



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

**NAZARETH MUTUAL
INSURANCE COMPANY**
Nazareth, PA

**As of: September 22, 2016
Issued: November 3, 2016**

**BUREAU OF MARKET ACTIONS
PROPERTY AND CASUALTY DIVISION**

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).



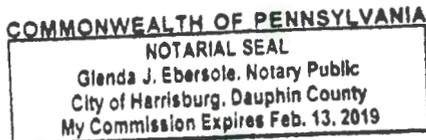
Karen A. Veronikis, Examiner-in-Charge

Sworn to and Subscribed Before me

This 1st Day of September, 2016



Notary Public



NAZARETH MUTUAL INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 13th day of November, 2015, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Christopher R. Monahan, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.




Teresa D. Miller
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
NAZARETH MUTUAL : 40 P.S. §323.4(b)
INSURANCE COMPANY : :
114 South Main Street : 40 P.S. §636.1
Nazareth, PA 18064 : :
: 40 P.S. §§1171.5(a)(7)(iii), 1171.5(a)(9)
: 1171.5(a)(9)(i), 1171.5(a)(9)(ii)
: 1171.5(a)(9)(iii) and 1171.5(a)(11)
: :
: 40 P.S. §1184(a)&(h)
: :
: 18 Pa. C.S. §4117(k)(1)
: :
: 31 Pa. Code §§59.6(9)&(10), 59.9(b)
: and 146.6
: :
: 75 Pa. C.S. §1822
: :
Respondent. : Docket No. MC16-10-012

CONSENT ORDER

AND NOW, this 3rd day of November, 2016, 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 Nazareth Mutual Insurance Company, and maintains its address at 114 South Main Street, Nazareth, PA 18064.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2014 through December 31, 2014.
- (c) On September 22, 2016, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on October 18, 2016.

(e) The Market Conduct Examination of Respondent revealed violations of the following:

- (i) 40 P.S. §323.4(b), requires every company or person from whom information is sought, its officers, directors and agents must provide to the examiners timely, convenient and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined.
- (ii) 40 P.S. §636.1, requires that basic property insurance shall be continued 180 days after the death of the named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid;
- (iii) 40 P.S. §1171.5(a)(7)(iii), defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;

- (iv) 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;
- (v) 40 P.S. §1171.5(a)(9)(i), requires that a cancellation notice be approved as to form by the Insurance Commissioner prior to use.
- (vi) 40 P.S. §1171.5(a)(9)(ii), prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (vii) 40 P.S. §1171.5(a)(9)(iii), requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation or refusal to renew;

- (viii) 40 P.S. §1171.5(a)(11), requires a company to maintain a complete record of all the complaints it has received during the preceding four years.

- (ix) 40 P.S. §1184(a)&(h), 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;

- (x) 18 Pa. C.S. §4117(k)(l), states 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;

- (xi) 31 Pa. Code §59.6(9)&(10), states notices of cancellation or refusal to renew shall meet the following requirements: (9) Each provision of the notice shall be set forth in clear and understandable terms. To assure adequate notice, the form label shall be set at the top of the form in roman type no smaller than 14 point modern type, all capitals. The remainder of the notice shall be set in roman type no smaller than ten point modern type, two points leaded. (10) A

recommended form of notice which would meet the requirements of the foregoing provisions is given in Appendix A;

- (xii) 31 Pa. Code §59.9(b), requires an insurer give at least 30 days notice of termination and give that notice no later than the 60th day;
- (xiii) 31 Pa. Code §146.6, states that if an investigation cannot be completed within thirty (30) days, and every forty-five (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;
- (xiv) 75 Pa. C.S. §1822, requires not later than May 1, 1990, all applications for insurance, renewals and claim forms shall contain a statement that clearly states, in substance, the following: Any person who knowingly and with intent to injure or defraud any insurer files an application or claim containing any false, incomplete or misleading information shall, upon conviction, be subject to imprisonment for up to seven years and payment of a fine of up to \$15,000.00.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the 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 40 P.S. §636.1 are punishable by the following, under 40 P.S. §625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.
 - (c) Respondent's violations of 40 P.S. §§1171.5(a)(7)(iii), 1171.5(a)(9), 1171.5(a)(9)(i), 1171.5(a)(9)(ii), 1171.5(a)(9)(iii) and 1171.5(a)(11) 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.
 - (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (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).
- (e) Violations of Section 4(a)&(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. §1184) are punishable under Section 16 of the Act:
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such willful 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.
- (f) Respondent's violations of 31 Pa. Code §146.6 are punishable under Sections 1 through 5 and Section 9 of the Unfair Insurance Practices Act (40 P.S. §§1171.1 – 1171.5 and 1171.9):
- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (g) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (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 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 pay Twenty Five Thousand Dollars (\$25,000.00) in settlement of all violations contained in the Report.

- (c) Payment of this matter shall be made to the Commonwealth of Pennsylvania. Payment should be directed to April Phelps, Insurance Department, Bureau of Market Actions, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.
- (d) 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.
- (e) Respondent shall comply with all recommendations contained in the attached Report.

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

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

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

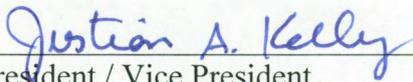
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

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

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

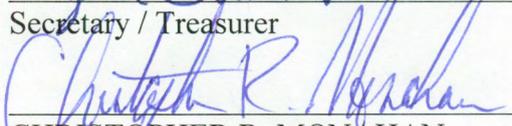
BY: NAZARETH MUTUAL
INSURANCE COMPANY,
Respondent



President / Vice President



Secretary / Treasurer



CHRISTOPHER R. MONAHAN
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at the office of Nazareth Mutual Insurance Company, hereinafter referred to as “Company,” located in Nazareth, Pennsylvania from January 4, 2016, through January 13, 2016. 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 following examiners participated in this examination and in preparation of this Report.

Kelly Krakowski, MCM
Market Conduct Division Chief
Pennsylvania Insurance Department

Karen Veronikis
Market Conduct Examiner
Pennsylvania Insurance Department

Joshua Taylor
Market Conduct Examiner Trainee
Pennsylvania Insurance Department

Lindsay Breach
Market Conduct Examiner Trainee
Pennsylvania Insurance Department

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Nazareth Mutual Insurance Company, at its office located in Nazareth, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act of 1921 and covered the experience period of January 1, 2014, through December 31, 2014, 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 Property
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
 - Rating - Proper use of all classification and rating plans and procedures.
2. Claims
3. Forms
4. Complaints
5. Data Integrity
6. MCAS Reporting

III. COMPANY HISTORY

Nazareth Mutual Insurance Company was founded in 1845 as Farmers Fire Insurance Company of Northampton County, Nazareth Mutual Fire Insurance Company, and Citizens Mutual Insurance Company. In 1957, the three companies merged into Nazareth Mutual Insurance Company. The business of Nazareth Mutual Insurance Company is placed through independent agents.

LICENSING

Nazareth Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on June 29, 1957. The Company is licensed in Pennsylvania. The Company's 2014 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$8,109,963. Premium volume related to the areas of this review were: Fire \$1,518,751; Homeowners Multiple Peril \$5,155,312; Inland Marine \$12,702.

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. Manuals and underwriting rule guides were furnished for homeowner, dwelling fire, and tenant-homeowner policies. 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. Personal Property

1. 60-Day Cancellations

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

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

From the universe of 61 property policies which were cancelled within the first 60 days of new business, 20 files were selected for review. The property files consisted of homeowners and tenant homeowners. All 20 files were received and reviewed. Of the 20 files reviewed, 15 files were identified as 60-day cancellations, four (4) were midterm cancellations and one (1) was identified as a flat cancellation. The three (3) violations noted were based on three (3) files, resulting in an error ratio of 15%.

The following findings were made:

2 Violations 40 P.S. §1171.5(a)(9)(i)

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 on a

form not approved by the Insurance Commissioner prior to use. The Company failed to use an approved cancellation notice for the two (2) files noted.

1 Violation 31 Pa. Code §59.9(b)

Adjudication: Pursell/Goschenhoppen Mutual, P91-11-24 (1992)

An insurer which cancels a homeowners policy that has been in force for less than 60 days must give the insured 30 days notice of cancellation, must send the notice prior to the 60th day and must advise the insured of the possible availability of coverage under the Pennsylvania FAIR Plan. The one (1) violation noted resulted from the Company not providing the required thirty days' notice of cancellation.

The following concerns were noted:

CONCERN: The Company is using the Pennsylvania Insurance Department's Philadelphia Regional Office contact information on notices. The Philadelphia Office is closed. The Company should use only the following address and telephone number for all complaints, appeals, notices of cancellation or refusal to renew requirements:

Pennsylvania Insurance Department
Bureau of Consumer Services
1209 Strawberry Square
Harrisburg, PA 17120
Toll Free Consumer Line: 1-877-881-6388
Fax: (717) 787-8585

CONCERN: The Company is advising the insured of his possible eligibility for insurance through the Fair Plan. The Company should also include the Fair Plan address and/or phone number on the cancellation notice.

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 313 property policies which were cancelled midterm during the experience period, 92 files were selected for review. The property files consisted of homeowners, tenant homeowners, inland marine, and dwelling fire owner occupied. All 92 files were received and reviewed. Of the 92 files reviewed, 82 files were identified as midterm cancellations, four (4) files were identified as 60-day cancellations and six (6) were identified as nonrenewals. The 59 violations noted were based on 53 files, resulting in an error ratio of 58%.

The following findings were made:

1 Violations 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 failed to send a valid cancellation notice for the one (1) file noted.

2 Violations 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 hazard 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 failed to provide a proper

reason for cancellation for the two (2) files noted.

52 Violations 40 P.S. §1171.5(a)(9)(i)

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 on a form not approved by the Insurance Commissioner prior to use. The Company failed to use a cancellation notice approved by the Commissioner for the 52 files noted.

2 Violations 40 P.S. §1171.5(a)(9)(ii)

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The two (2) violations noted resulted from the Company not providing the required thirty days' notice of cancellation.

2 Violations 40 P.S. §1171.5(a)(9)

40 P.S. §636.1

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. In addition, basic property insurance shall be continued one hundred and eighty days after the death of named insured on the policy or until the sale of the property, whichever event occurs first provided that the premiums for the coverage are paid. The Company failed to provide property insurance one hundred and eighty days after the death of the named insured for the two (2) files noted.

The following concerns were noted:

CONCERN: The Company is using the Pennsylvania Insurance Department's Philadelphia Regional Office contact information on notices. The Philadelphia Office is closed. The Company should use only the following address and telephone number for all complaints, appeals, notices of cancellation or refusal to renew requirements:

Pennsylvania Insurance Department

Bureau of Consumer Services

1209 Strawberry Square

Harrisburg, PA 17120

Toll Free Consumer Line: 1-877-881-6388

Fax: (717) 787-8585

CONCERN: The Company is advising the insured of his possible eligibility for insurance through the Fair Plan. The Company should also

include the Fair Plan address and/or phone number on the cancellation notice.

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.

From the universe of 55 property policies which were nonrenewed during the experience period, 33 files were selected for review. The property files consisted of homeowners, tenant homeowners, and dwelling fire owner occupied policies. All 33 files were received and reviewed. The 57 violations noted were based on 31 files, resulting in an error ratio of 94%.

The following findings were made:

31 Violations 40 P.S. §1171.5(a)(9)(i)

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 on a form not approved by the Insurance Commissioner prior to use. The Company failed to use a cancellation notice approved by the Commissioner for the 31 files noted.

26 Violations 40 P.S. §1171.5(a)(9)(iii)

Requires that a cancellation notice shall state the specific reason or reasons of the insurer for cancellation. The 26 violations were due to cancellation notices being issued that did not provide a specific reason for cancellation.

The following concerns were noted:

CONCERN: The Company is using the Pennsylvania Insurance Department's Philadelphia Regional Office contact information on notices. The Philadelphia Office is closed. The Company should use only the following address and telephone number for all complaints, appeals, notices of cancellation or refusal to renew requirements:

Pennsylvania Insurance Department

Bureau of Consumer Services

1209 Strawberry Square

Harrisburg, PA 17120

Toll Free Consumer Line: 1-877-881-6388

Fax: (717) 787-8585

CONCERN: The Company is advising the insured of his possible eligibility for insurance through the Fair Plan. The Company should also include the Fair Plan address and/or phone number on the cancellation notice.

4. Declinations

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

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

From the universe of 170 homeowner declinations, 55 files were selected for review. All 55 files requested were received and reviewed. Of the 55 files, one (1) was not within the experience period. The five (5) violations noted were based on 5 files, resulting in an error ratio of 9%.

The following finding was made:

5 Violations 40 P.S. §1171.5(a)(7)(iii)

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

Commonwealth and regulations promulgated by the
Commissioner pursuant to such act. The Company refused
to write a property based upon place of residence within the
Commonwealth of Pennsylvania for the five (5) files noted.

VI. RATING

A. Personal Property

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 844 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The four (4) violations noted were based on four (4) files, resulting in an error ratio of 16%.

The following findings were made:

4 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the four (4) files noted, resulting in an overcharge of \$17.00.

Homeowner Rating - New Business With Surcharges

From the universe of 153 homeowner policies written as new business with surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. Of the 25 files reviewed, one (1) was identified as homeowner new business without a surcharge. The seven (7) violations noted were based on seven (7) files, resulting in an error ratio of 28%.

The following findings were made:

5 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the five (5) files noted, resulting in an overcharge of \$10.00.

1 Violation 40 P.S. §1184(a)&(h)

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 accurately apply the claim free credit for the one (1) file noted, which resulted in an overcharge of \$26.00.

1 Violation 40 P.S. §1184(a)&(h)

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 violation was the result of the policy being issued with an improper protection class, which resulted in an overcharge of \$108.00.

Tenant Homeowner Rating - New Business Without Surcharges

From the universe of 69 tenant homeowner policies written as new business without surcharges during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. The four (4) violations noted were based on four (4) files, resulting in an error ratio of 20%.

The following findings were made:

3 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the three (3) files noted, resulting in an overcharge of \$63.10.

1 Violation 40 P.S. §1184(a)&(h)

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 accurately apply coverage for the one (1) file noted, which resulted in an overcharge of \$110.00.

Dwelling Fire Owner Occupied Rating - New Business

From the universe of 21 dwelling fire owner occupied policies written as new business during the experience period, 5 files were selected for review. All 5 files selected were received and reviewed. The two (2) violations noted were based on two (2) files, resulting in an error ratio

of 40%.

The following findings were made:

1 Violation 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the one (1) file noted, which resulted in an overcharge of \$3.00.

1 Violation 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to maintain a complete file. Compliance could not be determined for the one (1) file 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.

Homeowner Rating – Renewals Without Surcharges

From the universe of 4,747 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The two (2) violations noted were based on two (2) files, resulting in an error ratio of 8%.

The following findings were made:

2 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the two (2) files noted.

Homeowner Rating – Renewals With Surcharges

From the universe of 1,961 homeowner policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The three (3) violations noted were based on three (3) files, resulting in an error ratio of 12%.

The following findings were made:

3 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the three (3) files noted.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 327 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The four (4) violations noted were based on four (4) files, resulting in an error ratio of 16%.

The following findings were made:

4 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the four (4) files noted which resulted in an overcharge of \$146.60.

Dwelling Fire Owner Occupied Rating - Renewals

From the universe of 92 dwelling fire owner occupied policies renewed during the experience period, 20 files were selected for review. All 20 files selected were received and reviewed. The five (5) violations noted were based on five (5) files, resulting in an error ratio of 25%.

The following findings were made:

5 Violations 40 P.S. §1184(a)&(h)

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 apply the filed and approved rates for the five (5) files noted.

VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The Claims review consisted of the following areas of review:

- A. Homeowners Claims
- B. Tenant Homeowners Claims
- C. Dwelling Fire Owner Occupied Claims

The primary purpose of the review was to determine compliance with 31 Pa. 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) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(10)(vi)).

A. Homeowners Claims

From the universe of 279 homeowners claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. The nine (9) violations noted were based on nine (9) files, resulting in an error ratio of 18%.

The following findings were made:

9 Violations 31 Pa. Code §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 nine (9) files noted.

B. Tenant Homeowners Claims

The universe of two (2) tenant homeowners claims during the experience period was selected for review. Both files requested were received and reviewed. The one (1) violation noted was based on one (1) file, resulting in an error ratio of 50%.

The following finding was made:

1 Violation 31 Pa. Code §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 one (1) file noted.

C. Dwelling Fire Owner Occupied Claims

The universe of five (5) dwelling fire owner occupied claims reported during the experience period was selected for review. All five (5) files

requested were received and reviewed. The one (1) violation noted was based on one (1) file, resulting in an error ratio of 20%.

The following finding was made:

1 Violation 31 Pa. Code §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 one (1) file 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 the 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 Title 18, Pa. C.S. §4117(k)(1), which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

The following findings were made:

3 Violations 18 Pa. C.S. §4117(k)(1)

All applications for insurance and all claims 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. The Company failed to provide the required fraud warning language on three (3) claim forms.

8 Violations 18 Pa. C.S. §4117(k)(1)

75 Pa. C.S. §1822

All new business applications and renewals for insurance and all claims 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. The Company failed to provide the required fraud warning language for Homeowner, Tenant Homeowner, Dwelling Fire, and Inland Marine policies at the time of application and at the time of renewal.

1 Violation 31 Pa. Code §59.6(9) & (10)

Notices of cancellation or refusal to renew shall meet the following requirements: (9) Each provision of the notice shall be set forth in clear and understandable terms. To assure adequate notice, the form label shall be set at the top of the form in roman type no smaller than 14 point modern type, all capitals. The remainder of the notice shall be set in roman type no smaller than ten point modern type, two points leaded. (10) A recommended form of notice which would meet the requirements of the foregoing provisions is given in Appendix A. The Company failed to provide a Notice of Cancellation, Refusal to Renew, or Refusal to Write that meets the form label requirements of roman type no smaller than 14 point at the top of the form and capitalized Right of Review and Fair Plan information.

4 Violations 40 P.S. §1184(a)&(h)

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. The Company is using the Equipment Breakdown Coverage and the Identity Recovery and Fraud Coverage endorsement forms that are not filed and approved in accordance with the Pennsylvania Insurance Department for the four (4) files noted.

1 Violation 40 P.S. §1171.5(a)(9)(i)

Requires any insurer canceling a 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 to use a form approved by the Insurance Commissioner. The Company failed to use a cancellation notice approved by the Commissioner for the one (1) file noted.

The following concern was noted:

CONCERN: The Company's Loss Surcharge Disclosure Notice, NM-3 (12-01), lists a chart describing years along with the number of claims. The Company should clarify "Years" to avoid policyholder confusion as to its definition.

IX. 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 16 consumer complaints received during the experience period and provided all consumer complaint logs requested. From the universe of 16 complaint files, 16 files were selected for review. All 16 files were received, however, only (nine) 9 files were reviewed. Of the 16 files, seven (7) were dwelling fire non-owner occupied and were not reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, (40 P.S. §§1171.1 – 1171.5). Section 5(a)(11) of the Act (40 P.S. §1171.5(a)(11)), 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 individual complaint files were reviewed for the relevancy to applicable statutes and to verify compliance with 31 Pa. Code §146.5(b)(c).

The following findings were made:

3 Violations 40 P.S. §1171.5(a)(11)

Failure of any person 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 the complaint, the disposition of these complaints and the time it took to process each complaint. For the three (3) files noted, the Company failed to

provide complete complaint registers. The records did not contain the disposition of each complaint.

The following synopsis reflects the nature of the 16 complaints that were reviewed.

8	Cancellation/Nonrenewal	89%
1	Claims Related	11%
—		—
9		100%

X. DATA INTEGRITY

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act of 1921, Section 904(b) (40 P.S. §323.4(b)). Several data integrity issues were found during the on-site portion of the exam.

The data integrity issue of each area of review is identified below.

Declinations

Situation: The Company was asked provide a list of all refusals to write, whether declined by the Company or by its agents, during the experience period. The Company provided a universe list of 55 declinations.

Finding: Of the 55 declinations reviewed, one (1) file was determined to be declined outside of the experience period and 54 were found to be declined within the experience period.

Midterm Cancellations

Situation: As the examiners reviewed the midterm cancellation files of the underwriting section of the exam, it was noted that not all the 92 files selected for review were midterm cancellation files.

Finding: Of the 92 midterm cancellation files reviewed, four (4) files were identified as 60-day cancellations, six (6) files were identified as nonrenewal files and 80 files were identified as midterm cancellations.

60-Day Cancellations

Situation: As the examiners reviewed the 60-day cancellation files of the underwriting section of the exam, it was noted that not all the 20 files selected for review were 60-day cancellation files.

Finding: Of the 20 60-day cancellation files received, four (4) files were identified as midterm cancellations, one (1) was identified as a flat cancellation and 15 files were identified as 60-day cancellations.

Homeowner New Business with Surcharge

Situation: As the examiners reviewed the homeowner new business with surcharge files of the rating section of the exam, it was noted that not all of the 25 files selected for review were homeowner new business with surcharge.

Finding: Of the 25 homeowner new business with surcharge files received, one (1) file was identified as a homeowner new business without surcharge and 24 files were identified as homeowner new business with surcharge.

Complaints

Situation: As the examiners reviewed the complaints section of the exam, it was noted that not all of the 16 dwelling fire files selected for review were for owner-occupied properties.

Finding: Of the 16 complaint files received, seven (7) were identified as dwelling fire non-owner occupied files and nine (9) files were identified as owner-occupied properties.

The following finding was made:

General Violation 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The violation resulted in the failure to exercise sufficient due diligence to ensure compliance with Insurance Department Act of 1921.

XI. MCAS REPORTING

A. Personal Property

In Pennsylvania, insurers are required annually to submit a Market Conduct Annual Statement (MCAS) to the National Association of Insurance Commissioners (NAIC). The review of MCAS data was conducted pursuant to the authority granted by Section 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the Market Conduct Annual Statement (MCAS) reporting for 2014.

The examination team reviewed the Company's 2014 MCAS Submissions. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the sections that were reviewed.

A.	Number of dwellings which have policies in-force at the end of the period.
B.	Number of policies in-force at the end of the period.
C.	Number of new business policies written during the period.
D.	Dollar amount of direct written premium during the period.
E.	Number of Company-initiated nonrenewals during the period.
F.	Number of cancellations for non-pay, nonsufficient funds or insured's request.
G.	Number of Company-Initiated cancellations that occur in the first 59 days after effective date, excluding rewrites to a related Company.
H.	Number of Company-Initiated cancellations that occur 60 or more days after effective date, excluding rewrites to a related Company.
I.	Number of Complaints received directly from the consumer.

J.	Number of Claims open at the beginning of the Period
K.	Number of Claims opened during the period.
L.	Number of Claims closed during the period, with payment.
M.	Number of Claims closed during the period, without payment.
N	Number of Claims remaining open at the end of the period.
O.	Number of Claims closed with payment within 0-60 days.
P	Number of Claims closed with payment >60 days.
Q.	Number of Suits open at beginning of the period.
R	Number of Suits opened during the period.
S.	Number of Suits closed during the period.
T.	Number of Suits open at end of period.

The review consisted of three phases, as noted below.

Phase 1

The Company was asked to provide the claims and policy data listings that support the 2014 MCAS filing. Each list contained the claim and policy numbers for each category. The 2014 data submitted was validated to ensure the information was accurate and consistent with the information provided to the NAIC.

The following findings were made:

7 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company

failed to provide 2014 data that was consistent with the information provided to the NAIC for three (3) claim categories and four (4) underwriting categories.

Phase 2

The Company was asked to provide a record of all claims and policy data listings which supported the 2014 MCAS filings. From each universe list of 2014 data, a random sample of five (5) claims or policy files was requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations.

The following findings were made:

8 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide accurate data for three (3) claim categories and two (2) underwriting categories.

Phase 3

A review was performed on various policies and claims provided in the Market Conduct portion of the exam to ensure the MCAS data was inclusive of all the policies applicable to each line item. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations.

The following findings were made:

47 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide accurate data for one (1) claim category, eight (8) underwriting categories, and two (2) rating categories.

XII. RECOMMENDATIONS

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

1. The Company must review 40 P.S. §1171.5(a)(9) to ensure that violations regarding the requirements for nonrenewal and cancellation notices, as noted in the Report, do not occur in the future.
2. The Company must review 31 Pa. Code §59.9(b) to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.
3. The Company must review 40 P.S. §§1171.5(a)(9) & 636.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained for at least 180 days.
4. The Company must review 40 P.S. §1171.5(a)(7)(iii) to ensure that violations regarding refusal to write based on place of residence, as noted in the Report, do not occur in the future.
5. The Company must review 40 P.S. §1184 and take appropriate measures to ensure the rating violations listed in the report do not occur in the future. The premium overcharges noted in this report must be refunded to the insured and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

6. The Company must review 40 P.S. §1184 and take appropriate measures to ensure that violations regarding the form filings with the Commonwealth of Pennsylvania, as noted in the Report, do not occur in the future.
7. The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code §146, so that the violations relating to providing status letters, as noted in the Report, do not occur in the future.
8. The Company must review 18 Pa. C.S. §4117(k)(1) & 75 Pa. C.S. §1822 to ensure that violations regarding the requirement of a fraud warning on all applications, renewals, and claim forms, as noted in the Report, do not occur in the future.
9. The Company must review 40 P.S. §1171.5(a)(11) to ensure that the violations relative to complaint registers, as noted in the Report, do not occur in the future.
10. The Company must review 31 Pa. Code §59.6(9) & (10) to ensure that violations regarding cancellation, refusal to renew, or refusal to write notice requirements, as noted in the Report, do not occur in the future.
11. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.4, so that violations noted in the Report do not occur in the future.

XIII. COMPANY RESPONSE



OVER A CENTURY OF
DEPENDABLE SERVICE

NAZARETH MUTUAL INSURANCE COMPANY

P.O. BOX 209, NAZARETH, PENNSYLVANIA 18064-0209 PHONE: 610-759-3020

FAX: 610-759-7320

1-800-321-6783

information@nazarethmutual.com

October 5, 2016

Ms. Kelly Krakowski
Chief, Property & Casualty Division
Office of Market Regulation
Bureau of Market Actions
1321 Strawberry Square
Harrisburg, PA 17120

RE: Response to the Report of Examination Warrant Number: 15-M31-024

Dear Ms. Krakowski;

The following are the responses to the above report dated September 22, 2016.

Recommendations:

- 1. The Company must review 40 P.S. ss1171.5(a)(9) to ensure that violations regarding the requirements for nonrenewal and cancellation notices, as noted in the Report, do not occur in the future.**

The Company has reviewed the statute and is revising the existing cancellation/non-renewal notice. Once the updates are complete, and within 30 days of this response, the new form will be filed with the Department in order to ensure compliance.

- 2. The Company must review 31 Pa. Code ss59.9(b) to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.**

The Company is aware of the 30-day cancellation rule and has communicated the necessity of adhering to the specific cancellation timelines with the underwriting staff.

- 3. The Company must review 40 P.S. ss1171.5(a)(9) and ss636.1 regarding the cancellation of property insurance after the death of the named insured to ensure that basic property coverage is maintained for at least 180 days.**

The Company is aware of the 180-day cancellation rule after the death of an insured and has communicated the necessity of adhering to the specific cancellation timelines with the underwriting staff.

- 4. The Company must review 40 P.S. ss1171.5 (a)(7)(iii) to ensure that violations regarding refusal to write based on place of residence, as noted in the Report, do not occur in the future.**

On August 19, 2016, the Company sent a letter to all of our appointed agents advising that Nazareth Mutual Insurance Company is able to entertain new business policies, subject to NMI underwriting criteria, in any and all parts of the Commonwealth of Pennsylvania. This message was also announced to the attendees at our annual agent meeting on September 14, 2016. Further, this was discussed with all internal staff, including the underwriting team.

- 5. The Company must review 40 P.S. ss1184 and take appropriate measures to ensure the rating violations listed in the report do not occur in the future. The premium overcharges noted in the report must be refunded to the insured and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.**

As we have stated throughout the audit, the Company agrees that there were several rating instances where the system-calculated premium and the manually-calculated premium did not agree. For those instances whereby the Company could verify and duplicate the Department's overcharge calculation, the Company has made the appropriate refund, with proof being provided as part of this response. For those situations where the premium difference resulted in an undercharge, the Company has made the appropriate financial adjustment and did not send premium invoices to the affected policyholders.

- 6. The Company must review 40 P.S. ss1184 and take appropriate measures to ensure that violations regarding the form filings with the Commonwealth of Pennsylvania, as noted in the Report, do not occur in the future.**

The Company has reviewed the statute and understands the process of rate filing. We disagree, however, that the Company, at any time, was not using the properly filed rates.

- 7. The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa Code ss146, so that the violations relating to providing status letters, as noted in the Report, do not occur in the future.**

Internal controls have been reviewed with the staff as well as outside adjusters to insure that the timely notifications of status letters are sent according to Title 31 of the PA Code.

- 8. The Company must review 18 Pa. C.S. ss4117(k)(1) and 75 Pa. C.S. ss1822 to ensure that violations regarding the requirement of a fraud warning on all applications, renewals, and claim forms, as noted in the Report, do not occur in the future.**

The required fraud statement has been added to all required applications, renewal notices and claim forms. Copies of said revised forms will be filed with the Department within 30 days of this response, in order to ensure compliance.

9. The Company must review 40 P.S. ss1171.5 (a)(11) to ensure that the violations relative to complaint registers, as noted in the Report, do not occur in the future.

Internal controls were modified. When the Company does not receive a response from the Department after 30 days of submitting the complaint response, the complaint disposition will be indicated as Upheld/Closed

10. The Company must review 31 Pa Code ss59.6(9) & (10) to ensure that violations regarding cancellation, refusal to renew, or refusal to write notice requirements, as noted in the Report, do not occur in the future.

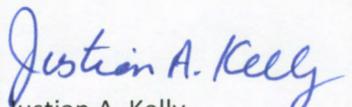
The Company has reviewed the statute and is revising the existing cancellation/non-renewal notice. Once the updates are complete, and within 30 days of this response, the new form will be filed with the Department in order to ensure compliance.

11. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. ss323.4, so that violations noted in the Report do not occur in the future.

The Company understands the importance of consistent data and will work with our system vendor to review the data propagator criteria. We will make necessary modifications, if any, so that reported numbers are consistent amongst different report requests.

The issues raised in the examination have been, or are in the process of being addressed. Nazareth Mutual Insurance Company would like to thank the examination team for the professionalism displayed during the examination. We appreciate the opportunity to participate in the examination and feel we have gained a better insight to bring us in compliance with all of the Pennsylvania Insurance Department laws and regulations.

Sincerely,
Nazareth Mutual Insurance Company


Justian A. Kelly
President & CEO


John G. Abbott
Chairman