REPORT OF
MARKET CONDUCT EXAMINATION
OF

WINDSOR MOUNT JOY MUTUAL INSURANCE COMPANY

Ephrata, Pennsylvania

AS OF
April 11, 2007

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: May 3, 2007

VERIFICATION

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

Jerry L. Houston

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

Sworn to and Subscribed Before me

This 4th Day of April , 2007

Debra Lee Roadcap

Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
DEBRA LEE ROADCAP, Notary Public
Wayne Township, Dauphin County
My Commission Expires Sept. 28, 2008

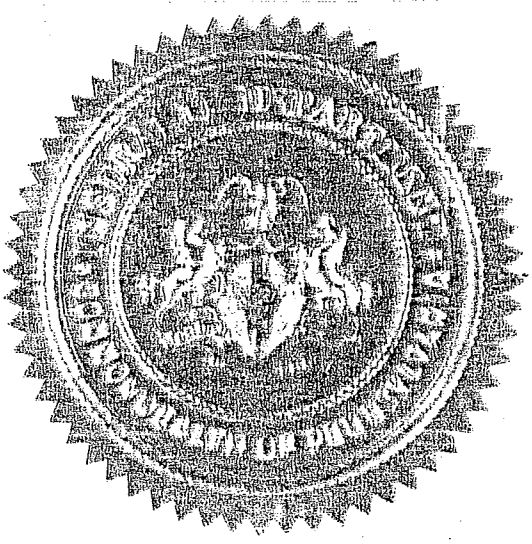
WINDSOR MOUNT JOY MUTUAL INSURANCE COMPANY

TABLE OF CONTENTS

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20th day of February, 2007. in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Randolph L. Rohrbaugh
Acting Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
WINDSOR MOUNT JOY MUTUAL INSURANCE COMPANY 21 West Main Street Ephrata, PA 17522	:	Sections 641-A and 671-A of Act 147 of 2002 (40 P.S. §§ 310.41 and 310.71)
	:	Sections 4(a) and 4(h) of the Act of June 11, 1947, P.L. 538, No. 246 (40 P.S. §§ 1184)
	:	Sections 5(a)(9) and 5(a)(11) of the Unfair Insurance Practices Act, Act of July 22, 1974, P.L. 589, No. 205 (40 P.S. §§ 1171.5)
	:	Sections 1, 3(a)(2), 3(a)(5), 3(a)(6) and 4(b) of the Act of July 3, 1986, P.L. 396, No. 86 (40 P.S. §§ 3401, 3403 and 3404)
	:	Title 31, Pennsylvania Code, Sections 113.88, 146.6 and 146.7(a)(1)
	:	Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
Respondent.	:	Docket No. MC07-04-029

CONSENT ORDER

AND NOW, this 3rd day of May, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

(a) Respondent is Windsor Mount Joy Mutual Insurance Company, and maintains its address at 21 West Main Street, Ephrata, Pennsylvania 17522.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2005 through June 30, 2006.

(c) On April 11, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on April 17, 2007.

(e) The Examination Report notes violations of the following:

(i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);

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

(iii) Sections 4(a) and 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

(iv) Section 5(a)(9) of Act 205 (40 P.S. §1171.5), which defines an unfair act or practice as: (9) cancelling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has

been in force for 60 days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner pursuant to rules and regulations promulgated by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured whether at the address shown in the policy or at a forwarding address;

(v) Section 5(a)(11) of Act 205 (40 P.S. § 1171.5), which requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint;

(vi) Section 1 of Act 86 (40 P.S. § 3401), which states this section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium;

(vii) Section 3(a)(2) of Act 86 (40 P.S. § 3403), which requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of termination;

(viii) Section 3(a)(5) of Act 86 (40 P.s. § 3403), which 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;

(ix) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires notices of mid-term cancellation and nonrenewal to meet the following requirements: A mid-term cancellation or nonrenewal notice shall state that, at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

(x) Section 4(b) of Act 86 (40 P.S. § 3404), which requires unearned premium must be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured;

(xi) Title 31, Pennsylvania Code, Section 113.88, which states the reason given for cancellation shall be clear and complete. It shall be stated so that a person of average intelligence and education can understand it. Phrases such as "losses" or "underwriting reasons" are not sufficiently specific reasons for cancellation;

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

(xiii) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires 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. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such

provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and

(xiv) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)(1), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties."

CONCLUSIONS OF LAW

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

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

(b) Respondent's violations of Sections 641-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

(i) suspension, revocation or refusal to issue the certificate of qualification or license;

(ii) imposition of a civil penalty not to exceed five thousand dollars ($5,000.00) for every violation of the Act;

(iii) an order to cease and desist; and

(iv) any other conditions as the Commissioner deems appropriate.

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

(i) imposition of a civil penalty not to exceed $50 for each violation or not more than $500 for each such wilful violation;

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

(d) Respondent's violations of Sections 5(a)(9) and 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(e) 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).

(f) Respondent's violations of Sections 1, 3 and 4 of Act 86 (40 P.S. §§ 3401, 3403 and 3404), 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.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as stated above.

ORDER

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

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

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

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

(d) Respondent shall pay Fifteen Thousand Dollars ($15,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Office Manager, 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 Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or it 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 there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

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

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

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

BY: WINDSOR MOUNT JOY MUTUAL INSURANCE COMPANY, Respondent

President / ~~Vice President~~

Secretary / ~~Treasurer~~

COMMONWEALTH OF PENNSYLVANIA
By: Terrance A. Keating
Deputy Chief Counsel

I. INTRODUCTION

The market conduct examination was conducted at Windsor Mount Joy Mutual Insurance Company's office located in Ephrata, Pennsylvania, from January 16, 2007, through January 31, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

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

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

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

Jerry Houston, AIE, CPCU
Market Conduct Examiner

Joseph S. Meizen
Market Conduct Examiner

M. Katherine Sutton, AIC
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Windsor Mount Joy Mutual Insurance Company, hereinafter referred to as "Company," at their office located in Ephrata, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2005, through June 30, 2006, 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. Property
- Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations and declinations.
- Rating – Proper use of all classification and rating plans and procedures.

2. Commercial Property
- Underwriting – Appropriate and timely notices of nonrenewals, midterm cancellations, 60-day cancellations, declinations and renewals.

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

4. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Windsor Mount Joy Mutual Insurance Company was organized August 4, 1844, under the title Mount Joy Township Mutual Fire Insurance Association. The word "Company" was substituted for "Association" on February 10, 1871, and the name was changed to Mount Joy Mutual Insurance Company on January 10, 1944. The Company reinsured all business and assumed all obligations of the City Mutual Insurance Company on December 31, 1957; of the Commercial Mutual Insurance Company on December 31, 1962; and of the Allen Mutual Insurance Company on December 31, 1965. The first two named companies were located in Lebanon, Pennsylvania, the latter in Allentown, Pennsylvania.

When the Windsor Mutual insurance Company, Hamburg, Pennsylvania, was merged with and into this Company on December 31, 1963, the present title was adopted and the administrative offices moved from Mount Joy to Hamburg, Pennsylvania and to the present location on July 1, 1982.

LICENSING

Windsor Mount Joy Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on August 4, 1855. The Company is licensed in Delaware, Indiana, Maryland, Massachusetts, New Jersey, North Carolina, Ohio, Pennsylvania and Virginia. The Company's 2005 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as $5,626,640. Premium volume related to the areas of this review were: Fire $620,732; Farm Owners Multiple Peril $413,149; Homeowner's Multiple Peril $2,872,901; Commercial Multiple Peril (Non-

Liability Portion) $531,612; Commercial Multiple Peril (Liability Portion) $143,039; Inland Marine $260,002 and Commercial Automobile Physical Damage $147,753.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. The Company provided agency bulletins and underwriting guides for homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. UNDERWRITING

A. Property

1. 60-Day Cancellations

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

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

The universe of 6 homeowner policies which were cancelled within the first 60 days of new business was selected for review. All 6 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

From the universe of 295 property policies which were cancelled midterm during the experience period, 131 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 131 files were received and reviewed. No violations were noted.

3. Nonrenewals

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

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

The universe of 11 personal property policies which were nonrenewed during the experience period was selected for review. The policies consisted of homeowner and owner occupied dwelling fire. All 11 files were received and reviewed. The 5 violations noted were based on 5 files, resulting in an error ratio of 45%.

The following findings were made:

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

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was

obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company cancelled the 5 files noted for an improper reason. The reasons were due to agent no longer represents the company, claims and failure to replace roof within an insufficient amount of time.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

The universe of 42 owner occupied dwelling fire declinations reported during the experience period was selected for review. All 42 files were received and reviewed. No violations were noted.

B. Commercial Property

1. 60-Day Cancellations

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

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

The universe of 6 commercial property policies which were cancelled within the first 60 days was selected for review. The policies consisted of commercial package, commercial fire and tenant occupied dwelling fire. All 6 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

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

The 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.

From the universe of 187 commercial property policies which were cancelled during the experience period, 130 files were selected for review. The commercial policies consisted of commercial package, commercial

inland marine, commercial fire, farm owners and tenant occupied dwelling fire. All 130 files were received and reviewed. The violation resulted in an error ratio of .7%.

The following finding was made:

1 Violation *Act 86, Section 3(a)(6) [40 P.S. §3403(a)(6)]*
Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less. The Company did not provide the loss information on the notice as required.

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.

The universe of 29 commercial property policies identified as nonrenewals by the Company was selected for review. The commercial policies consisted of tenant occupied dwelling fire, farm owners, commercial fire, commercial inland marine and commercial package. All 29 files were received and reviewed. The 24 violations noted were based on 13 files, resulting in an error ratio of 45%.

The following findings were made:

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

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal for the 10 files noted.

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 Company did not provide a specific reason for nonrenewal.

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

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured,

whichever is less. The Company did not provide loss information on the notice as required for the 13 files noted.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

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

From the universe of 92 commercial property files identified as declinations by the Company, 73 were selected for review. The commercial files consisted of commercial fire, commercial inland marine, commercial package, tenant occupied dwelling fire and farm owners. All 73 files selected were received and reviewed. No violations were noted.

5. Renewals

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

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

From the universe of 1,580 commercial property policies which were renewed during the experience period, 125 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine and commercial package.

All 125 files were received and reviewed. The 13 violations noted were based on 13 files, resulting in an error ratio of 10%.

The following findings were made:

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

This section provides that notwithstanding any other provision of law, a policy of insurance covering commercial property or casualty risks in this Commonwealth shall provide for not less than 30 days advance notice to the named insured of an increase in renewal premium. This section does not apply to policies written on a retrospective rating plan. The Company did not provide at least 30 days advance notice to the named insured of an increase in renewal premium for the 13 files noted.

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 60th day unless the policy provides for a longer period of notification.

The universe of 1 commercial automobile policy cancelled within the first 60 days of new business was selected for review. The file was received and reviewed. No violations were noted.

2. Midterm Cancellations

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

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

The universe of 3 commercial automobile policies cancelled during the experience period was selected for review. All 3 files were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 67%.

The following findings were made:

2 Violations *Act 86, Section 4(b) [40 P.S. §3404(b)]*

Requires that unearned premium be returned to the insured not later than 30 days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insured. The Company did not return the unearned premium to the insured within 30 days after the effective date of termination.

3. Renewals

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

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

The universe of 20 commercial automobile policies renewed during the experience period was selected for review. All 20 files were received and reviewed. No violations were noted.

VI. RATING

A. Homeowners

1. New Business

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

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

Homeowner Rating – New Business Without Surcharges

From the universe of 279 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

Homeowner Rating – New Business With Surcharges

The universe of 1 homeowner policy written as new business with surcharges during the experience period was selected for review. The file was received and reviewed. The violation noted resulted in an error ratio of 100%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to include the 2% credit for protective devices (smoke alarm) in accordance with their filed and approved rate filing. This resulted in an overcharge of $26.

The following concerns were noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 5,870 homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective

devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

Homeowner Rating – Renewals With Surcharges

From the universe of 77 homeowner policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to properly rate the policy in accordance with their filed and approved rating plan. This resulted in an undercharge of $16.

The following concerns were noted:

Concern: The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing.

Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

B. Tenant Homeowners

1. New Business

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

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

Tenant Homeowner Rating – New Business Without Surcharges

The universe of 17 tenant homeowner policies written as new business without surcharges was selected for review. All 17 files were received and reviewed. No violations were noted.

2. Renewals

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

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

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 269 tenant homeowner policies renewed without surcharges during the experience period, 30 files were selected for review. All 30 files were received and reviewed. No violations were noted.

The following concern was noted:

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

C. Dwelling Fire

1. New Business

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

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

Dwelling Fire Rating – New Business Without Surcharges

The universe of 23 dwelling fire policies written as new business without surcharges was selected for review. All 23 files were received and reviewed. The violation noted resulted in an error ratio of 4%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to properly rate the policy in accordance with their filed and approved rating plan. This resulted in an overcharge of $12.

The following concern was noted:

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

2. Renewals

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

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

Dwelling Fire Rating – Renewals Without Surcharges

From the universe of 199 dwelling fire policies renewed without surcharges during the experience period, 35 files were selected for review. All 35 files were received and reviewed. The violation noted resulted in an error ratio of 3%.

The following finding was made:

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

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to properly rate the policy in accordance with their filed and approved rating plan. This resulted in an overcharge of $4.

The following concern was noted:

Concern: The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this rate credit, but the credit is not given because the question is not asked.

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. Homeowner Claims
B. Tenant Homeowner Claims
C. Dwelling Fire Claims

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

A. Homeowner Claims

From the universe of 220 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following findings were made:

6 Violations *Title 31, Pa. Code, Section 146.6*

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 6 claims noted.

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

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 Company failed to reference the reason and supporting provision, condition or exclusion in the denial letter.

The following concern was noted:

Concern: While the Company is consistent in sending the insureds a denial of their claim, the Company's denial letters on the whole are deficient in actually quoting the policy to support the denial. They do copy and submit the applicable portion of the policy, highlighted, for the insured's reference. It is recommended the Company review their denial process and actually quote the policy by citing page, section, paragraph numbers and the policy wording to fully provide the specific policy language describing the exclusion, condition or provision that resulted in the claim denial. If only a portion of the loss is excluded, the appropriate

denial letter should be provided identifying exactly what portion of the loss is not covered.

B. Tenant Homeowner Claims

The universe of 7 tenant homeowner claims reported during the experience period was selected for review. All 7 files requested were received and reviewed. No violations were noted.

C. Dwelling Fire

The universe of 28 dwelling fire claims reported during the experience period was selected for review. All 28 files were received and reviewed. No violations were noted.

VIII. FORMS

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

The following finding was made:

1 Violation *Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)]*

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company failed to include the required fraud warning notice on the Proof of Loss (Burglary, Robbery, Theft, Larceny, Disappearance) – CL-4.

IX. ADVERTISING

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

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

The Company provided 1 piece of advertising which was in the form of a brochure. The Company indicated they do not advertise and the only brochure provided for review was additional coverage to their homeowner program involving bed and breakfast coverage. There was no web site available for review. 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 6 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 6 complaint files were requested, received and reviewed.

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

The following finding was made:

1 Violation *Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)]*

Requires an insurer to maintain a complete record of all the complaints, which it has 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 time it took to process each complaint. The 5 violations noted was the result of the Company not maintaining required complaint records for the experience period and the preceding four years. The Company's logs did not indicate the total number of complaints nor the time it took to process each complaint.

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

• 6	Cancellation/Nonrenewal	100%
6		100%

XI. LICENSING

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

The following findings were made:

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

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

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

(1) Delineates the services to be provided; and

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

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the

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

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

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

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

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

Arbor Insurance Group Inc
Barbera, Irene Mary
Barna, Donna
Billing-Helmes
CLA Insurance
Consulting Brokers Insurance Agency, Inc.
Davis, Gregory & Kyle
Eastern Shore Corporation
Esser, Steven
Fields Edge Inc
First National
Five Points
Friede, Patricia L dba Bortz Insurance Agency

Gadsby, John E (Jack)
Garber Group LTD
Graham, Gary
Grigg, Linda Lee
Hess Agency, Inc (The)
Insurance..... – Allentown
Insurance Partners of PA Inc
Joyce Jackman & Bell
Joseph J Joyce Associates Inc
Kandrick, Haley Gwen
Lehman Insurance Agency Inc
Malone, Eugene F
McColligan, Thomas
Mucchetti, John J
Mulrooney, Deborah
Paoloni Insurance Agency Inc
Paupack Insurance Agency Inc
Pickard's Insurance
Pieretti, Sean C
Pudlewski, James
Reidenbach, August X
Rhode Agency, Inc
Righter, Juliet
Rosenberger, William J
Seaton & Bowman, Inc
Shellhamer, Lisa I
Russ Smale Inc
Soom, Mark V
Soom, Vincent M
Southeastern PA
Springman, Kristie O
Sprout, Lisa M
Strausser Insurance
Thomas, Robert S III
Thompson, Catherine M
Tirpak, Shirley
Tuscano,W N Agency
Vought, Fred B
Weiler, Rebecca
Wiederman, Denise
Williams, Rhonda S
Yeager, Michael A

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

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

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

Kevane Insurance

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 relating to status letters and denials, as noted in the Report, do not occur in the future.

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

3. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for nonrenewal notices, as noted in the Report, do not occur in the future.

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

5. 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 4 [40 P.S. §§3403 and 3404], so that the violations noted in the Report do not occur in the future.

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

7. The Company must review Act 246, Section 4(a) and (h) [40 P.S. §1184] and take appropriate measures to ensure the rating violations listed in the report do not occur in the future.

8. The Company must review Act 205, Section 5(a)(11) [40 P.S. §1171.5(a)(11)], to ensure that the violation relative to complaint records noted in the Report does not occur in the future.

9. The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. §310.41(a) and 40 P.S. §310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.

XIII. COMPANY RESPONSE

WINDSOR | MOUNT JOY

Mutual Insurance Company

21 W Main St PO Box 587 Ephrata PA 17522-0587

Phone (717) 733-8648 Fax (717) 733-1983

April 17, 2007

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

RE: Response to the Report of Examination Warrant Number: 06-M19-020

Dear Mr. Derk:

This is Windsor – Mount Joy Mutual Insurance Company's response to your report mentioned above and dated April 11, 2007.

We will first address your Recommendations and then your Concerns.

RECOMMENDATIONS

1. **The Company should review and revise internal control procedures to ensure compliance with the claim handling requirements of Title31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and denials, as noted in the Report, do not occur in the future.**

Proper procedures have been reviewed with the claims department staff with emphasis on careful diary entries to assure compliance.

2. **The Company must ensure that all claims forms contain the required fraud warning notice.**

Form CL-4 was the only form in violation and the proper fraud warning has been added to it.

3. **The Company must review Act 205, Section 5(a)(9) [40 P.S. 1171.5(a)(9)] to ensure that violations regarding the requirements for nonrenewal notices, as noted in the Report, do not occur in the future.**

The nonrenewal requirements of Act 205 have been reviewed with the underwriting staff with emphasis on allowable reasons for nonrenewal. While we do accept the Department's recommendation, we respectfully continue to be concerned with a conflict between a company's being required to offer renewal directly or through a different agent when the original agent no longer represents the company, but the original agent contractually owns the business.

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

In the event that a renewal policy is not issued at least thirty days prior to the anniversary date, our computer system now automatically issues a letter to the insured advising that there may be an increase in premium.

5. **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 4 [40 P.S. 3403 and 3404], so that the violations noted in the Report do not occur in the future.**

The nonrenewal and cancellation requirements of Act 86 have been reviewed with the underwriting staff. Regarding offering to give loss information, our commercial notices now have the offer preprinted on the form. Regarding two instances of our being unable to prove that agency-billed return premiums for policies issued and cancelled by a general agent were returned to the insured within thirty days, we have emphasized to the general agent the importance of compliance and asked the general agent to emphasize it with the retail producers to whom the general agent returns the premium.

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

This has been done and acknowledged by Ms. Arnold in her exit summary.

7. **The Company must review Act 246, Section 4(a) and (h) [40 P.S. 1184] and take appropriate measures to ensure the rating violations listed in the reports do not occur in the future.**

The four rating errors were reviewed with the involved employees. They were human errors and employees were urged to be careful.

8. **The Company must review Act 205, Section 5(a)(11) [40 P.S. 1171.5(a)(11)], to ensure that the violation relative to complaint records noted in the Report does not occur in the future.**

The complaint logs now have a numbering system. The log which was active during the examination period did show the response time, but that information had been omitted for some entries made prior to the exam period.

9. **The Company must ensure all producers are properly licensed and appointed, as required by Section 641.1(a) and Section 671-A [40 P.S. 310.41(a) and 40 P.S. 310.71] of the Insurance Department Act No. 147, prior to accepting any business from any producer.**

Although we do not dispute the validity of the violations, we would like to point out that we discovered our failure to appoint these producers while preparing for the examination and immediately appointed them prior to the commencement of the examination rather than ignoring the problem and hoping it would not be discovered. We were under some misconceptions regarding appointments and appreciate the Department's input in making it clearer. We have remedied all appointment violations and instituted appropriate procedures.

Regarding the agency which was not licensed, Kevane Insurance was a partnership and only the partners were licensed. It went out of business during the examination period and, therefore, no remedy can be done.

CONCERNS

The Company has filed rate credits for protective devices under Rule 6.1 of the manual; however, the Company's application and supplemental application does not ask the question regarding protective devices. The concern is some insureds may be eligible for this credit, but the credit is not given because the question is not asked.

We have remedied the concern by adding protective device questions to the homeowners and dwelling fire applications. The new applications have been filed with the Insurance Department and we are awaiting approval.

The homeowner policies are subject to surcharges for losses; therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. Notification of the surcharge disclosure requirement was provided to all companies, in an Important Notice dated 9/18/1998.

We have implemented the use of a form attached to all new and renewal homeowners policies which explains a surcharge of up to 10% may be applied as a result of claims. It was designed while the examiners were in our office and Mr. Houston stated that it was satisfactory.

While the Company is consistent in sending the insureds a denial of their claim, the Company's denial letters on the whole are deficient in actually quoting the policy to support the denial. They

do copy and submit the applicable portion of the policy, highlighted, for the insured's reference. It is recommended the Company review their denial process and actually quote the policy by citing page, section, paragraph numbers and the policy wording to fully provide the specific policy language describing the exclusion, condition or provision that resulted in the claim denial. If only a portion of the loss is excluded, the appropriate denial letter should be provided identifying exactly what portion of the loss is not covered.

The content of denial letters has been reviewed with claims personnel and the current procedure includes citing the pertinent policy language **in addition** to including the pertinent policy form with the pertinent section highlighted.

However, we continue to believe that enclosing a highlighted copy of the actual policy language, as the Company routinely does, represents substantial compliance with the requirement without additionally quoting the language.

In conclusion, we have addressed all of the issues raised during the examination and we appreciate the examiners' helpfulness, friendly demeanor, and professionalism. They were efficient, competent, and concerned with managing the cost of the examination.

Sincerely,

Windsor – Mount Joy Mutual Insurance Company

Michael R. Klinefelter
President/Treasurer

Edward J. Correll, Jr.
Vice President/Secretary

William J. Baxter
Underwriting Manager