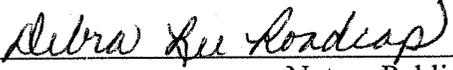
VERIFICATION

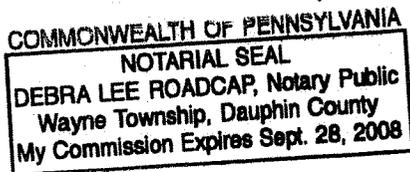
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


Jerry L. Houston, CPCU, Examiner-In-Charge

Sworn to and Subscribed Before me

This 17th Day of November, 2006


Notary Public



**STATE AUTO PROPERTY & CASUALTY INSURANCE COMPANY
STATE AUTO NATIONAL INSURANCE COMPANY**

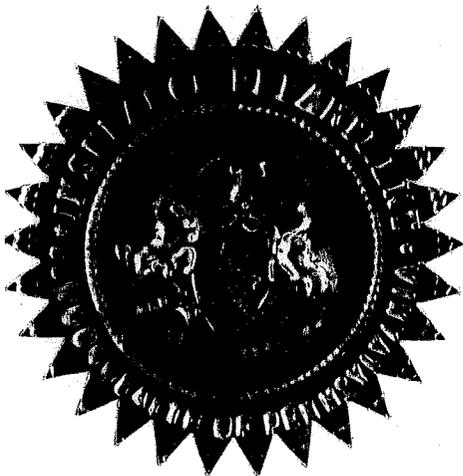
TABLE OF CONTENTS

Order	
I.	Introduction..... 1
II.	Scope of Examination..... 3
III.	Company History/Licensing..... 5
IV.	Underwriting Practices and Procedures..... 7
V.	Underwriting
	A. Private Passenger Automobile..... 9
	B. Assigned Risk..... 15
	C. Property..... 16
	D. Commercial Property..... 20
	E. Commercial Automobile..... 25
	F. Workers' Compensation..... 30
VI.	Rating
	A. Private Passenger Automobile..... 33
	B. Assigned Risk..... 45
	C. Homeowners..... 46
	D. Tenant Homeowners..... 50
	E. Dwelling Fire..... 51
VII.	Claims..... 53
VIII.	Forms..... 63
IX.	Advertising..... 65
X.	Consumer Complaints..... 66
XI.	Licensing..... 68
XII.	Recommendations..... 70
XIII.	Company Response..... 75

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
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
STATE AUTO PROPERTY &	:	Section 671-A of Act 147 of 2002
CASUALTY INSURANCE	:	(40 P.S. §§ 310.71)
COMPANY	:	
STATE AUTO NATIONAL	:	Section 903(a) of the Insurance
INSURANCE COMPANY	:	Department Act, Act of May 17, 1921,
518 East Broad Street	:	P.L. 682, No. 284 (40 P.S. § 323.3)
Columbus, OH 43215	:	
	:	Act 1990-6, Sections 1705(a)(1) and
	:	(4), 1716, 1731(b) and (c), 1734,
	:	1791.1(a), 1792(b)(1), 1797(b)(1), and
	:	1799.3(d) (Title 75, Pa.C.S. §§ 1705,
	:	1716, 1731, 1734, 1791, 1792, 1797 and
	:	1799)
	:	
	:	Sections 1, 3(a)(1), 3(a)(5), 3(a)(6)
	:	and 7(c) of the Act of July 3,
	:	1986, P.L. 396, No. 86 (40 P.S.
	:	§§3401, 3403 and 3407)
	:	
	:	Sections 2002(c)(3), 2003(a)(13)(i)
	:	and (ix), 2003(a)(14), 2003(e)(2),
	:	2004, 2006(2) and (3) and 2008(b) of
	:	Act 68 of 1998 (40 P.S. §§991.2002,
	:	991.2003, 991.2004, 991.2006 and
	:	991.2008)
	:	
	:	Sections 5(a)(4), 5(a)(7)(iii), 5(a)(9),
	:	5(a)(9)(ii) and 5(a)(9)(iii) of the
	:	Unfair Insurance Practices Act, Act of
	:	July 22, 1974, P.L. 589, No. 205 (40
	:	P.S. §§1171.4 and 1171.5)
	:	
	:	Section 506.1 of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 636.1)
	:	

: Sections 4(a) and 4(h) of the Act of
 : June 11, 1947, P.L. 538, No. 246
 : (40 P.S. § 1184)
 :
 : Title 18, Pennsylvania Consolidated
 : Statutes, Section 4117(k)(1)
 :
 : Title 31, Pennsylvania Code, Sections
 : 69.42, 69.43, 69.52(b), 69.53(a),
 : 113.88, 146.5(d) and 146.6
 :
 : Title 75, Pennsylvania Consolidated
 : Statutes, Section 1822
 :
 :
 Respondent. : Docket No. MC07-01-008

CONSENT ORDER

AND NOW, this *8th* day of *February*, 2007, this Order is hereby
 issued by the Deputy Insurance Commissioner of the Commonwealth of
 Pennsylvania pursuant to the statutes cited above and in disposition of the matter
 captioned above.

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

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

Administrative Agency Law, supra, or other applicable law. Without admitting the findings of fact and conclusions of law contained herein, Respondent specifically denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

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

- (a) Respondent is State Auto Property & Casualty Insurance Company and State Auto National Insurance Company, and maintains its address at 518 East Broad Street, Columbus, Ohio 43215-3976.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 through December 31, 2005.
- (c) On January 3, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on January 23, 2007.
- (e) The Examination Report notes violations of the following:

- (i) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).

- (ii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iii) Sections 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 1716 of Act 1990-6, Title 75, Pa. C.S. § 1716, which requires that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is

overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

- (v) Section 1731(b)(c) of Act 1990-6, Title 75, Pa.C.S. § 1731, which requires the insurer to advise that named insured shall be informed that he may exercise the waiver for uninsured and underinsured motorist coverage by signing written rejection forms;
- (vi) Section 1734 of Act 1990-6, Title 75, Pa.C.S. § 1734, which allows a named insured to request in writing the issuance of coverages under Section 1731 in amount equal to or less than the limits of liability for bodily injury;
- (vii) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following

notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverage or coverages in excess of the limits required by law Are provided only at your request as enhancements to basic coverages." The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured's existing coverages;

(viii) Section 1792(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1792, which requires every private passenger automobile insurance policy providing collision coverage to provide a deductible in the amount of \$500 for collision coverage, unless the named insured signs a statement indicating the insured is aware that the purchase of a lower deductible is permissible and that there is an additional cost of purchasing a lower deductible and the insured agrees to accept it;

(ix) Section 1797(b)(1) of Act 1990-6, Title 75, Pa. C.S. § 1797, which requires insurers to contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products, services or accommodations conform to the

professional standards of performance and are medically necessary. An insurer's challenge must be made to a PRO within 90 days of the insurer's receipt of the provider's bill for treatment or services or may be made at any time for continuing treatment or services.

- (x) Section 1799.3(d) of Act 1990-6, Title 75, Pa.C.S. § 1799, which requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect;

- (xi) Section 1 of Act 86 (40 P.S. § 3401), which 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;

- (xii) Section 3(a)(1) of Act 86 (40 P.S. § 3403), which requires a nonrenewal notice be forwarded by registered or first class mail or delivered by the insurance company directly to the named insured or insureds;

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

- (xiv) 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;

- (xv) Section 7(c) of Act 86 (40 P.S. § 3403), which requires that an insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification;

- (xvi) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. § 991.2003), which states that this article applies to any policy of automobile insurance which has been in effect less than 60 days, unless it is a renewal policy, except that no insurer shall decline to continue in force such a policy of automobile insurance on the basis of the grounds set forth in Section 2003(a) and except

that if an insurer cancels a policy in the first 60 days, the insurer shall supply the insured with a written statement of the reason for the cancellation;

- (xvii) Section 2003(a)(13)(i) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Any automobile lawfully parked if the vehicle rolls from the parked position, then any such accident is charged to the person who parked the automobile;
- (xviii) Section 2003(a)(13)(ix) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Accidents which occurred more than 36 months prior to the later of the inception of the insurance policy or the upcoming anniversary date of this policy;
- (xix) Section 2003(a)(14) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to write or renew a policy of automobile insurance for any of the following reasons: Any claim under the comprehensive portion of the policy unless intentionally caused by the insured;

- (xx) Section 2003(e)(2) of Act 68 of 1998 (40 P.S. § 991.2003), which prohibits an insurer from canceling or refusing to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction during a 24 month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked;
- (xxi) Section 2004 of Act 68 of 1998 (40 P.S. § 991.2004), which requires that no insurer shall cancel a policy of automobile insurance except for nonpayment of premium, suspension or revocation of the named insured's driver license or motor vehicle registration or a determination that the insured has concealed a material fact or has made a material allegation contrary to fact or has made a misrepresentation of material fact and that such concealment, allegation or misrepresentation was material to the acceptance of the risk by the insurer;
- (xxi) Section 2006(2) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than 60 days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for nonpayment of premium, the effective date may be 15 days from the date of mailing or delivery;

- (xxi) Section 2006(3) of Act 68 of 1998 (40 P.S. § 991.2006), which requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation;
- (xxii) Section 2008(b) of Act 68 of 1998 (40 P.S. § 991.2008), which requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of the refusal to write by the insurer. The notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant;
- (xxiii) Section 5(a)(4) of Act 205 (40 P.S. § 1171.5), which prohibits entering into any agreement to commit, or by a concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of or monopoly in the business of insurance;
- (xxiv) Section 5(a)(7)(iii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which prohibits discrimination with regard to underwriting standards and practices or eligibility requirements by reason of age;
- (xxv) Section 5(a)(9) of Act 205 (40 P.S. § 1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for 60 days or more or refusing to renew any such policy

unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

(xxvi) Section 5(a)(9)(ii) of Act 205 (40 P.S. §§ 1171.5), which requires that a cancellation notice state the date, not less than 30 days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective;

(xxvii) Section 5(a)(9)(iii) of Act 205, which requires that a nonrenewal notice state the specific reason or reasons for cancellation;

- (xxviii) Section 506.1 of the Insurance Company Law (40 P.S. § 635.1), which requires basic property insurance to be continued 180 days after the death of the named insured on the policy or until the sale of the property, whichever occurs first, provided that the premiums are paid;
- (xxix) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;
- (xxx) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)(1), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

(xxxii) Title 31, Pennsylvania Code, Section 69.42, which requires an insurer to 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;

(xxxii) Title 31, Pennsylvania Code, Section 69.43, which requires an insurer to 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;

- (xxxiii) Title 31, Pennsylvania Code, Section 69.52(b), which requires an insurer to make a referral to a PRO within 90 days of the insurer's receipt of sufficient documentation supporting the bill. An insurer shall pay bills for care that are not referred to a PRO within 30 days after the insurer receives sufficient documentation supporting the bill. If an insurer makes its referral after the 30th day and on or before the 90th day, the provider's bill for care shall be paid;
- (xxxiv) Title 31, Pennsylvania Code, Section 69.53(a), which requires that a PRO shall contract, in writing, jointly and separately with an insurer for the provision of peer review services;
- (xxxv) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as "losses" or "underwriting reasons" are not sufficiently specific reasons for cancellation;
- (xxxvi) Title 31, Pennsylvania 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;

(xxxvii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

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

CONCLUSIONS OF LAW

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

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

- (b) Respondent's violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

- (c) Respondent's violations of Sections 1, 3 and 7 of Act 86 (40 P.S. § 3401, 3403 and 3407), 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.

- (d) Respondent's violations of Sections 2002, 2003, 2004, 2006 and 2008 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of

this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

(e) Respondent's violations of Sections 5(a)(4), 5(a)(7) and 5(a)(9) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(f) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (g) Respondent's violations of Sections 4(a) and (h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:
 - (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful violation;

 - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

- (h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Twenty-Seven Thousand Dollars (\$27,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

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

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

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

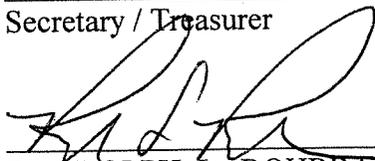
BY: STATE AUTO PROPERTY & CASUALTY
INSURANCE COMPANY, STATE AUTO
NATIONAL INSURANCE COMPANY,
Respondent



President / ^{Executive} Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at State Auto Property & Casualty Insurance Company and State Auto National Insurance Company's office located in Columbus, Ohio, from July 26, 2006, through September 22, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

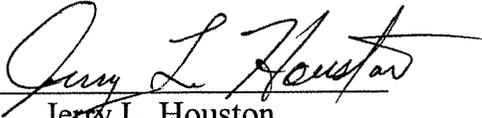
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

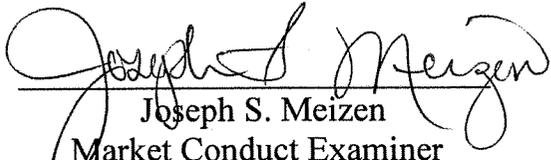
The undersigned participated in this examination and in preparation of this Report.



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



Jerry L. Houston
Market Conduct Examiner



Joseph S. Meizen
Market Conduct Examiner



Diane B. Freed
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on State Auto Property & Casualty Insurance Company and State Auto National Insurance Company, hereinafter referred to as "Company," at their office located in San Antonio, Texas. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2005, through December 31, 2005, 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 nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

2. Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations and 60-day cancellations.
 - Rating – Proper use of all classification and rating plans and procedures.

3. Commercial Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

4. Commercial Automobile

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

5. Workers' Compensation

- Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and renewals.

6. Claims

7. Forms

8. Advertising

9. Complaints

10. Licensing

III. COMPANY HISTORY AND LICENSING

State Auto Property & Casualty Insurance Company was chartered on January 25, 1950, under the laws of South Carolina as The Dixie Fire and Casualty Company. It was licensed April 1, 1950, and commenced business the same day. The title of Southern Home Insurance Company was adopted December 31, 1963, concurrent with the absorption by merger of the former companion carrier, Southern Home Insurance Company, Greer, South Carolina. The current title was adopted on January 1, 1988.

State Auto National Insurance Company was incorporated under the laws of Ohio on October 4, 1991, and commenced business in February 1992.

LICENSING

State Auto Property & Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in the District of Columbia and all states except Alaska, California, Colorado, Connecticut, Delaware, Hawaii, Idaho, Louisiana, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oregon, Rhode Island, Texas, Vermont and Washington. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$40,391,436. Premium volume related to the areas of this review were: Fire \$475,497; Homeowner's Multiple Peril \$8,068,870; Commercial Multiple Peril (non-liability portion) \$3,514,273; Commercial Multiple Peril (liability portion) \$3,514,273; Ocean Marine \$32,977; Inland Marine \$272,038; Workers' Compensation \$959,261; Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$1,128,836; Other Private Passenger Auto

Liability \$7,246,887 and Private Passenger Auto Physical Damage \$5,739,437; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$332,705; Other Commercial Automobile Liability \$5,858,160 and Commercial Automobile Physical Damage \$2,351,225.

State Auto National Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2006. The Company is licensed in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Minnesota, Mississippi, Missouri, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Utah, West Virginia and Wisconsin. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,123,682. Premium volume related to the areas of this review were: Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto No-Fault (personal injury protection) \$369,928; Other Private Passenger Auto Liability \$1,370,698 and Private Passenger Auto Physical Damage \$383,056.

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 Pennsylvania automobile product guides were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

State Auto Property & Casualty Insurance Company

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company required supporting business in 7 different instances in the following underwriting guidelines: Agents commercial underwriting guide, page 10 (11/04)-various type commercial risks; Agents commercial underwriting guide, page 13 (11/04)-Fidelity Bonds; Agents commercial underwriting guide, page 22 (11/04)-Workers' Compensation and Employers Liability; PA Dwelling Manual-Underwriting Instructions, Page 3 (9/04)-Seasonal, secondary residences or tenant-occupied properties; Options Underwriting Guidelines (Homeowners) – New Business Underwriting Guidelines, Page UG-1 (9/04); Options Underwriting Guidelines

(Homeowners) – New Business Underwriting Guidelines, Page UG-1 (9/05) and Underwriting Notes –on a dwelling fire policy dated 2/24/05, supporting business in form of a homeowners policy is needed to write the dwelling fire policy.

1 Violation Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. “Unfair Methods of Competition” and “Unfair or Deceptive Practices” in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms “underwriting standards and practices” or “eligibility rules” do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Pennsylvania dwelling manual underwriting instructions discriminates against students. Student housing is not to be bound or submitted.

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.

State Auto Property & Casualty Insurance Company

From the universe of 48 private passenger automobile files cancelled within the first 60 days of new business, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

1 Violation Act 68, Section 2008(b) [40 P.S. §991.2008(b)]

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the

applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The Company did not provide a specific reason for cancellation.

State Auto National Insurance Company

From the universe of 346 private passenger automobile files cancelled within the first 60 days of new business, 75 files were selected for review. All 75 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 4%.

The following findings were made:

3 Violations Act 68, Section 2002(c)(3) [40 P.S. §991.2002(c)(3)]

Adjudications: Tampa v. State Farm (P91-06-01, 1991)

Gorba v. Allstate (P92-02-92, 1993)

Requires that an insurer supply the insured with a written statement of the reason for cancellation. The 3 files noted were policies cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

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.

State Auto Property & Casualty Insurance Company

From the universe of 927 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 4 violations noted were based on 4 files, resulting in an error ratio of 8%.

The following findings were made:

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

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

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

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

may be fifteen (15) days from the date of mailing or delivery. The Company did not provide 60 days notice of cancellation for the 2 files noted.

State Auto National Insurance Company

From the universe of 1,508 private passenger automobile files identified as midterm cancellations by the Company, 50 files were selected for review. All 50 files were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

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

An insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked. The Company nonrenewed the policy for a license suspension of someone other than the named insured.

3. Nonrenewals

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

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under

which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

State Auto Property & Casualty Insurance Company

From the universe of 56 private passenger automobile files identified as nonrenewals by the Company, 30 files were selected for review. All 30 files were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 17%.

The following findings were made:

1 Violation Act 68, Section 2006(3) [40 P.S. §991.2006(3)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for nonrenewal for the file noted.

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

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company failed to provide 60 days notice of nonrenewal for the 4 files noted.

State Auto National Insurance Company

From the universe of 48 private passenger automobile files identified as nonrenewals by the Company, 25 files were selected for review. All 25 files were received and reviewed. The 13 violations noted were based on 11 files, resulting in an error ratio of 44%.

The following findings were made:

6 Violations Act 68, Section 2006(3) [40 P.S. §991.2006(3)]

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the specific reason or reasons of the insurer for cancellation. The Company failed to provide a specific reason for nonrenewal for the 6 files noted.

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

An insurer may not cancel or refuse to renew a policy of automobile insurance for two or fewer moving violations in any jurisdiction or jurisdictions during a twenty-four month period when the operator's record indicates that the named insured presently bears five points or fewer, unless the driver's license or motor vehicle registration of the named insured has been suspended or revoked. The Company nonrenewed the 3 files noted for a license suspension of someone other than the named insured.

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

An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons:

Any accident which occurred under the following

circumstances: Accidents which occurred more than 36 months prior to the later of the inception of the insurance policy or the upcoming anniversary date of this policy.

AND

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

An insurer may not cancel or refuse to write or renew a policy of automobile insurance or any of the following reasons: Any claim under the comprehensive portion of the policy unless such loss was intentionally caused by the insured. The company nonrenewed the policy for one accident that was prior to the 36 months and one accident which was a comprehensive claim.

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

Requires an insurer to deliver or mail to the named insured a nonrenewal notice and state the date, not less than sixty (60) days after the date of the mailing or delivery, on which cancellation shall become effective. When the policy is being cancelled for the nonpayment of premium, the effective date may be fifteen (15) days from the date of mailing or delivery. The Company failed to provide 60 days notice of nonrenewal for the 3 files noted.

B. Private Passenger Automobile – Assigned Risk

The Company is an excused carrier under the assigned risk Limited Assignment Distribution procedure. Under this procedure groups of companies not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement has one servicing company, which writes assigned risk

business on behalf of those members, which choose to buy out from their private passenger quota. As part of this arrangement the Company wrote no assigned risk business during the experience period.

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.

State Auto Property & Casualty Insurance Company

The universe of 62 personal property policies which were cancelled in the first 60 days of new business was selected for review. All 62 policies received and reviewed. The property policies consisted of homeowners, tenant homeowners and boat owners. No violations were noted.

State Auto National Insurance Company

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

2. Midterm Cancellations

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

The 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.

State Auto Property & Casualty Insurance Company

From the universe of 1,699 property policies which were cancelled midterm during the experience period, 192 files were selected for review. The property policies consisted of homeowners, tenant homeowners, inland marine, dwelling fire and boat. All 192 files were received and reviewed. The violation noted resulted in an error ratio of .5%.

The following finding was made:

1 Violation 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 did not provide 30 days notice of cancellation for the file noted.

State Auto National Insurance Company

This Company did not report any property midterms during the experience period.

3. Nonrenewals

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

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

State Auto Property & Casualty Insurance Company

The universe of 28 homeowner policies which were nonrenewed during the experience period was selected for review. All 28 files were received and reviewed. The 8 violations noted were based on 8 files, resulting in an error ratio of 28%.

The following findings were made:

5 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 Company nonrenewed the 5 policies noted for failure to comply with underwriting requirements, which is not a valid reason for nonrenewal.

1 Violation Act 205, Section 5(a)(9)(iii) [40 P.S. §1171.5(a)(9)(iii)]
Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The Company did not provide a specific reason for nonrenewal.

1 Violation Insurance Company Law, Section 506.1 [40 P.S. §636.1]
Basic property insurance shall be continued one hundred and eighty days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid. The Company failed to provide 180 days of coverage after the death of the named insured or until the sale of the property.

1 Violation Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]
Requires that a nonrenewal 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 did not provide 30 days notice of nonrenewal.

State Auto National Insurance Company

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

D. Commercial Property

1. 60-Day Cancellations

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

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

State Auto Property & Casualty Insurance Company

The universe of 33 commercial property policies which were cancelled within the first 60 days was selected for review. All 33 files were received and reviewed. The policies consisted of tenant occupied dwelling fire and commercial package. The 7 violations noted were based on 7 files, resulting in an error ratio of 21%.

The following findings were made:

5 Violations Act 86, Section 7(c) [40 P.S. §3407(c)]

This act does not apply to commercial property and casualty insurance policies that are in effect less than 60 days, unless they are renewals. An insurer may cancel the policy provided it gives at least 30 days' notice of the termination and provided it gives notice no later than the 60th day, unless the policy provides for a longer period of notification. The

Company did not provide at least 30 days notice of cancellation for the 5 files noted.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 2 files noted contained a cancellation notice which required supporting business.

State Auto National Insurance Company

This Company did not report any commercial property policies cancelled within the first 60 days of new business during the experience period.

2. Midterm Cancellations

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

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

State Auto Property & Casualty Insurance Company

From the universe of 827 commercial property policies which were cancelled during the experience period, 75 files were selected for review.

All 75 files were received and reviewed. The policies consisted of tenant occupied dwelling fire and commercial package. The violation resulted in an error ratio of 1%.

The following finding was made:

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The file noted contained a cancellation notice which required supporting business.

State Auto National Insurance Company

This Company did not report any commercial property policies cancelled midterm during the experience period.

3. Nonrenewals

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

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

State Auto Property & Casualty Insurance Company

The universe of 43 commercial property policies identified as nonrenewals during the experience period was selected for review. All 43 files were received and reviewed. The policies consisted of tenant occupied dwelling fire and commercial package. The 19 violations noted were based on 17 files, resulting in an error ratio of 40%.

The following findings were made:

2 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 Company did not provide a specific reason for nonrenewal for the 2 files noted.

14 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 14 files noted contained a nonrenewal notice which did not provide the required information.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 3 files noted contained a nonrenewal notice which required supporting business.

State Auto National Insurance Company

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

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.

State Auto Property & Casualty Insurance Company

From the universe of 4,511 commercial property policies which were renewed during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The violation resulted in an error ratio of 1%.

The following finding was made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the file noted.

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

State Auto Property & Casualty Insurance Company

The universe of 18 commercial automobile policies which were cancelled within the first 60 days was selected for review. All 18 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any commercial automobile policies cancelled within the first 60 days of new business during the experience period.

2. Midterm Cancellations

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

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

State Auto Property & Casualty Insurance Company

From the universe of 442 commercial automobile policies identified as midterm cancellation, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any commercial automobile policies cancelled midterm during the experience period.

3. Nonrenewals

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

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

State Auto Property & Casualty Insurance Company

The universe of 31 commercial automobile policies identified as nonrenewals by the Company was selected for review. All 31 files were received and reviewed. The 17 violations noted were based on 15 files, resulting in an error ratio of 48%.

The following findings were made:

2 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 Company did not provide a specific reason for nonrenewal in the 2 files noted.

8 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 8 files noted contained a nonrenewal notice which did not provide the required information.

2 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 2 files noted did not contain sufficient information so that compliance could be determined.

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

Requires that a nonrenewal notice be forwarded by registered mail or first class mail or delivered by the insurance company directly to the named insured or insureds. The Company did not provide any evidence that a notice of nonrenewal was mailed to the insured for the 3 files noted.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott,

coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The 2 files noted contained a nonrenewal notice which required supporting business.

State Auto National Insurance Company

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

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.

State Auto Property & Casualty Insurance Company

From the universe of 2,046 commercial automobile policies which were renewed during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 3%.

The following findings were made:

2 Violations Act 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 2 files noted.

State Auto National Insurance Company

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

F. Workers' Compensation

1. 60-Day Cancellations

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

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

State Auto Property & Casualty Insurance Company

The universe of 4 workers' compensation policies cancelled within the first 60 days of new business was selected for review. All 4 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any workers' compensation policies cancelled within the first 60 days of new business during the experience period.

2. 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.

State Auto Property & Casualty Insurance Company

The universe of 12 workers' compensation policies identified as midterm cancellations was selected for review. All 12 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any workers' compensation policies cancelled midterm during the experience period.

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.

State Auto Property & Casualty Insurance Company

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

State Auto National Insurance Company

This Company did not report any workers' compensation nonrenewals during the experience period.

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.

State Auto Property & Casualty Insurance Company

From the universe of 97 workers' compensation policies which were renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any workers' compensation renewals during the experience period.

VI. RATING

A. Private Passenger Automobile

1. New Business

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

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

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

State Auto Property & Casualty Insurance Company

From the universe of 1,207 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 1,209 violations noted were based on the universe of 1,207, resulting in an error ratio of 100%.

The following findings were made:

1,207 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 required notice at the time of application.

2 Violations Title 75, Pa. C.S. §1792(b)(1)

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

State Auto National Insurance Company

From the universe of 905 private passenger automobile policies identified as new business without surcharges by the Company, 50 files were selected for review. All 50 files were received and reviewed. The 908 violations noted were based on the universe of 905, resulting in an error ratio of 100%.

The following findings were made:

905 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 required notice at the time of application.

1 Violation 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 signed written rejection forms for uninsured and underinsured motorist coverage.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 2 violations noted were the result of two policies issued with limited tort and no evidence of a signed limited tort selection form.

Private Passenger Automobile – New Business With Surcharges

State Auto Property & Casualty Insurance Company

The universe of 30 private passenger automobile policies identified as new business with surcharges by the Company was selected for review. All 30 files were received and reviewed. The 63 violations noted were based on the universe of 30, resulting in an error ratio of 100%.

The following findings were made:

30 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 required notice at the time of application.

28 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the correct surcharge disclosure statement on the premium notice for the 28 files noted.

1 Violation Title 75, Pa. C.S. §1792(b)(1)

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

1 Violation Title 75, Pa. C.S. §1734

A named insured may request in writing the issuance of coverages under Section 1731 (relating to availability, scope and amount of coverage) in an amount equal to or less than the limits of liability for bodily injury. The file noted did not contain a written request for lower limits of liability.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied incorrect surcharges on 2 files, resulting in overcharges of \$487. The remaining file was not correctly surcharged and resulted in an undercharge of \$120.

State Auto National Insurance Company

From the universe of 141 private passenger automobile policies identified as new business with surcharges, 50 files were selected for review. All 50 files were received and reviewed. The 290 violations noted were based on the universe of 141, resulting in an error ratio of 100%.

The following findings were made:

141 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 required notice at the time of application.

141 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company failed to provide the correct surcharge disclosure statement on the premium notice.

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

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The violation noted was the

result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied incorrect surcharges on 5 files, resulting in overcharges of \$1,526.61. One file was rated with an improper territory, resulting in an undercharge of \$69. The remaining file was not correctly surcharged and resulted in an undercharge of \$38.

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

State Auto Property & Casualty Insurance Company

From the universe of 9,920 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

From the universe of 1,630 private passenger automobile policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 9 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied incorrect surcharges which resulted in overcharges of \$618.

7 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The Company did not provide the surcharge disclosure statement at the time of renewal for the 7 files noted.

Private Passenger Automobile – Renewals With Surcharges

State Auto Property & Casualty Insurance Company

From the universe of 518 private passenger automobile policies renewed with surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 3%.

The following findings were made:

3 Violations Act 246, The Casualty and Surety Rate Regulatory Act,

Section 4 (40 P.S. §1184)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied incorrect surcharges to the 3 files noted, resulting in overcharges of \$883.

State Auto National Insurance Company

From the universe of 212 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 53 violations noted were based on 40 files, resulting in an error ratio of 80%.

The following findings were made:

40 Violations Title 75, Pa. C.S. §1799.3(d)

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect. The

Company did not provide the required surcharge disclosure statement at the time of renewal for 36 files. The Company provided an incorrect surcharge statement for the remaining 4 files noted.

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied incorrect surcharges to the 13 files noted, resulting in overcharges of \$2,750.

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.

Homeowner Rating – New Business Without Surcharges

State Auto Property & Casualty Insurance Company

From the universe of 1,552 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any homeowner policies written as new business during the experience period.

Homeowner Rating – New Business With Surcharges

State Auto Property & Casualty Insurance Company

The universe of 1 homeowner policy written as new business with surcharges during the experience period was selected for review. The file

was received and reviewed. The 2 violations noted were based on 1 file, resulting in an error ratio of 100%.

The following findings were made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to include the 2% protective device credit which resulted in an overcharge of \$8.

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

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company required supporting business to write a new account with a loss experience.

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge

percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice, dated September 18, 1998.

State Auto National Insurance Company

This Company did not report any homeowner policies written as new business with surcharges 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.

Homeowner Rating – Renewals Without Surcharges

State Auto Property & Casualty Insurance Company

From the universe of 13,386 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

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

Homeowner Rating – Renewals With Surcharges

State Auto Property & Casualty Insurance Company

The universe of 19 homeowner policies renewed with surcharges during the experience period was selected for review. All 19 files were received and reviewed. The violation resulted in an error ratio of 5%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company applied an incorrect surcharge to the policy which resulted in an overcharge of \$207.

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice, dated September 18, 1998.

State Auto National Insurance Company

This Company did not report any homeowner policies renewed with surcharges during the experience period.

D. Tenant 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.

Tenant Homeowner Rating – New Business Without Surcharges

State Auto Property & Casualty Insurance Company

From the universe of 274 tenant homeowner policies written as new business during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any tenant homeowner policies written as new business 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.

Tenant Homeowner Rating – Renewals Without Surcharges

State Auto Property & Casualty Insurance Company

From the universe of 1,044 homeowner policies renewed during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any tenant homeowner policies renewals during the experience period.

E. Dwelling Fire

1. New Business

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

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

State Auto Property & Casualty Insurance Company

The universe of 9 dwelling fire policies written as new business during the experience period was selected for review. All 9 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

This Company did not report any dwelling fire new business 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.

State Auto Property & Casualty Insurance Company

From the universe of 122 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

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

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

A. Automobile Property Damage Claims

State Automobile Property & Casualty Insurance Company

From the universe of 1,046 private passenger automobile property damage claims reported during the experience period, 75 files were selected for

review. All 75 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

From the universe of 309 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. No violations were noted.

B. Automobile Comprehensive Claims

State Auto Property & Casualty Insurance Company

From the universe of 1,040 private passenger automobile comprehensive claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

The universe of 39 private passenger automobile comprehensive claims reported during the experience period was selected for review. All 39 files were received and reviewed. No violations were noted.

C. Automobile Collision Claims

State Auto Property & Casualty Insurance Company

From the universe of 1,112 private passenger automobile collision claims reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

From the universe of 85 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

D. Automobile Total Loss Claims

State Auto Property & Casualty Insurance Company

The universe of 26 private passenger automobile total loss claims reported during the experience period was selected for review. All 26 files were received and reviewed. No violations were noted.

State Auto National Insurance Company

The universe of 14 private passenger automobile total loss claims reported during the experience period was selected for review. All 14 files were received and reviewed. No violations were noted.

E. Automobile First Party Medical Claims

State Auto Property & Casualty Insurance Company

From the universe of 212 private passenger automobile first party medical claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 5 violations noted were based on 4 files, resulting in an error ratio of 8%.

The following findings were made:

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, 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.

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

Requires an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer. The Company did not provide the necessary claim form to the claimant within ten working days for the file noted.

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

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The Company did not pay the claim noted within 30 days.

1 Violation Title 75, Pa. C.S. §1716

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

State Auto National Insurance Company

From the universe of 100 private passenger automobile first party medical claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

F. Automobile First Party Medical Claims Referred to a PRO

State Auto Property & Casualty Insurance Company

The universe of 23 private passenger automobile first party medical claims referred to a peer review organization was selected for review. None of the 23 claims reported were peer review referrals. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 69.53(a)

A Peer Review Organization shall contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter.

AND

Title 75, Pa. C.S. §1797(b)(1)

Peer review plan for challenges to reasonableness and necessity of treatment. Peer review plan. Insurers shall contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products,

services or accommodations conform to the professional standards of performance and are medically necessary. An insurer's challenge must be made to a PRO within 90 days of the insurer's receipt of the provider's bill for treatment or services or may be made at any time for continuing treatment or services. The Company failed to have a signed written contract with an approved Peer Review Organization as required during the time frame of 9/3/2005 to 12/31/2005.

State Auto National Insurance Company

The universe of 7 private passenger automobile first party medical claims referred to a peer review organization was selected for review. None of the 7 claims reported were peer review referrals. The Company was requested to provide copies of any contracts with the peer review organization it has contracted. The contracts were received and reviewed.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 69.53(a)

A Peer Review Organization shall contract, in writing, jointly or separately with an insurer for the provision of peer review services as authorized by Act 1990-6 and this chapter.

AND

Title 75, Pa. C.S. §1797(b)(1)

Peer review plan for challenges to reasonableness and necessity of treatment. Peer review plan. Insurers shall contract jointly or separately with any peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations

provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary. An insurer's challenge must be made to a PRO within 90 days of the insurer's receipt of the provider's bill for treatment or services or may be made at any time for continuing treatment or services. The Company failed to have a signed written contract with an approved Peer Review Organization as required during the time frame of 9/3/2005 to 12/31/2005.

G. Homeowner Claims

State Auto Property & Casualty Insurance Company

From the universe of 673 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 4%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 2 claims noted.

State Auto National Insurance Company

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

H. Tenant Homeowners

State Auto Property & Casualty Insurance Company

The universe of 18 tenant homeowner claims reported during the experience period was selected for review. All 18 files selected were received and reviewed. No violations were noted.

State Auto National Insurance Company

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

I. Dwelling Fire

State Auto Property & Casualty Insurance Company

From the universe of 50 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:

2 Violations Title 31, Pa. Code, Section 146.6

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

and state when a decision on the claim may be expected. The 2 violations noted were absent any evidence this requirement was complied with.

State Auto National Insurance Company

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

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.

The following findings were made:

2 Violations Title 75, Pa. C.S. §1822

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

2 Violations Act 165 of 1994 [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 a Homeowners Policyholder's Notice of Loss form and a Homeowner's Contents Inventory.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 55 pieces of advertising which included product brochures, sample advertising for print media, agent's kits and a company magazine. Internet advertising was reviewed. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 40 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 40 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.

The following findings were made:

State Auto Property & Casualty Insurance Company

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

An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Any accident which occurred under the following circumstances: automobile lawfully parked if the parked vehicle rolls from the parked position, then any such accident is charged to the person who parked the automobile. The Company nonrenewed the policy for an improper reason. The vehicle was legally parked.

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 Company failed to provide 60 days notice of nonrenewal.

State Auto National Insurance Company

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 Company failed to provide 60 days notice of nonrenewal.

The following synopsis reflects the nature of the 40 complaints that were reviewed.

• 19	Cancellation/Nonrenewal	47%
• 10	Claims	25%
• 5	Rating	12%
• 3	Billing	8%
• 3	Service	8%
<hr/>		<hr/>
40		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:

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

- (a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the

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

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

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

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

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

State Auto Property & Casualty Insurance Company
Big A Insurance Agency
Proudfit Insurance Agency, Inc.

State Auto National Insurance Company
Advanced Financial Security, Inc.
Griffith Agency, Inc.
Sky Insurance, Inc.

XII. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2002, 2003, 2004, 2006 and 2008 [40 P.S. §§991.2002, 991.2003, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.
2. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.
3. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.
4. The Company must review Insurance Company Law, Section 506.1 [40 P.S. §636.1] regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

5. The Company must review Act 86, Section 1 [40 P.S. §3401], to ensure that violations regarding notification to the insured of an increase in premium do not occur in the future.
6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3, and 7 [40 P.S. §§3403 and 3407], so that the violations noted in the Report do not occur in the future.
7. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.
8. The Company must review Title 75, Pa. C.S. §1791.1(a) to ensure that an itemized invoice listing minimum coverages is provided at the time of application as noted in the Report and does not occur in the future.
9. The Company must review Title 75, Pa. C.S. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.
10. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.

11. 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.
12. 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.
13. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage. This is to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(1) do not occur in the future.
14. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the automobile homeowner rating violations listed in the report do not occur in the future.
15. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

16. 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 and providing necessary claim forms to claimants within the required time frame, as noted in the Report, do not occur in the future.
17. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
18. 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.
19. The Company must review Title 31, Pa. Code, Section 69.53(a) and Title 75, Pa. C.S. §1797(b)(1) with its claim staff to ensure that a written contract is in place with an approved peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary.

20. The Company must ensure that all claim forms contain the required fraud warning notice.

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

XIII. COMPANY RESPONSE



January 22, 2007

OVERNIGHT DELIVERY – NEXT BUSINESS MORNING

Mr. Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1227 Strawberry Square
Harrisburg, PA. 17120

Re: Examination Warrant Number: 06-M19-012 -- StateAuto Property & Casualty Insurance Company, State Auto National Insurance Company

Dear Mr. Derk:

This letter is in response to the Pennsylvania Insurance Department's Report of Examination issued to the Company January 3, 2007.

The Company wishes to express its sincere appreciation of the work of the Examination team, Mr. Jerry Houston, Ms. Diane Freed, Mr. Joe Meizen and Ms. Constance Arnold for their professional manner. They handled the Examination process effectively providing clear instructions of what they needed and thorough answers to questions that arose during the process.

The Company takes regulatory compliance very seriously and while none of these errors were intentional and in some cases were singular occurrences we have taken this opportunity for training and to evaluate and improve upon our own audit processes. Affirmative steps have been taken by our Business Units as outlined in the attached detailed response to the Department's Recommendations and issues raised during the course of the Examination. The Compliance Assurance area of Internal Audit will monitor and evaluate ongoing compliance accordingly.

Actions taken include the Company's response to the Department's concern related to Homeowner policies with surcharges; the recommended surcharge disclosure plan has been added to the Company's policy issuance system.

None of these comments nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Pennsylvania Insurance Department or any other party as constituting any admission. Please note also that we are providing these comments and taking actions without waiver of any defense, legal or equitable and without waiver of any applicable privilege in connection with the information provided.

The remainder of our reply follows, with responses to the Department's Recommendations as found starting on page 70 of the Report.

Company Response to Report Recommendations

1. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2002, 2003, 2004, 2006 and 2008 [40 P.S. §991.2002, 991.2003, 991.2004, 991.2006 and 991.2008], so that the violations noted in the Report do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports its Underwriting Management has reviewed and adjusted its internal control procedures and will again reinforce the requirements of Act 68 with appropriate personnel. This violation was noted prior to the Examination during the course of our own underwriting audits; training was initiated and completed prior to the Exam, but after the Examination period.

Act 68 requirements will be enforced by Line and Staff Management. As to the specific violations cited in the Report they were reviewed when cited in the Examination and the importance of regulatory compliance stressed with the responsible personnel.

2. The Company must reinforce its internal underwriting controls to ensure that all records and documents are maintained in accordance with Insurance Department Act, Section 903(a) [40 P.S. §323.3], so that violations noted in the Report do not occur in the future.

State Auto Insurance acknowledges the Department's findings. Underwriting Management has used this opportunity to reinforce the importance of complete and accurate file documentation with the appropriate personnel.

3. The Company must review Act 205, Section 5(a)(9) [40 P.S. § 1171 .5(a)(9)] to ensure that violations regarding the requirements for cancellation and nonrenewal notices, as noted in the Report, do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports its Underwriting Management has reviewed and adjusted its internal control procedures and will again reinforce the requirements of Act 205 with appropriate personnel. As to the specific violations cited in the Report they were reviewed when cited in the Examination and the importance of using specific reasons and the proper number of days for action stressed with the responsible personnel. Ongoing compliance will be maintained by Line and Staff Underwriting Management.

4. The Company must review Insurance Company Law, Section 506.1 [40 P.S. §636.1] regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained at least 180 days.

State Auto Insurance acknowledges the Department's findings and reports its Underwriting Management has reviewed and adjusted its internal control procedures and will again reinforce this requirement with appropriate personnel. As to the specific one violation cited in the Report it was reviewed when cited in the Examination and the importance of this requirement stressed with the responsible personnel.

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

State Auto Insurance acknowledges the Department's findings and reports the specific violation cited in the Report was the result of human error and was reviewed with the responsible personnel at the time of finding during the Examination. The importance of compliance with all aspects of Act 86 will be reinforced and compliance maintained with responsible personnel by Line and Staff Management.

6. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3, and 7 [40 P.S. §3403 and 3407], so that the violations noted in the Report do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports that nearly two-thirds of the violations cited involve the use of an out-of-date edition of the non-renewal form. This error was corrected immediately upon the Department's notification..

The remaining errors were the result of human error and were reviewed with the responsible personnel at the time of finding during the Examination. The importance of compliance with all aspects of Act 86 has been and will continue to be reinforced with responsible personnel through Line and Staff Management.

7. The Company must review Act 205, Section 5(aX4) [40 P.S. §1 171.5(aX4)] to ensure that the violations relative to supporting coverage noted in the Report does not occur in the future.

State Auto Insurance acknowledges the Department's findings and wishes to express our objection to the department's interpretation of 40 P.S. 1171.5(a)(4) with regard to the reference in our Commercial Lines Underwriting Guide to a requirement for supporting business in order to bind coverage. It is our belief that the binding of coverage has nothing to do with whether or not State Auto will ultimately write the risk, rather its purpose is to give the Companies an opportunity to properly underwrite a single line policy before being bound to provide coverage.

It is our belief that the above cited section does not pertain to the issue of requiring supporting business for a single insured. As this section of the code is very similar to laws at the federal level regarding anti-trust issues. The purpose of this law is to prevent companies from conspiring together for the purpose of boycott or to otherwise establish a monopoly or restrain trade. This is evident from the very language of the code section which requires an "agreement" or a "concerted action." A single insurance company requiring supporting business from a single insured does not involve any kind of agreement or concerted action on the part of the insurer. It takes two parties to establish an agreement or commit a concerted action. The definition of concerted is 'mutually contrived or agreed on.' There is no mutually contrived or agreed on action nor any kind of agreement involved in our guideline to require supporting business before binding.

Nevertheless, we have complied with the Department's Recommendation and revised Commercial Lines Binding Guidelines are now in use, as you have requested without reference to supporting business. Ongoing compliance will be controlled by Underwriting Staff.

8. The Company must review Title 75, Pa. C.S. § 1791.1(a) to ensure that an itemized invoice listing minimum coverages is provided at the time of application as noted in the Report and does not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports that the Company is now in compliance with Section 1791.1(a) as a minimum coverage invoice is now being provided at the time of application.

9. The Company must review Title 75, Pa. CS. §1734 to ensure that the insured signs a request for lower limits of liability for uninsured and underinsured motorist coverage and a copy kept in files as noted in the Report.

State Auto Insurance acknowledges the Department's findings and reports that the Company reviewed these specific errors at the time of finding during the course of the Examination. In addition, Underwriting Staff will review our audit procedures for Agency entered policies to ensure this item is being reviewed during the course of such reviews.

10. When a surcharge is imposed on a private passenger automobile policy the Company must include specifics of accidents and citations and give notice to the insured. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under Title 75, Pa. C.S. §1799.3(d) do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports that the Company discovered and corrected this error before the Examination started, but after the Examination period. The Company took immediate steps to correct this system error and has been in compliance since that time.

11. 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.

State Auto Insurance acknowledges the Department's findings and reports the specific violations cited in the Report were the result of human error and were reviewed with the responsible personnel at the time of finding during the Examination. State Auto has reviewed 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. The Underwriting and Agent entry audit process will be reviewed by Line and Staff management to ensure our ongoing compliance with this requirement.

12. 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. CS. §1705(a)(I)(4) do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports the three specific violations cited in the Report were the result of human error and were reviewed with the responsible personnel at the time of finding during the Examination.

State Auto has reviewed its underwriting procedures to ensure to that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option. The Underwriting and Agent entry audit process will be reviewed by Line and Staff management to ensure our ongoing compliance with this requirement.

13. The Company must revise underwriting procedures to ensure that the insured is aware that there is an additional cost for purchasing a lower deductible for collision coverage. This is to ensure that violations noted under Title 75, Pa. C.S. §1792(b)(I) do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports the three specific violations cited in the Report were the result of human error and were reviewed with the responsible personnel at the time of finding during the Examination.

State Auto has reviewed its underwriting procedures to ensure that at the time of application insureds are aware of the additional cost for purchasing a lower deductible for collision coverage. The Underwriting and Agent entry audit process will be reviewed by Line and Staff management to ensure our ongoing compliance with this requirement.

14. The Company must review Act 246, Section 4(a) and (h) [40 P.S. § 11 84] and take appropriate measures to ensure the automobile homeowner rating violations listed in the report do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports that our Compliance Assurance area will ensure that the requested review of rating violations in light of any procedural or systemic changes that may be required takes place within 60 days of this Report.

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

State Auto Insurance acknowledges the Department's findings and believes it is in compliance with this Recommendation as the proof of refund for these rating errors has been previously provided to the Department.

16. 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 and providing necessary claim forms to claimants within the required time frame, as noted in the Report, do not occur in the future.

State Auto Insurance acknowledges the Department's findings and reports that systemic and procedural issues have been reviewed and claim handlers advised to provide the required delay letter issuance regardless of any interim communication with the claimant. And in addition Claim handlers were reminded of the need for prompt claim set up when a loss is reported/discovered.

17. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due as required by Title 75, Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

State Auto Insurance acknowledges the Department's findings and reports that Pennsylvania Claims handlers have been reminded of the required 12% per annum interest payment to be made if and when a bill is not paid within 30 days after receipt of proof. In the specific case of this one violation the Department reported the amount repriced and the amount paid as the same, thus no further payment is required.

18. 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.

State Auto Insurance acknowledges the Department's findings and reports that Title 31, Pa. Code, Sections 69.42 and 69.43 were reviewed with Pennsylvania claim staff at the time of the finding during the Examination time. Claim handlers have been advised of the required repricing at 80% of providers usual and customary charge when it can not be calculated at the Medicare rate. Claim Management will continue to reinforce compliance.

19. The Company must review Title 31, Pa. Code, Section 69.53(a) and Title 75, Pa, C.S. §1797(b)(l) with its claim staff to ensure that a written contract is in place with an approved peer review organization established for the purpose of evaluating treatment, health care services, products or accommodations provided to any injured person. Such evaluation shall be for the purpose of confirming that such treatment, products, services or accommodations conform to the professional standards of performance and are medically necessary.

State Auto Insurance acknowledges the Department's findings and reports that a diary system has been established to ensure contract continuity at scheduled renewal dates.

20. The Company must ensure that all applications contain the required fraud warning notice.

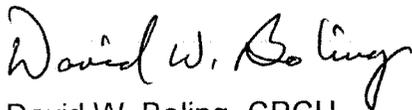
State Auto Insurance acknowledges the Department's findings and reports that the required fraud notice was added to the two claim forms in question, as soon as they were identified during the course of the Examination. State Auto believes it is in compliance related to fraud warnings on claim forms and policy documents both provided with and separately from insurance applications.

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

State Auto Insurance acknowledges the Department's findings and reports that the five violations have been individually addressed and corrected. Specific agencies using 'Trading As' business names have been identified and addressed on an agency by agency basis. Agency licensing controls are being evaluated by Corporate Sales and system changes if necessary will be made to ensure that we are indeed in ongoing compliance with Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

Thank you, for your attention to our response. We value our Pennsylvania business and appreciate the opportunity to add to that value through this process.

Respectfully Submitted,



David W. Boling, CPCU
Compliance Assurance Manager