

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**VICTORIA FIRE & CASUALTY COMPANY  
VICTORIA SELECT INSURANCE COMPANY**

Cleveland, Ohio

**VICTORIA AUTOMOBILE INSURANCE COMPANY**

Indianapolis, Indiana

**TITAN INDEMNITY COMPANY**

San Antonio, Texas

**AS OF  
November 23, 2004**

**COMMONWEALTH OF PENNSYLVANIA**

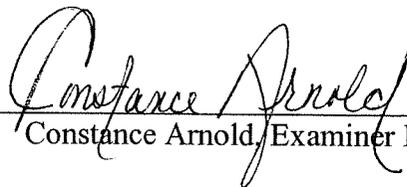


**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: January 18, 2005**

VERIFICATION

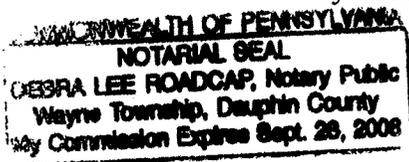
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

  
\_\_\_\_\_  
Constance Arnold, Examiner In Charge

Sworn to and Subscribed Before me

This 22<sup>nd</sup> Day of November, 2004

  
\_\_\_\_\_  
Notary Public



**VICTORIA FIRE & CASUALTY COMPANY  
VICTORIA SELECT INSURANCE COMPANY  
VICTORIA AUTOMOBILE INSURANCE COMPANY  
TITAN INDEMNITY COMPANY**

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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
	:	
VICTORIA FIRE & CASUALTY	:	Section 605 of the Insurance
COMPANY	:	Department Act, Act of May 17,
VICTORIA SELECT INSURANCE	:	1921, P.L. 789, No. 285 (40 P.S.
COMPANY	:	§ 235)
VICTORIA AUTOMOBILE	:	
INSURANCE COMPANY	:	Act 1990-6, Sections 1705(a)(1) and
TITAN INDEMNITY COMPANY	:	(4), 1731(b) and (c), 1738(d)(1) and
5915 Landerbrook Drive	:	(2), 1791.1(a), 1791.1(b), 1797(b)(1),
Cleveland, OH 44124	:	1799.3(a) and (c), and 1822 (Title 75,
	:	Pa.C.S. §§ 1705, 1731, 1738, 1791,
	:	1797 and 1799 and 1822)
	:	
	:	Sections 2002(c)(3), 2003(a)(10),
	:	2006(1), 2006(2), 2006(3) of Act 68 of
	:	1998 (40 P.S. §§ 991.2002, 2003 and
	:	2006)
	:	
	:	Sections 3(a)(5) and 7(c) of the Act of
	:	July 3, 1986, P.L. 396, No. 86 (40 P.S.
	:	§§ 3403 and 3407)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	61.4, 61.13, 69.52(b), 69.53(a), 113.88,
	:	146.4(b), 146.5(d) and 146.7(a)(1)
	:	
	:	Title 75, Pennsylvania Consolidated
	:	Statutes, Section 1716
	:	
	:	
Respondent.	:	Docket No. MC04-11-024

CONSENT ORDER

AND NOW, this 18<sup>th</sup> day of January, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Victoria Fire & Casualty Company, Victoria Select Insurance Company, Victoria Automobile Insurance Company, and Titan Indemnity Company, and maintains its address at 5915 Landerbrook Drive, Cleveland, Ohio 44124.
  
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2003 through December 31, 2003.
  
- (c) On November 23, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.
  
- (d) A response to the Examination Report was provided by Respondent on December 22, 2004.
  
- (e) The Examination Report notes violations of the following:
  - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that: (1) no agent shall do business on behalf of any entity without written appointment from that entity, (2) all appointments shall be obtained by procedures established by the Insurance Department's regulations, (3) insurance entities authorized by law to transact business in this Commonwealth shall, from time to time as

determined by the Department, certify to the Department the names of all agents appointed by them, and (4) each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent;

- (ii) Section 1705(a)(1) and (4) of Act 1990-6, Title 75, Pa.C.S. § 1711(a), which requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy, to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option;
- (iii) Section 1731(b) and (c) of Act 1990-6, Title 75, Pa.C.S. § 1731(b) and (c), 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;
- (iv) Section 1738(d)(1) and (2) of Act 1990-6, Title 75, Pa.C.S. § 1738, which requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;
- (v) Section 1791.1(a) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing

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

- (vi) Section 1791.1(b) of Act 1990-6, Title 75, Pa.C.S. § 1791, which requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
  
- (vii) Section 1797(b)(1) of Act 1990-6, Title 75, Pa.C.S. § 1797(b)(1), which requires a peer review plan for challengers to reasonableness and necessity of treatment. 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;

- (xiii) Section 1799.3(a) of Act 1990-6, Title 75, Pa. C.S. § 1799, which prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,050 in excess of any self insured retention or deductible applicable to the named insured;
- (ix) Section 1799.3(c) of Act 1990-6, Title 75, Pa. C.S. § 1799, which prohibits any surcharge, rate penalty or driver record point assignment be made as a result of an insurer paying a first party medical claim;
- (x) Section 1822 of Act 1990-6, 75 Pa. C.S. § 1822, which requires a 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 injury 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 \$15,000.00.”

- (xi) Section 2002(c)(3) of Act 68 of 1998 (40 P.S. § 991.2003), which requires that an insurer supply the insured with a written statement of the reason for cancellation. While most of Act 68 does not apply to new policies cancelled in the first 60 days, the company must provide 15 days of notice of cancellation;
- (xii) Section 2003(a)(10) of Act 68 of 1998 (40 P.S. § 991.2003), which states an insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Lawful Occupation, including military service;
- (xiii) Section 2006(1) of Act 68 of 1998 (40 P.S. § 991.2003), which requires that a cancellation notice be in a form acceptable to the Insurance Commissioner;
- (xiv) 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;

- (xv) 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;
- (xvi) Section 3(a)(5) of Act 86 (40 P.S. § 3403), which requires an insurer that cancels a policy midterm to state the specific reason. The reason shall identify the condition, factor or loss experience which caused the midterm cancellation. The notice shall provide sufficient information or data for the insured to correct the deficiency;
- (xvii) Section 7(c) of Act 86 (40 P.S. § 3407), which states 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 60<sup>th</sup> day, unless the policy provides for a longer period of notification;
- (xviii) Title 31, Pennsylvania Code, Section 61.4, which states forms of notices of cancellation or refusal to renew shall be filed and approved by the Insurance Commissioner prior to use;

- (xix) Title 31, Pennsylvania Code, Section 61.13, which requires each insurer to maintain records of the number of cancellations and refusals to write or renew policies and the reasons therefore, and shall file with the Department, a report summarizing the record of all such actions;
  
- (xx) 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 30<sup>th</sup> day and on or before the 90<sup>th</sup> day, the provider's bill for care shall be paid;
  
- (xxi) Title 31, Pennsylvania Code, Section 69.53(a), which requires 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;
  
- (xxii) Title 31, Pennsylvania Code, Section 113.88, which requires the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases

such as “losses” or “underwriting reasons” are not sufficiently specific reasons for cancellation;

- (xxiii) Title 31, Pennsylvania Code, Section 146.4(b), which requires an insurer or agent may not fail to fully disclose to first-party claimants benefits, coverages or other provisions of an insurance policy or insurance contract when the benefits, coverages or other provisions are pertinent to a claim;
- (xxiv) Title 31, Pennsylvania Code, Section 146.5(d), which 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;
- (xxv) Title 31, Pennsylvania Code, Section 146.7(a)(1) requires that within 15 working days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;  
and
- (xxvi) Title 75, Pennsylvania Consolidated Statutes, Section 1716, states 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.

#### 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) Violations of Section 605 of the Insurance Department Act (40 P.S. § 235) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
  - (i) suspension, revocation or refusal to issue the certificate of qualification or license;

- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
  - (iii) issue an order to cease and desist.
  - (iv) impose such other conditions as the department may deem appropriate.
- (c) Respondent's violations of Sections 2002, 2003 and 2006 of Act 68 of 1998 are punishable by the following, under Section 2013 of the Act (40 P.S. § 991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).
- (d) Respondent's violations of Sections 3(a)(5) and 7(c) of Act 86 (40 P.S. §§ 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.

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.4(b), 146.5(d) and 146.7(a)(1) are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

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

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

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Thirty-Five Thousand Dollars (\$35,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square,

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

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

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

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

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

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

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

BY: VICTORIA FIRE & CASUALTY COMPANY,  
VICTORIA SELECT INSURANCE COMPANY,  
VICTORIA AUTOMOBILE INSURANCE COMPANY,  
and TITAN INDEMNITY COMPANY, Respondent

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

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

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

## I. INTRODUCTION

The market conduct examination was conducted at Victoria Fire & Casualty Company, Victoria Select Insurance Company, Victoria Automobile Insurance Company and Titan Indemnity Company's office located in Cleveland, Ohio, from June 21, 2004, through July 23, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

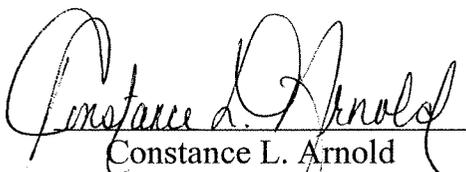
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel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

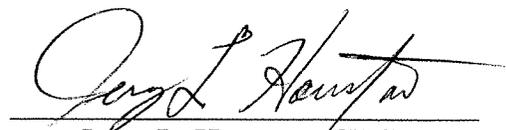
the various types of violations identified during the examination and review written summaries provided on the violations found.

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

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

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

  
\_\_\_\_\_  
Constance L. Arnold  
Market Conduct Examiner

  
\_\_\_\_\_  
Jerry L. Houston, CPCU  
Market Conduct Examiner

## **II. SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted on Victoria Fire & Casualty Company, Victoria Select Insurance Company, Victoria Automobile Insurance Company and Titan Indemnity Company, hereinafter referred to as “Company,” at their office located in Cleveland, Ohio. 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, 2003, through December 31, 2003, unless otherwise noted. The purpose of the examination was to determine the Company’s compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Automobile
  - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, rescissions and report of cancellations, nonrenewals and refusals to write.
  - Rating - Proper use of all classification and rating plans and procedures.
2. Commercial Automobile
  - Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations, rescissions and renewals.
3. Claims
4. Forms
5. Advertising

**6. Complaints**

**7. Licensing**

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

Victoria Fire & Casualty Company was incorporated under the laws of Ohio on July 11, 1983, as a stock company and commenced business on August 9, 1983.

Victoria Select Insurance Company was incorporated under the laws of Ohio on May 25, 1994, as a stock company.

Victoria Automobile Insurance Company was incorporated under the laws of Indiana on May 11, 1994, as a stock company.

Titan Indemnity Company was incorporated under the laws of Texas as the Technology Insurance Company on January 18, 1984 and began business on April 26, 1984. The current title was adopted on August 12, 1986, following the acquisition of the company's stock by its then parent, Titan Holdings, Inc.

#### **LICENSING**

Victoria Fire & Casualty Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming and District of Columbia. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$37,594. 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) \$619; Private Passenger Auto Liability \$29,077 and Private Passenger Auto Physical Damage \$7,898.

Victoria Select Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in Alabama, Arizona, Colorado, Florida, Georgia, Illinois, Indiana, Kentucky, Mississippi, New York, Ohio, Oregon, Pennsylvania, Tennessee, and Virginia. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$2,367,668. 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) \$11,912; Private Passenger Auto Liability \$1,445,709 and Private Passenger Auto Physical Damage \$258,424; Commercial Automobile Direct Written Premium was reported as Commercial Auto No-Fault (personal injury protection) \$7,322; Other Commercial Auto Liability \$505,678 and Commercial Auto Physical Damage \$138,623.

Victoria Automobile Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in Arizona, Illinois, Indiana, Missouri, New York, Pennsylvania, Virginia and Wisconsin. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$54,084. 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) \$481; Private Passenger Auto Liability \$41,401 and Private Passenger Auto Physical Damage \$12,202.

Titan Indemnity Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2004. The Company is licensed in Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Wisconsin, Wyoming and District of Columbia. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$47,495. 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) \$6,315; Private Passenger Auto Liability \$24,946 and Private Passenger Auto Physical Damage \$16,234.

#### **IV. UNDERWRITING PRACTICES AND PROCEDURES**

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

##### **Victoria Fire & Casualty Company**

*4 Violations Act 68, Section 2003(a)(10) [40 P.S. §991.2003(a)(10)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Lawful Occupation (including military service). The Company's personal automobile underwriting guides used occupation in 4 different areas of their guidelines as unacceptable risks. They were as follows: migratory risks, i.e. transients, seasonal workers, etc.; celebrities, entertainers, athletes or any professional individual who is nationally or locally well known; Military Personnel described as active duty military personnel stationed in PA and maintaining an out-of-state driver's license are acceptable provided they meet program qualifications; Military Personnel described as military personnel stationed in Michigan, Minnesota or New Jersey are unacceptable.

## **Victoria Select Insurance Company**

*6 Violations Act 68, Section 2003(a)(10) [40 P.S. §991.2003(a)(10)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Lawful Occupation (including military service). The Company’s personal automobile underwriting guides used occupation in 6 different areas of their guidelines as unacceptable policies. They were as follows: migratory risks, i.e. transients, seasonal workers, etc.; celebrities, entertainers, athletes or any professional individual who is nationally or locally well known; Military Personnel described as active duty military personnel stationed in PA and maintaining an out-of-state driver’s license are acceptable provided they meet program qualifications; Military Personnel described as military personnel stationed in Michigan, Minnesota or New Jersey are unacceptable.

## **Victoria Automobile Insurance Company**

*4 Violations Act 68, Section 2003(a)(10) [40 P.S. §991.2003(a)(10)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Lawful Occupation (including military service). The Company’s personal automobile underwriting guides used occupation in 4 different areas of their guideline as unacceptable policies. They were as follows: migratory risks, i.e. transients, seasonal workers, etc.; celebrities, entertainers, athletes or any professional individual who is nationally or locally well known; Military Personnel described as active duty military personnel stationed in PA and maintaining an out-of-state driver’s license are acceptable provided they meet program qualifications; Military

Personnel described as military personnel stationed in Michigan, Minnesota or New Jersey are unacceptable.

**Titan Indemnity Company**

*1 Violation Act 68, Section 2003(a)(10) [40 P.S. §991.2003(a)(10)]*

Discrimination Prohibited – (a) An insurer may not cancel or refuse to write or renew a policy of automobile insurance for any of the following reasons: Lawful Occupation (including military service). The Company’s personal automobile underwriting guide stated the following: Unacceptable Risks – The following risks are not eligible, except as noted: Military personnel not stationed in this state or whose vehicle is not primarily garaged in this state.

**Note:** These issues, although noted as being in place during the experience period of the examination, have previously been resolved through a separate action by the Department.

## **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.

#### **Victoria Fire & Casualty Company**

This Company did not report any private passenger automobile policies cancelled within the first 60 days of new business.

#### **Victoria Select Insurance Company**

From the universe of 483 personal automobile files identified as being cancelled in the first 60 days of new business, 50 files were selected for review. All 50 files selected were received and reviewed. The violation noted resulted in an error ratio of 2%.

The following finding was made:

*1 Violation Act 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 file noted was cancelled within the first 60 days of new business inception date and did not contain evidence of the required 15 days notice.

### **Victoria Automobile Insurance Company**

This Company did not report any private passenger automobile policies cancelled within the first 60 days of new business.

### **Titan Indemnity Company**

This Company did not report any private passenger automobile policies cancelled within the first 60 days of new business.

## **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.

### **Victoria Fire & Casualty Company**

The universe of 9 private passenger automobile files identified as midterm cancellations by the Company was selected for review. All 9 files selected were received and reviewed. No violations were noted.

### **Victoria Select Insurance Company**

From the universe of 1,039 private passenger automobile files identified as midterm cancellations by the Company, 75 files were selected for review. All 75 files selected were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following finding was made:

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

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

### **Victoria Automobile Insurance Company**

The universe of 36 private passenger automobile files identified as midterm cancellations by the Company was selected for review. All 36 files selected were received and reviewed. No violations were noted.

## **Titan Indemnity Company**

The universe of 12 private passenger automobile files identified as midterm cancellations by the Company was selected for review. All 12 files selected were received and reviewed. The 6 violations were based on 6 files, resulting in an error ratio of 50%.

The following findings were made:

### *6 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 6 violations noted contained cancellation notices for nonpayment of premium, but did not provide 15 days from the date of mailing.

### 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.

### **Victoria Fire & Casualty Company**

This Company did not report any private passenger automobile nonrenewals within the experience period.

### **Victoria Select Insurance Company**

The universe of 5 private passenger automobile files identified as nonrenewals by the Company was selected for review. The 5 files selected were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 60%.

The following findings were made:

*3 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 3 violations noted resulted in cancellation notices being issued without a specific reason for cancellation.

### **Victoria Automobile Insurance Company**

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

The following findings were made:

*2 Violations Act 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 2 violations noted resulted in cancellation notices being issued without a specific reason for cancellation.

**Titan Indemnity Company**

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

**4. Rescissions**

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

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

**Victoria Fire & Casualty Company**

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

**Victoria Select Insurance Company**

The universe of 18 private passenger automobile files, which were identified by the Company as rescissions, was selected for review. All 18 files were received and reviewed. No violations were noted.

### **Victoria Automobile Insurance Company**

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

### **Titan Indemnity Company**

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

### **5. Report of Cancellations, Nonrenewals and Refusals to Write**

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

The Company was requested to provide copies of reports to the Insurance Department of Private Passenger Automobile policies, which had been cancelled, nonrenewed or refused to be written within the experience period.

The following findings were made:

### **Victoria Fire & Casualty Company**

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

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month period ending on these dates. The Company did not provide the 2 reports required during the experience period.

### **Victoria Select Insurance Company**

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

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month period ending on these dates. The Company did not provide the 2 reports required during the experience period.

### **Victoria Automobile Insurance Company**

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

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month period ending on these dates. The Company did not provide the 2 reports required during the experience period.

### **Titan Indemnity Company**

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

Requires an insurer to maintain records of the number of cancellations and the reasons therefore and shall file with the Insurance Department, within 60 days following June 30 and December 31, a report summarizing the record of all such actions during the 6-month period ending on these dates. The Company did not provide the 2 reports required during the experience period.

## **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. 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 60<sup>th</sup> day unless the policy provides for a longer period of notification.

### **Victoria Fire & Casualty Company**

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

### **Victoria Select Insurance Company**

The universe of 34 commercial automobile policies, which was cancelled within the first 60 days, was selected for review. All 34 files selected were

received and reviewed. The 32 violations noted were based on 32 files, resulting in an error ratio of 94%.

The following findings were made:

*32 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 60<sup>th</sup> day, unless the policy provides for a longer period of notification. The 32 files noted did not give at least 30 days' notice of termination to the insured.

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

This Company did not report any commercial automobile 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.

**Victoria Fire & Casualty Company**

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

**Victoria Select Insurance Company**

The universe of 58 commercial automobile policies, which were cancelled during the experience period was selected for review. All 58 files selected were received and reviewed. No violations were noted.

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

This Company did not report any commercial automobile business 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.

**Victoria Fire & Casualty Company**

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

**Victoria Select Insurance Company**

The universe of 1 commercial automobile policy identified as a nonrenewal by the Company was selected for review. The file selected was received and reviewed. The violation noted resulted in an error ratio of 100%.

The following finding was made:

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

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

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

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

This Company did not report any commercial automobile business 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.

**Victoria Fire & Casualty Company**

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

**Victoria Select Insurance Company**

The universe of 10 commercial automobile policies identified as renewals by the Company was selected for review. All 10 files selected were received and reviewed. No violations were noted.

**Victoria Automobile Insurance Company**

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

### **Titan Indemnity Company**

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

### **5. Rescissions**

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

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

### **Victoria Fire & Casualty Company**

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

### **Victoria Select Insurance Company**

The universe of 10 commercial automobile files, identified as rescissions, was selected for review. The 10 files selected were received and reviewed. No violations were noted.

### **Victoria Automobile Insurance Company**

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

### **Titan Indemnity Company**

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

## VI. RATING

### **A. Private Passenger Automobile**

#### 1. New Business

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

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

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

##### **Victoria Fire & Casualty Company**

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

##### **Victoria Select Insurance Company**

From the universe of 1,617 personal automobile policies identified as new business without surcharges by the Company, 150 files were selected for

review. All 150 files requested were received and reviewed. The 3,245 violations were based on the universe of 1,617 files, resulting in an error ratio of 100%.

The following findings were made:

*1,617 Violations Act 1990-6, Section 17, Title 75, Pa. C.S §1791.1(b)*

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

*8 Violations Act 1990-6, Section 8, Title 75, Pa. C.S. §1705(a)(1)&(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 8 violations noted were the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

*3 Violations Act 1990-6, Section 9, 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 3 violations noted were the result of the policy being issued without uninsured and underinsured motorist coverage and no evidence of a signed written rejection form in the file.

*1,617 Violations Act 1990-6, Section 17, 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 1,617 violations noted were absent any evidence this requirement was complied with.

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

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

Private Passenger Automobile – New Business With Surcharges

**Victoria Fire & Casualty Company**

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

**Victoria Select Insurance Company**

From the universe of 358 personal automobile policies identified as new business with surcharges by the Company, 100 files were selected for review. The 100 files requested were received and reviewed. The 728 violations noted were based on the universe of 358 files, resulting in an error ratio of 100%.

The following findings were made:

*1 Violation Act 1990-6, Section 12, Title 75, Pa. C.S. §1738(c)(d)(1)&(2)*

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The file noted was absent any evidence this requirement was complied with.

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

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

*7 Violations Act 1990-6, Section 8, Title 75, Pa. C.S. §1705(a)(1)&(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The 7 violations noted were the result of a policy issued with limited tort and no evidence of a signed limited tort selection form.

*4 Violations Act 1990-6, Section 9, 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 4 violations noted were the result of the policy being issued without uninsured and underinsured motorist coverage and no evidence of a signed written rejection form in the file.

*358 Violations Act 1990-6, Section 17, 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 358 files noted were absent any evidence this requirement was complied with.

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

This Company did not report any private passenger automobile 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 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

##### **Victoria Fire & Casualty Company**

From the universe of 46 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. No violations were noted.

##### **Victoria Select Insurance Company**

From the universe of 641 private passenger automobile policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. No violations were noted.

##### **Victoria Automobile Insurance Company**

From the universe of 69 private passenger automobile policies renewed without surcharges during the experience period, 25 files were selected for

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

### **Titan Indemnity Company**

The universe of 52 private passenger automobile policies renewed without surcharges during the experience period was selected for review. All 52 files selected were received and reviewed. The 52 violations were based on the universe of 52, resulting in an error ratio of 100%.

The following findings were made:

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

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

### Private Passenger Automobile – Renewals With Surcharges

#### **Victoria Fire & Casualty Company**

The universe of 8 private passenger automobile policies renewed with surcharges during the experience period was selected for review. All 8 files selected were received and reviewed. No violations were noted.

#### **Victoria Select Insurance Company**

From the universe of 225 private passenger automobile policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

### **Victoria Automobile Insurance Company**

The universe of 13 private passenger automobile policies renewed with surcharges during the experience period was selected for review. All 13 files selected were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 15%.

The following findings were made:

*1 Violation Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(a)*

Prohibits insurers from applying a surcharge, rate penalty or driver record point assignment where, during the preceding three-year period, the aggregate cost to the insurer for any person injured or property damaged is determined to be less than \$1,050 in excess of any self insured retention or deductible applicable to the named insured. The file noted contained an improper accident surcharge applied to the policy, which resulted in an overcharge of \$81.

*1 Violation Act 1990-6, Section 19, Title 75, Pa. C.S. §1799.3(c)*

No surcharge, rate penalty or driver record point assignment shall be made as a result of an insurer paying a first party medical claim. The file noted contained an improper surcharge as a result of the Company paying a first party medical claim. This resulted in an overcharge of \$337.

### **Titan Indemnity Company**

The universe of 20 private passenger automobile policies renewed with surcharges during the experience period was selected for review. All 20

files selected were received and reviewed. The 20 violations noted were based on the universe of 20 files, resulting in an error ratio of 100%.

The following findings were made:

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

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

**B. Private Passenger Automobile – Assigned Risk**

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

## VII. CLAIMS

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

The Claims review consisted of the following areas of review:

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

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

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

#### **Victoria Fire & Casualty Company**

The universe of 3 private passenger automobile property damage claims reported during the experience period was selected for review. All 3 files requested were received and reviewed. No violations were noted.

### **Victoria Select Insurance Company**

From the universe of 369 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. No violations were noted.

### **Victoria Automobile Insurance Company**

The universe of 15 private passenger automobile property damage claims reported during the experience period was selected for review. All 15 files selected were received and reviewed. No violations were noted.

### **Titan Indemnity Company**

The universe of 13 private passenger automobile property damage claims reported during the experience period was selected for review. All 13 files selected were received and reviewed. No violations were noted.

## **B. Automobile Comprehensive Claims**

### **Victoria Fire & Casualty Company**

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

### **Victoria Select Insurance Company**

The universe of 24 private passenger automobile comprehensive claims reported during the experience period was selected for review. All 24 files requested 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:

*1 Violation Title 31, Pa. Code, Section 146.4(b)*

An insurer or agent may not fail to fully disclose to first-party claimants benefits, coverages or other provisions of an insurance policy or insurance contract when the benefits, coverages or other provisions are pertinent to a claim. The violation resulted because the Company advised the insured the deductible for comprehensive coverage was \$1,000 when the policy showed \$250.

*1 Violation Title 31, Pa. Code, Section 146.7(a)(1)*

Within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The violation noted resulted from failure to accept or deny the claim within 15 working days after proof of loss was received.

**Victoria Automobile Insurance Company**

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

**Titan Indemnity Company**

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

### **C. Automobile Collision Claims**

#### **Victoria Fire & Casualty Company**

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

#### **Victoria Select Insurance Company**

The universe of 54 private passenger automobile collision claims reported during the experience period was selected for review. All 54 files requested were received and reviewed. No violations were noted.

#### **Victoria Automobile Insurance Company**

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

#### **Titan Indemnity Company**

The universe of 13 private passenger automobile collision claims reported during the experience period was selected for review. All 13 files requested were received and reviewed. No violations were noted.

### **D. Automobile Total Loss Claims**

#### **Victoria Fire & Casualty Company**

The universe of 3 private passenger automobile total loss claims reported during the experience period was selected for review. All 3 files selected were received and reviewed. No violations were noted.

### **Victoria Select Insurance Company**

The universe of 38 private passenger automobile total loss claims reported during the experience period was selected for review. All 38 files selected were received and reviewed. No violations were noted.

### **Victoria Automobile Insurance Company**

The universe of 4 private passenger automobile total loss claims reported during the experience period was selected for review. All 4 files selected were received and reviewed. No violations were noted.

### **Titan Indemnity Company**

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

## **E. Automobile First Party Medical Claims**

### **Victoria Fire & Casualty Company**

The universe of 4 private passenger automobile first party medical claims reported during the experience period was selected for review. All 4 files requested were received and reviewed. No violations were noted.

### **Victoria Select Insurance Company**

From the universe of 127 private passenger automobile first party medical claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 13 violations were based on 6 files, resulting in an error ratio of 12%.

The following findings were made:

*6 Violations Title 31, Pa. Code, Section 69.52(b)*

Requires an insurer to pay bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill. The 6 violations noted resulted because the bills were not paid within 30 days.

*6 Violations Title 75, Pa. C.S. §1716*

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The 6 violations are the result of the Company not paying first party medical bills within 30 days.

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

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

result of not providing claimants with the application for benefits within ten working days.

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

##### **Victoria Fire & Casualty Company**

Although the Company did not report any first party medical claims referred to a peer review organization during the experience period, a copy of a peer review contract was requested. The Company supplied a copy of the peer review contract. No violations were noted.

##### **Victoria Select Insurance Company**

Although the Company did not report any first party medical claims referred to a peer review organization during the experience period, a copy of a peer review contract was requested. The Company supplied a copy of the peer review contract. No violations were noted.

##### **Victoria Automobile Insurance Company**

Although the Company did not report any first party medical claims referred to a peer review organization during the experience period, a copy of a peer review contract was requested. The Company supplied a copy of the peer review contract. No violations were noted.

##### **Titan Indemnity Company**

Although the Company did not report any first party medical claims referred to a peer review organization during the experience period, a copy of a peer review contract was requested. The Company did not have a contract in place with a peer review organization during the experience period.

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

*Act 1990-6, Title 75, Pa. C.S. §1797(b)(1)*

Peer review plan for challengers 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 violation noted was the result of failing to have a signed contract in place with a Peer Review Organization.

## VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)] and Act 6 of 1990 [75 Pa. CS §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. All cancellations noted were also reviewed to verify compliance with Act 68, Section 2006(1) [40 P.S. §991.2006(1)], which requires a cancellation notice or refusal to renew be in a form acceptable to the Insurance Commissioner and Title 31, Pa. Code, §61.4, which requires a cancellation notice or refusal to be filed and approved by the Insurance Commissioner.

The following findings were made:

### Private Passenger Automobile – Midterm Cancellations and Nonrenewals

#### **Victoria Select Insurance Company**

*20 Violations Act 68, Section 2006(1) [40 P.S. §991.2006(1)]*

Requires that a cancellation notice be in a form acceptable to the Insurance Commissioner.

AND

*Title 31, Pa. Code, §61.4*

Notice of cancellation or refusal to renew. Forms of notices of cancellation or refusal to renew shall be filed and approved by the Insurance Commissioner prior to use. The 20 violations resulted because the Company did not file Form AC003370102 for approval and is not acceptable to the Insurance Commissioner.

**Victoria Automobile Insurance Company**

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

Requires that a cancellation notice be in a form acceptable to the Insurance Commissioner.

AND

*Title 31, Pa. Code, §61.4*

Notice of cancellation or refusal to renew. Forms of notices of cancellation or refusal to renew shall be filed and approved by the Insurance Commissioner prior to use. The 2 violations resulted because the Company did not file Form AC003370102 for approval and is not acceptable to the Insurance Commissioner.

Private Passenger Automobile – Renewals Without Surcharges

**Victoria Fire & Casualty Company**

*46 Violations Act 1990-6, 75 Pa. C.S. §1822*

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false,

incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000." The Company did not provide the fraud warning at renewal.

### **Victoria Automobile Insurance Company**

*69 Violations Act 1990-6, 75 Pa. C.S. §1822*

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

### **Titan Indemnity Company**

*52 Violations Act 1990-6, 75 Pa. C.S. §1822*

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

## Private Passenger Automobile – Renewals With Surcharges

### **Victoria Fire & Casualty Company**

*8 Violations Act 1990-6, 75 Pa. C.S. §1822*

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

### **Victoria Select Insurance Company**

*225 Violations Act 1990-6, 75 Pa. C.S. §1822*

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

### **Victoria Automobile Insurance Company**

*13 Violations Act 1990-6, 75 Pa. C.S. §1822*

Warning notice on application for insurance and claim forms. Not later than May 1, 1990, all applications for insurance, renewals and

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

**Titan Indemnity Company**

*20 Violations Act 1990-6, 75 Pa. C.S. §1822*

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

## **IX. ADVERTISING**

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

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

The Company's only method of advertising is the Internet. The Company's Internet site 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 3 consumer complaints received during the experience period and provided all consumer complaint logs requested. The 3 complaints reported, were selected and reviewed. No violations were noted.

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 synopsis reflects the nature of the 3 complaints that were reviewed.

### **Victoria Fire & Casualty Company**

• 2	Claims Related	100%
<hr/>		<hr/>
2		100%

### **Victoria Select Insurance Company**

• 1	Cancellation	100%
<hr/>		<hr/>
1		100%

## **XI. LICENSING**

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

The following findings were made:

### **Victoria Fire & Casualty Company**

*1 Violation Insurance Department Act, Section 605 (40 P.S. §235)*

*Appointment.*

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

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

Hood Insurance Associates

**Victoria Automobile Insurance Company**

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

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

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

Hawk Insurance Agency LLC

## *XII. RECOMMENDATIONS*

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

1. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations noted in the Report do not occur in the future.
2. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
3. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% annum from the date the benefits become due. The interest amount must be paid and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
4. The Company must have a contract in place with a Peer Review Organization for the provision of peer review services to ensure compliance with Title 31, Pa. Code, Section 69.53(a) and Act 1990-6, Title 75, Pa. C.S. §1797(b)(1).

5. The Company must review and revise internal control procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2004 and 2006 [40 P.S. §991.2004 and 2006], so that the violations noted in the Report do not occur in the future.
6. The Company must file with the Insurance Commissioner a nonpayment cancellation notice, which meets the requirements of Act 68, Section 2006 [40 P.S. §991.2006], so that violations noted in the Report do not occur in the future.
7. The Company must review Title 31, Pa. Code, Section 61.13 and file with the Insurance Department, a report summarizing the record of all cancellations, refusals to write or renew, within 60 days following June 30 and December 31, each year.
8. The Company must review Act 1990-6, Section 17, Title 75, Pa. C.S. §1791.1(a) and (b) to ensure that violations of the types noted in the Report do not occur in the future.
9. The Company must review Act 1990-6, Section 9, Title 75, Pa. C.S. §1731(b) & (c) to ensure that violations of the types noted in the Report do not occur in the future.
10. 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 Act 1990-6, Section 8, Title 75 Pa. C.S. §1705(a)(1)(4) do not occur in the future.

11. The premium overcharge noted in the rating section of this report must be refunded to the insured and proof of such refund must be provided to the Insurance Department within 30 days of the report issue date.
  
12. 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.
  
13. The Company must ensure that all applications for insurance, claim forms and renewals contain a statement that clearly states in substance the following: “Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete information or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.” This is to ensure that violations noted under Act 1990-6, Title 75, Pa. C.S. §1822 do not occur in the future.
  
14. The Company must ensure all producers are properly licensed and appointed, prior to accepting any business.

**XIII. COMPANY RESPONSE**

December 21, 2004

VIA FACSIMILE AND AIRBORNE EXPRESS OVERNIGHT DELIVERY

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

RE: XIII. Company Response to the  
Report of Examination Warrant Number 04-M08-001 on the Following  
Companies: Victoria Fire & Casualty Company  
Victoria Select Insurance Company  
Victoria Automobile Insurance Company  
Titan Indemnity Company

Dear Mr. Derk:

On behalf of the above-mentioned companies (collectively, the "Company"), we are providing our response to the Report of Examination Warrant Number 04-M08-001 ("Report") dated November 23, 2004 which we received along with your cover letter.

We respectfully submit our responses in the order they appear in the Report under XII. Recommendations.

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

The Company accepts this recommendation and has reviewed and revised its claims handling and internal control procedures to ensure compliance with Title 31, Chapter 146. The Report notes a single violation which was the result of a human error. The Company has reviewed its procedures with the claims adjusters and will monitor and audit these procedures on a regular basis to ensure compliance. The Company believes that its overall effectiveness and compliance with the requirements of Title 31 are incorporated in its claims handling and internal control procedures.

2. The Company must review Title 31, Pa. Code, Section 69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.

The Company accepts this recommendation and has reviewed Title 31, Pa. Code, Section 69.52(b) with the claims staff to ensure that first party medical bills are paid within 30 days. The Company has also implemented a monitoring and audit process which will be conducted on a regular basis to ensure compliance with Title 31. The Company respectfully submits and believes the number of violations in the Report is de minimis and constitutes only a fraction of the total claims regularly submitted to the Company which are timely reviewed and paid.

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

The Company accepts this recommendation and has taken corrective action to address this matter. The Company notified the Insurance Department on 9/17/04 that it had calculated the interest amount at the rate of 12% annum from the date the benefits became due and payment was made on 9/20/04. The Company will provide the Insurance Department with proof of such payment under separate cover.

4. The Company must have a contract in place with a Peer Review Organization for the provision of peer review services to ensure compliance with Title 31, Pa. Code, Section 69.53(a) and Act 1990-6, Title 75, Pa. C.S. § 1797(b)(1).

The Company accepts this recommendation and has notified its Peer Review Organization for execution of a service contract to ensure compliance with Title 31.

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

The Company accepts this recommendation and has reviewed and revised its system programs and internal controls procedures to ensure compliance with cancellation notice requirements of Act 68, Sections 2004 and 2006, respectively. The Company respectfully submits that of the numerous files reviewed, the Report reflects a minimal number of violations which the Company believes are indicative of its overall effectiveness and compliance with the state's laws and regulations.

6. The Company must file with the Insurance Commissioner a nonpayment cancellation notice, which meets the requirements of Act 68, Section 2006 [40 P.S. §991.2006], so that violations noted in the Report do not occur in the future.

The Company accepts this recommendation and will re-file the nonpayment cancellation notice with the Insurance Commissioner. The Company respectfully submits that this notice (which meets the requirements of Act 68, Section 2006) was filed with the Insurance Commissioner on October 30, 2003 and approval was granted on 1/9/04. Nonetheless, the Company will provide such notice and re-file it with the Insurance Commissioner within 30 days from the date of this response.

7. The Company must review Title 31, Pa. Code, Section 61.13 and file with the Insurance Department, a report summarizing the record of all cancellations, refusals to write or renew, within 60 days following June 30 and December 31, each year.

The Company accepts this recommendation and has implemented system logic and programs to allow for the automatic production of the summary reports to be filed with the Insurance Department within 60 days following June 30 and December 31. Implementation of the logic and programs for such reports were completed on 9/13/04 for the VIPER system and 12/21/04 for the PAS system.

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

The Company has reviewed Act 1990-6, Section 17, Title 75, Pa. C.S. § 1791.1 (a) and (b) and has revised its notice of tort options and procedures to ensure compliance. The revised notice will be filed with the Insurance Commissioner within 30 days from the date of this response and such notice will be provided at the time of application for original coverage and every renewal thereafter.

9. The Company must review Act 1990-6, Section 9, Title 75, Pa. C.S. §1731 (b) & (c) to ensure that violations of the types noted in the Report do not occur in the future.

The Company has reviewed Act 1990-6, Section 9, Title 75, Pa. C.S. § 1731 (b) and (c) and has instructed its underwriters and agents to inform customers of their right to reject uninsured and underinsured motorist coverage by signing the written rejection form. The Company has further instructed its underwriters and agents to obtain and

retain the singed rejection form in the policy files. The Company further notes that the Report reflects only 3 incidents, which the Company believes is indicative of its overall effectiveness and compliance with this law.

10. 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 Act 1990-6, Section 8, Title 75 Pa. C.S. §1705(a)(1)(4) do not occur in the future.

The Company has revised its forms and underwriting procedures, and has instructed its underwriters and agents to provide each applicant with the opportunity to elect a tort option via the tort option selection form and such form must be signed and retained in the underwriting policy file.

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

The Company has reviewed and re-rated the 2 policies identified in the Report. A refund will be made to the insureds and proof of such refund will be provided to the Insurance Department within the required time period.

12. 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.

The Company has reviewed and revised internal control procedures, forms and system programming logic to ensure compliance relative to the commercial cancellation and non-renewal requirements of Act 86, Sections 3 and 7 (40 P.S. § 3403 and 3407). Such procedures were implemented on 12/10/04.

13. The Company must ensure that all applications for insurance, claim forms and renewals contain a statement that clearly states in substance the following: "Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing false, incomplete information or misleading information shall, upon conviction, be subject to imprisonment for up to seven

December 21, 2004  
Mr. Chester A. Derk, Jr.  
Page 5

years and payment of a fine of up to \$15,000". This is to ensure that violations noted under Act 1990-6, Title 75, Pa. C.S. §1822 do not occur in the future.

The Company has revised all applications, claim forms and renewal notices to include the required statement in compliance with Act 1990-6, Title 75, Pa. C.S. § 1822. Such changes were implemented on 7/20/04 for the VIPER system and on 10/15/04 for the PAS system.

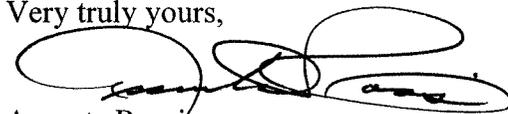
14. The Company must ensure all producers are properly licensed and appointed, prior to accepting any business.

The Company has implemented procedures to ensure all producers are properly licensed and appointed prior to accepting any business. Such procedures include period audits to ensure compliance. The Company respectfully submits that the Report only reflects one situation which, the Company believes is indicative of its overall effectiveness and compliance with state law.

The Company respectfully submits that it has taken the appropriate action and steps to address, correct and/or minimize the recurrence of the issues noted in the Report, and asks for your favorable consideration of such action. We thank you for the opportunity to respond to the Report and offer our sincere gratitude to the examiners for their assistance and cooperation throughout the course of the examination.

Please do not hesitate to contact me at 1-800-888-8424 ext. 397 should you have any questions and/or require additional information.

Very truly yours,



Assunta Rossi  
VP/Asst. General Counsel

cc: John Burkhalter, President  
David Newburg, PM

lt/AR