



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

**STATE FARM FIRE & CASUALTY
COMPANY**

Bloomington, IL

**As of: October 5, 2017
Issued: November 29, 2017**

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

VERIFICATION

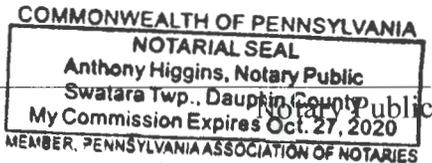
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Sean Connolly, AIE, AIRC, MCM
Examiner-In-Charge

Sworn to and Subscribed Before me

This Day of 8/23, ^{not} 2013 2017



STATE FARM FIRE AND CASUALTY COMPANY
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22nd day of August, 2017, 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.





Jessica K. Altman
Acting Insurance Commissioner

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 State Farm Fire & Casualty Company, and maintains its address at 6 Hillman Drive, Chadds Ford, PA 19317.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2015 through December 31, 2015.

- (c) On October 5, 2017, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on November 3, 2017.
- (e) The Market Conduct Examination of Respondent revealed violations of the following:
 - (i) 40 P.S. §323.3(a), requires every company subject to examination to keep all books, records, accounts, papers, documents and any computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require in order that its representatives may readily ascertain whether the company has complied with the laws of this Commonwealth;
 - (ii) 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;

- (iii) 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;
- (iv) 40 P.S. §991.2002(c)(3), requires that an insurer supply the insured with a written statement of the reason for cancellation;
- (v) 40 P.S. §991.2003(a)(1), states an insurer may not cancel or refuse to renew a policy of automobile insurance on the basis of age;
- (vi) 40 P.S. §991.2003(a)(4), states that an insurer may not enter into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company requires supporting business for antique and classic automobiles. The Company also requires supporting business for newly licensed drivers;
- (vii) 40 P.S. §991.2006, requires that cancellation by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the insured a written notice of the cancellation;

- (viii) 40 P.S. §991.2008(b), requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;
- (ix) 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;
- (x) 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.

- (xi) 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;
- (xii) 75 Pa. C.S. §1725, requires every motor vehicle insurance policy to contain a notice whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters;
- (xiii) 75 Pa. C.S. §1791.1(a), requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: “The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require you to purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in excess of the limits required by law are provided only at your request as enhancements to basic coverages.” The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premiums for the insured’s existing coverages;

- (xiv) 75 Pa. C.S. §1791.1(b), requires an insurer to provide an insured with a notice of the availability of two alternatives of full tort insurance and limited tort insurance;
- (xv) 75 Pa. C.S. §1791.1(c), requires an insurer to provide an insured a notice stating that discounts are available for drivers who meet the requirements of Sections 1799, 1799.1 and 1799.2;
- (xvi) 75 Pa. C.S. §1793(b), requires the insurer to provide to the insured a copy of their surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan and the plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;
- (xvii) 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;

- (xviii) 31 Pa. Code §59.6(1) states notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: “Notice of Cancellation or Refusal to Renew;”
- (xix) 31 Pa. Code §59.6(6), states that if the reason for cancellation is a substantial change or increase in hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it was due;
- (xx) 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;
- (xxi) 31 Pa. Code §61.5(1) states notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: “Notice of Cancellation or Refusal to Renew”;
- (xxii) 31 Pa. Code §62.3(a)(1), states an appraisal shall be signed by the appraiser before submitting the information to an insurer, consumer, or other party involved. An electronic signature is acceptable to remain compliant with appraisal requirements;

(xxiii) 31 Pa. Code §62.3(a)(2), states an appraisal statement shall contain all items necessary to return the vehicle to its condition prior to the damage in question, including, but not necessarily limited to labor involved; necessary painting or refinishing, and all sublet work to be done and a clear indication of the cost or dollar amount value of all specified items. In addition to the requirements listed, the appraisal shall explain any abbreviations or symbols used in the description of work to be done or parts to be repaired or replaced;

(xxiv) 31 Pa. Code §62.3(b)(2), states an appraisal statement shall contain all items necessary to return the vehicle to its condition prior to the damage in question, including, but not necessarily limited to labor involved; necessary painting or refinishing, and all sublet work to be done and a clear indication of the cost or dollar amount value of all specified items. In addition to the requirements listed, the appraisal shall also contain a written disclosure that states costs above the appraised amount may be the responsibility of the vehicle owner;

(xxv) 31 Pa. Code §62.3(b)(3), states an appraisal statement shall contain all items necessary to return the vehicle to its condition prior to the damage in question, including, but not necessarily limited to labor involved; necessary painting or refinishing, and all sublet work to be done and a clear indication of the cost or dollar amount value of all specified items. In addition to the requirements listed, an appraisal shall also contain a written disclosure informing the policyholder that there is no requirement to use any specified repair shop;

(xxvi) 31 Pa. Code §62.3(b)(4), states an appraisal statement shall contain all items necessary to return the vehicle to its condition prior to the damage in question, including, but not necessarily limited to labor involved; necessary painting or refinishing, and all sublet work to be done and a clear indication of the cost or dollar amount value of all specified items. In addition to the requirements listed, an appraisal shall also contain a written disclosure informing the consumer of repair facilities that are able to repair the vehicle for the appraised amount;

(xxvii) 31 Pa. Code §62.3(b)(7), states an appraisal statement shall contain all items necessary to return the vehicle to its condition prior to the damage in question, including, but not necessarily limited to labor involved; necessary painting or refinishing, and all sublet work to be done and a clear indication of the cost or dollar amount value of all specified items. In addition to the requirements of the act, an appraisal shall contain a written disclosure of applicable sales tax;

(xxviii) 31 Pa. Code §62.3(b)(9), requires that an appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident;

(xxix) 31 Pa. Code §62.3(b)(10), requires that an appraisal shall contain a written disclosure which includes the following: If the appraisal includes aftermarket

crash parts, a statement that the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better than the remainder of the existing warranty;

(xxx) 31 Pa. Code §62.3(e)(7), states the appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion;

(xxxi) 31 Pa. Code §69.52(a), requires an insurer to refer a provider's bill to a Peer Review Organization only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with Peer Review Organization procedures, standards and practices, to believe it necessary that a Peer Review Organization determine the reasonableness and necessity of care, the appropriateness of the setting where the care is rendered, and the appropriateness of the delivery of the care. The insurer shall notify a provider, in writing, when referring bills for Peer Review Organization review at the time of referral;

- (xxxii) 31 Pa. Code §69.52(b), requires an insurer to pay medical bills for care that are not referred to a Peer Review Organization within 30 days after the insurer receives sufficient documentation supporting the bill;
- (xxxiii) 31 Pa. Code §146.5(a), states every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice, unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated;
- (xxxiv) 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;
- (xxxv) 31 Pa. Code §146.7(a)(1), 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;
- (xxxvi) 31 Pa. Code §146.9(b), states that insurers may not use comparative negligence claim settlement standards which are inequitable and which result in compelling claimants to litigate by offering substantially less than the amount due and ultimately recovered in actions brought by the persons.

Comparative negligence should not be applied to a claim settlement to reduce amounts claimants would otherwise be entitled to but for their negligence without reasonable evidence of the negligence and its relativity to the total negligence involved. A record of the evidence and the evaluation of its effect should be maintained in the claim file.

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. §§991.2002(c)(3), 991.2003(a)(1), 991.2003(a)(4), 991.2006 and 991.2008(b) of Act 68 of 1998 are

punishable by the following, under Section 2013 of the Act

(40 P.S. §991.2013): Any individual or insurer who violates any of the provisions of this article may be sentenced to pay a fine not to exceed five thousand dollars (\$5,000.00).

- (d) Respondent's violations of 40 P.S. §§1171.5(a)(9), 1171.5(a)(9)(i) 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.

- (e) 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).

- (f) Respondent's violations of 31 Pa. Code §§146.5, 146.6, 146.7(a)(1) and 146.9(b) 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 Ninety Thousand Dollars (\$90,000.00) 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.

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.

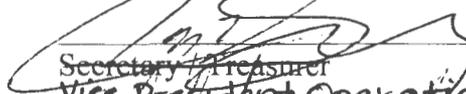
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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: STATE FARM FIRE & CASUALTY COMPANY
Respondent



~~President / Vice President~~
Vice President Operations - Underwriting



~~Secretary / Treasurer~~
Vice President Operations - Claims



CHRISTOPHER R. MONAHAN
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at the office of State Farm Mutual Automobile Insurance Company hereinafter referred to as “Company,” located in Concordville, Pennsylvania, from January 30, 2017, through June 29, 2017. 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
Pennsylvania Insurance Department

Ryan Sellers
Market Conduct Examiner
Pennsylvania Insurance Department

Derek Stepp, CIE, MCM
Market Conduct Examiner
INS Regulatory Insurance Services

Sean Connolly, AIE, AIRC, MCM
Market Conduct Examiner
INS Regulatory Insurance Services

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on State Farm Mutual Automobile Insurance Company, at its office located in Concordville, 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, 2015, through December 31, 2015, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Private Passenger Automobile
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations and rescissions.
 - Rating- Based on the review of consumer complaints, a review of rating plans and procedures specifically related to required disclosures was conducted.
2. Assigned Risk
 - Underwriting - Appropriate and timely notices of nonrenewal and midterm cancellations.
3. Claims
4. Complaints
5. Underwriting Guidelines

6. Forms

7. Data Integrity

III. COMPANY HISTORY

State Farm Mutual Automobile Insurance Company (hereinafter referred to as "SFMAIC") was incorporated on March 29, 1922, under the Uniform Mutual Law of Illinois. The Company commenced business on June 7, 1922. SFMAIC, the lead company in the State Farm Group ("The Group"), is the nation's largest automobile insurer. The Group offers multiple lines of property, casualty and life and health insurance throughout the United States through an exclusive agency force. There are nine affiliated property and casualty carriers (including SFMAIC) and four life insurance carriers in The Group. Corporate offices are located in Bloomington, Illinois. In addition to SFMAIC, the property and casualty companies in The Group include State Farm Fire and Casualty Company, State Farm County Mutual Insurance Company of Texas, State Farm Florida Insurance Company, State Farm General Insurance Company, State Farm Indemnity Company, State Farm Guaranty Insurance Company, State Farm Lloyds, and Dover Bay Specialty Insurance Company.

LICENSING

State Farm Mutual Automobile Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on April 1, 2017. The Company is licensed in all States and the District of Columbia. The Company's 2015 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$1,508,018,797. Premium volume related to the Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$817,522,060 and Private Passenger Auto Physical Damage \$635,502,158.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides and supplements were furnished for private passenger automobile. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

1 Violation 40 P.S. §991.2003(a)(1)

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for the following reason: age. The violation noted was the result of the Company refusing to write based on the number of years driving experience, or operator's age.

2 Violations 40 P.S. §991.2003(a)(4)

States that an insurer may not enter into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company requires supporting business for antique and classic automobiles. The Company also requires supporting business for newly licensed drivers.

V. UNDERWRITING

A. Private Passenger Automobile

1. 60-Day Cancellations

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

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited. These files were also reviewed for compliance with Act 68, Section 2002(b)(3) (40 P.S. §991.2002(b)(3)), which requires an insurer who cancels a policy of automobile insurance in the first 60 days, to supply the insured with a written statement of the reason for cancellation.

From the universe of 6,147 private passenger automobile policies that were cancelled within the first 60 days of new business, 50 files were selected for review. All 50 files requested were received and reviewed. Of the 50 files reviewed, six files were identified as midterm cancellations. The 45 violations noted were based on 41 files, resulting in an error ratio of 82%.

The following findings were made:

4 Violations 31 Pa. Code §59.9(b)

The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of

investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company failed to use a valid cancellation notice. The Company cannot use a single notice of cancellation to cancel two separate policies that are not a package policy for non-payment of premium for the four files noted.

9 Violations 31 Pa. Code §61.5(1)

Notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: "Notice of Cancellation or Refusal to Renew." The Company failed to clearly label the form as "Notice of Cancellation or Refusal to Renew" in the nine files noted.

31 Violations 40 P.S. §991.2002(c)(3)

40 P.S. § 323.3(a)

To any policy of automobile insurance which has been in effect less than sixty (60) days, unless it is a renewal policy, except that no insurer shall decline to continue in force such a policy of automobile insurance on the basis of the grounds set forth in Section 2003(a) and except that if an insurer cancels a policy of automobile insurance in the first 60 days, the insurer shall supply the insured with a written statement of the reason for cancellation In addition, every company or person subject to examination in accordance with this act must keep all

books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. The Company failed to maintain a written notice of cancellation supplied to the insured in the company file for the 31 files noted.

1 Violation 75 Pa. C.S. §1793(c)

When an insurer cancels a motor vehicle insurance policy which is subject to section 6(3) of the act of June 5, 1968 (P.L.140, No.78), relating to writing, cancellation of or refusal to renew policies of automobile insurance, the insurer shall within 30 days of canceling the policy return to the insured all premiums paid under the policy less any proration for the period the policy was in effect. Premiums are overdue if not paid to the insured within 30 days after canceling the policy. Overdue return premiums shall bear interest at the rate of 12% per annum from the date the return premium became due. The Company failed to return premiums paid within 30 days after cancellation of the policy for the file noted.

The following concern was noted:

CONCERN: The following language included in non-pay notices of cancellation is misleading and contradicts other statements contained in the

same notice. This language appears to indicate the policy is cancelled at date of notice, when in fact coverage is still in effect. The Company should remove this language from notices of cancellation for non-payment when policy coverage is still in force.

“We welcome the opportunity to provide your future insurance protection. Should you wish to reinstate this policy, please forward your payment immediately. Payment prior to the date and time of cancellation will reinstate your policy. If paid after that date and time, you will be informed whether your policy has been reinstated and if so, the exact date and time of reinstatement. There is no coverage between the date and time of cancellation and the date and time of reinstatement.”

2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 100,223 private passenger automobile policies which were cancelled midterm, 100 files were selected for review. All 100 files requested were received and reviewed. Of the 100 files reviewed, 44 files were identified as being nonrenewals. The 75 violations noted were based on 66 files, resulting in an error ratio of 66%.

The following findings were made:

42 Violations 40 P.S. §323.3(a)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. The Company failed to maintain a copy of the original written notice of nonrenewal which was delivered or mailed to the insured for the 42 files noted.

2 Violations 40 P.S. §991.2006

A cancellation or refusal to renew by an insurer of a policy of automobile insurance shall not be effective unless the insurer delivers or mails to the named insured at the address shown in the policy a written notice of the cancellation or refusal to renew. The Company failed to maintain documentation in file to indicate that a notice of nonrenewal was mailed to the insured for the two files noted.

5 Violations 40 P.S. §1171.5(a)(9)

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 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. 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 either at the address shown in the policy or at a forwarding address. The Company failed to use a valid cancellation notice. The Company cannot use a single notice of cancellation to cancel two separate policies that are not a package policy for non-payment of premium for the five files noted.

4 Violations 31 Pa. Code §59.6(6)

States that if the reason is a substantial change or increase in the hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it was due. The Company failed to identify the amount and date premium due, specifically for the

Property policy, where the reason is non-payment of premium for the four files noted.

22 Violations 31 Pa. Code §61.5(1)

Requires that notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: “Notice of Cancellation or Refusal to Renew.” The Company failed to clearly label the form as “Notice of Cancellation or Refusal to Renew” for the 22 files noted.

The following concerns were noted:

CONCERN: The following language included in non-pay notices of cancellation is misleading and contradicts other statements contained in the same notice. This language appears to indicate the policy is cancelled at date of notice, when in fact coverage is still in effect. The Company should remove this language from notices of cancellation for non-payment when policy coverage is still in force.

“We welcome the opportunity to provide your future insurance protection. Should you wish to reinstate this policy, please forward your payment immediately. Payment prior to the date and time of cancellation will reinstate your policy. If paid after that date and time, you will be informed whether your policy has been reinstated and if so, the exact date and time of reinstatement. There is no coverage between the date and time of cancellation and the date and time of reinstatement.”

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

3. Nonrenewals

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

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 1,126 private passenger automobile policies which were nonrenewed during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. Of the 25 files reviewed, five files were identified as being midterm cancellations. The 16 violations noted were based on 16 files, resulting in an error ratio of 64%.

The following findings were made:

10 Violations 40 P.S. §323.3(a)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. The Company failed to maintain a copy of the original written notice of nonrenewal which was delivered or mailed to the insured for the 10 files noted.

1 Violation 40 P.S. §323.3(a)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. The Company failed to maintain documentation to indicate that a notice of nonrenewal was mailed to the insured for the file noted.

5 Violations 31 Pa. Code §61.5(1)

Notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: “Notice of Cancellation or Refusal to Renew.” The Company failed to clearly label the form as “Notice of Cancellation or Refusal to Renew” for the five files noted.

The following concern was noted:

CONCERN: The following language included in non-pay notices of cancellation is misleading and contradicts other statements contained in the same notice. This language appears to indicate the policy is cancelled at date of notice, when in fact coverage is still in effect. The Company should remove this language from notices of cancellation for non-payment when policy coverage is still in force.

“We welcome the opportunity to provide your future insurance protection. Should you wish to reinstate this policy, please forward your payment immediately. Payment prior to the date and time of cancellation will reinstate your policy. If paid after that date and time, you will be informed whether your policy has been reinstated and if so, the exact date and time of reinstatement. There is no coverage between the date and time of cancellation and the date and time of reinstatement.”

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 2,992 declinations for private passenger auto insurance, 20 were selected for review. All 20 files requested were received and reviewed. The 2,922 violations noted were based on the universe of 2,922 files, resulting in an error ratio of 100%.

The following findings were made:

2,992 Violations 75 Pa. C.S. §1799.3(f)

If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the commissioner. The declination letter utilized by the Company has not been filed for approval by the insurance commissioner for the entire universe of 2,922 files.

5. Rescissions

A rescission is any policy which was void *ab initio* by the Company.

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

From the universe of 1,121 private passenger automobile policies that were identified by the Company as rescissions during the experience period, 20 files were selected for review. All 20 files were received and reviewed. Of the 20 files reviewed, 19 files were identified as being flat cancellations, one file was identified as a being transferred to a new policy number. No violations were noted.

B. Assigned Risk

1. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 535 private passenger auto policies which were cancelled midterm, 20 files were selected for review. All 20 files requested were received and reviewed. The 15 violations noted were based on 15 files, resulting in an error ratio of 75%.

The following findings were made:

15 Violations 75 Pa. C.S. §1744

PENNSYLVANIA ASSIGNED RISK MANUAL – SECTION 14

Requires cancellation, refusal to renew and other termination of policies issued under the Assigned Risk Plan shall be in accordance with the rules of the plan. In all cases, a copy of each cancellation notice, which shall provide the reason for cancellation, shall be furnished to the producer of record and to the insured 15 days prior to the effective date of cancellation. The Company failed to furnish a copy of each cancellation notice to the producer of record for the 15 files noted.

2. Nonrenewals

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

The purpose of the review was to determine compliance with Act 68, Section 2003 (40 P.S. §991.2003), which establishes conditions under which action by the insurer is prohibited, and Section 2006 (40 P.S. §991.2006), which establishes the requirements which must be met regarding the form and conditions of the cancellation notice.

From the universe of 399 private passenger automobile assigned risk policies which were nonrenewed during the experience period, 15 files were selected for review. All 15 files requested were received and reviewed. Of the 15 files reviewed, one (1) file was identified as a midterm cancellation. The 8 violations noted were based on 8 files, resulting in an error ratio of 53%.

The following findings were made:

7 Violations 75 Pa. C.S. §1744

40 P.S. § 323.3(a)

PENNSYLVANIA ASSIGNED RISK MANUAL – SECTION 12

Requires cancellation, refusal to renew and other termination of policies issued under the Assigned Risk Plan shall be in accordance with the rules of the plan. In addition, every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth. Also, the assigned company shall mail a take-out notice to each insured eligible and the producer of record at least 45 days, but no more than 60 days, prior to the expiration of the Plan policy to be replaced. The take-out notice shall contain a provisional premium quotation for the voluntary market coverage being offered. If the assigned company complies with this section and the insured accepts take-out, the Plan shall give credit to the assigned company, at the expiration date of the Plan policy, for writing a voluntary market policy for a risk previously insured by the Plan. The Company failed to mail a copy of take-out notice to the producer of record for the seven files noted.

1 Violation 75 Pa. C.S. §1744

PENNSYLVANIA ASSIGNED RISK MANUAL – SECTION 16

Requires that cancellation, refusal to renew and other termination of policies issued under the Assigned Risk Plan shall be in accordance with the rules of the plan. End of Assignment Period - At least 60 calendar days prior to the expiration date of the final renewal, the company shall notify the insured that the period of assignment under the Plan will terminate on said expiration date. A copy of such notice shall be sent to the producer of record. The Company failed to send notice to the producer of record for the file noted.

VI. 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. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Medical Claims
- F. Automobile First Party Medical Claims Referred to a PRO
- G. Assigned Risk Property Damage Claims
- H. Assigned Risk Comprehensive Claims
- I. Assigned Risk Collision Claims
- J. Assigned Risk Total Loss Claims
- K. Assigned Risk First Party Medical 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. Automobile Property Damage Claims

From the universe of 69,958 private passenger automobile property damage liability claims reported during the experience period, 75 files were selected

for review. All 75 files selected were received and reviewed. Of the 75 files reviewed, one file was listed as opened in error. The 60 violations noted were based on 41 files, resulting in an error ratio of 55%.

The following findings were made:

1 Violation 31 Pa. Code §146.5(a)

Every insurer, upon receiving notification of a claim, shall, within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgment is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice. The Company failed to acknowledge the claim within 10 working days for the claim noted.

20 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 20 claims noted.

2 Violations 31 Pa. Code §146.7(a)(1)

States acceptance or denial of a claim shall comply with the following: (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 communicate the claim denial in writing for the two claims noted.

6 Violations 31 Pa. Code §62.3(a)(1)

Requires that an appraisal shall be signed by the appraiser before the appraisal is submitted to the insurer, the consumer or another involved party. The appraiser may utilize an electronic signature. The Company failed to provide a signed appraisal for the six claims noted.

3 Violations 31 Pa. Code §62.3(b)(2)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that costs above the appraised amount may be the responsibility of the vehicle owner. The Company failed to provide a written disclosure informing the consumer that costs above the appraised amount may be the responsibility of the vehicle owner for the three claims noted.

3 Violations 31 Pa. Code §62.3(b)(3)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that there is no requirement to use any specified repair shop. The Company failed to provide a written disclosure informing the consumer

that there is no requirement to use any specified repair shop for the three claims noted.

3 Violations 31 Pa. Code §62.3(b)(4)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement informing the consumer that information regarding repair facilities which will be able to repair the vehicle for the appraised amount is available from the insurer. The Company failed to provide a written disclosure informing the consumer of repair facilities which will be able to repair the vehicle for the appraised amount for the three claims noted.

22 Violations 31 Pa. Code §62.3(b)(9)

Requires that an appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the 22 claims noted.

B. Automobile Comprehensive Claims

From the universe of 79,286 private passenger automobile comprehensive claims reported, 50 files were selected for review. All 50 files selected were received and reviewed. The 40 violations noted was based on 19 files, resulting in an error ratio of 38%.

The following findings were made:

11 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 11 claims noted.

4 Violations 31 Pa. Code §62.3(a)(1)

Requires that an appraisal be signed by the appraiser before the appraisal is submitted to the insurer, the consumer or another involved party. The appraiser may utilize an electronic signature. The Company failed to provide a signed appraisal for the four claims noted.

2 Violations 31 Pa. Code §62.3(a)(2)

Requires an appraisal shall not use abbreviations or symbols to describe work to be done or parts to be repaired or replaced unless an explanation of the abbreviations and symbols is included. The Company failed to include an explanation of the abbreviations or symbols used to describe the work being done for the two claims noted.

2 Violations 31 Pa. Code §62.3(b)(2)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that costs above the appraised amount may be the responsibility of the vehicle owner. The Company failed to provide a written disclosure informing the consumer that costs above the appraised amount may be the responsibility of the vehicle owner for the two claims noted.

2 Violations 31 Pa. Code §62.3(b)(3)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that there is no requirement to use any specified repair shop. The Company failed to provide a written disclosure informing the consumer that there is no requirement to use any specified repair shop for the two claims noted.

2 Violations 31 Pa. Code §62.3(b)(4)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement informing the consumer that information regarding repair facilities which will be able to repair the vehicle for the appraised amount is available from the insurer. The Company failed to provide a statement informing the policy holder that information regarding repair facilities which will be able to repair the vehicle for the appraised amount is available from the insurer for the two claims noted.

11 Violations 31 Pa. Code §62.3(b)(9)

Requires that an appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the 11 claims noted.

4 Violations 31 Pa. Code §62.3(b)(10)

An appraisal shall contain a written disclosure which includes the following: If the appraisal includes aftermarket crash parts, a statement that the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better than the remainder of the existing warranty. The Company failed to provide a statement informing the policy holder that if the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better than the remainder of the existing warranty for the four claims noted.

2 Violations 31 Pa. Code §62.3(b)(11)

An appraisal shall contain a written disclosure which includes the following: Identification of all aftermarket crash parts and a definition of aftermarket crash parts consistent with § 62.1 (relating to definitions), if these parts are used. The Company failed to identify if aftermarket crash parts have been used as a basis in preparation of the estimate for the two claims noted.

C. Automobile Collision Claims

From the universe of 116,715 private passenger automobile collision claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 40 violations noted were based on 30 files, resulting in an error ratio of 40%.

The following findings were made:

10 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 10 claims noted.

3 Violations 31 Pa. Code §62.3(a)(1)

Requires that an appraisal shall be signed by the appraiser before the appraisal is submitted to the insurer, the consumer

or another involved party. The appraiser may utilize an electronic signature. The Company failed to provide a signed appraisal for the three claims noted.

1 Violation 31 Pa. Code §62.3(a)(2)

Requires that an appraisal shall not use abbreviations or symbols to describe work to be done or parts to be repaired or replaced unless an explanation of the abbreviations and symbols is included. The Company failed to provide an explanation of the abbreviations on the appraisal for the claim noted.

1 Violation 31 Pa. Code §62.3(b)(2)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that costs above the appraised amount may be the responsibility of the vehicle owner. The Company failed to provide a written disclosure informing the consumer that costs above the appraised amount may be the responsibility of the vehicle owner for the claim noted.

1 Violation 31 Pa. Code §62.3(b)(3)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement that there is no requirement to use any specified repair shop. The Company failed to provide a written disclosure informing the consumer that there is no requirement to use any specified repair shop for the claim noted.

1 Violation 31 Pa. Code §62.3(b)(4)

Requires that an appraisal shall contain a written disclosure which includes the following: A statement informing the consumer that information regarding repair facilities which will be able to repair the vehicle for the appraised amount is available from the insurer. The Company failed to provide a written disclosure informing the consumer of repair facilities which will be able to repair the vehicle for the appraised amount for the claim noted.

21 Violations 31 Pa. Code §62.3(b)(9)

Requires that an appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the 21 claims noted.

1 Violation 31 Pa. Code §62.3(b)(10)

Requires that an appraisal shall contain a written disclosure which includes the following: If the appraisal includes aftermarket crash parts, a statement that the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better

than the remainder of the existing warranty. The Company failed to disclose warranty information when aftermarket parts are utilized when voiding factory warranty for the claim noted.

1 Violation 18 Pa. C.S. §4117(k)(1)

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. The Company failed to include on the claim form the mandatory fraud language for the claim noted.

The following concern was noted:

CONCERN: When the Company closes a claim file with no payment for “lack of interest” they are not providing the policyholder/claimant with written notice indicating their action. The Company should provide policyholders/claimants with written notice when a claim file is being closed due to lack of interest.

D. Automobile Total Loss Claims

From the universe of 40,479 private passenger automobile total loss claims reported during the experience period, 75 files were selected for review.

All 75 files were received and reviewed. Of the 75 files reviewed, one file did not result in a total loss and was reviewed as a property damage claim. The 72 violations noted were based on 45 files, resulting in an error ratio of 60%.

The following findings were made:

7 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 seven claims noted.

3 Violations 75 Pa. C.S. §1161(a)(b)

A person, including an insurer or self who owns, possesses or transfer a vehicle located or registered in the Commonwealth which qualifies as a salvage vehicle shall make application to the department for a certificate of salvage for that vehicle.-An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in section 1163, the transferee shall immediately present the assigned certificate of title to the department or an authorized agent of the department with an application for a certificate of salvage upon a form furnished and prescribed by

the department. An insurer as defined in section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company failed to secure Pennsylvania certificate of salvage when replacement value is paid and owner retained vehicle for the three claims noted.

6 Violations 31 Pa. Code §62.3(a)(1)

An appraisal shall be signed by the appraiser before the appraisal is submitted to the insurer, the consumer or another involved party. The appraiser may utilize an electronic signature. The Company failed to provide a signed appraisal for the six claims noted.

1 Violation 31 Pa. Code §62.3(b)(1)

An appraisal shall contain a written disclosure which includes the following: (1) The dollar amount of the appraisal. The Company failed to include the total dollar amount on the appraisal for the claim noted.

2 Violations 31 Pa. Code §62.3(b)(2)

An appraisal shall contain a written disclosure which includes the following: A statement that costs above the appraised amount may be the responsibility of the vehicle owner. The Company failed to provide a written disclosure informing the consumer that costs above the appraised amount may be the responsibility of the vehicle owner for the two claims noted.

2 Violations 31 Pa. Code §62.3(b)(3)

An appraisal shall contain a written disclosure which includes the following: A statement that there is no requirement to use any specified repair shop. The Company failed to provide a written disclosure informing the consumer that there is no requirement to use any specified repair shop for the two claims noted.

2 Violations 31 Pa. Code §62.3(b)(4)

An appraisal shall contain a written disclosure which includes the following: A statement informing the consumer that information regarding repair facilities which will be able to repair the vehicle for the appraised amount is available from the insurer. If the consumer receives information from the insurer, the information shall include disclosure that there is no requirement to use any specified repair shop. The Company failed to provide a written disclosure informing the consumer of repair facilities which will be able to repair the vehicle for the appraised amount for the two claims noted.

1 Violation 31 Pa. Code §62.3(b)(5)

An appraisal shall contain a written disclosure which includes the following: (5) A description of repairs, known at the time of appraisal, necessary to return the vehicle to its predamaged condition, including labor involved, cost of all parts, necessary painting or refinishing and all sublet work to be done. The Company failed to provide a written disclosure that includes a description of the necessary repairs to return the vehicle to its pre-damaged condition for the claim noted.

1 Violation 31 Pa. Code §62.3(b)(7)

In addition to the requirements in the act, the appraisal shall contain a written disclosure which includes the following: (7) Applicable sales tax. The Company failed to provide a written disclosure that includes the applicable sales tax for the claim noted.

32 Violations 31 Pa. Code §62.3(b)(9)

An appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the 32 claims noted.

15 Violations 31 Pa. Code §62.3(e)(7)

The appraiser is responsible for ensuring that a copy of the total loss evaluation report be sent within 5 working days to the consumer by the appraiser after the appraisal is completed. If a settlement offer is extended before the consumer receives the total loss evaluation report, the consumer shall be advised of the total loss evaluation report's contents and of the consumer's right to be sent a copy within 5 days after its completion. The Company failed to provide a

copy of the total loss evaluation to the insured within 5 working days for the 15 claims noted.

E. Automobile First Party Medical Claims

From the universe of 29,512 private passenger automobile first party medical claims reported during the experience period, 75 claim files were selected for review. All 75 files requested were received and reviewed. The 36 violations noted were based on 33 files, resulting in an error ratio of 44%.

The following findings were made:

6 Violations 31 Pa. Code §69.22(c)

States if an insured's first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first-party limits have been exhausted. The Company failed to provide notice to the provider and/or insured that the first-party benefits have been exhausted for the six claims noted.

1 Violation 31 Pa. Code §69.52(b)

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

29 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 29 claims noted.

The following concern was noted:

CONCERN: When the Company closes a claim file with no payment for “lack of interest” or providing proof of loss documentation they are not providing the policyholder/claimant with written notice indicating their action. The Company should provide policyholders/claimants with written notice when a claim file is being closed due to lack of interest or not providing proof of loss documentation.

F. Automobile First Party Medical Claims Referred to a PRO

From the universe of 9 automobile first party medical claims that were referred to a peer review organization by the Company, 5 files were selected for review. All 5 files were received and reviewed. The Company was also asked to provide a copy of all peer review contracts in place during the experience period. The 4 violations noted were based on 3 files, resulting in an error ratio of 60%.

The following findings were made:

3 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 three claims noted.

1 Violation 31 Pa. Code §69.52(e)

States a PRO shall provide a written analysis, including specific reasons for its decision, to insurers, which shall within 5 days of receipt, provide copies to providers and insureds. The Company failed to provide the PRO report to the provider and the insured within 5 days of receipt for the claim noted.

G. Assigned Risk Property Damage Liability Claims

From the universe of 145 assigned risk property damage claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 12 violations noted were based on 9 files, resulting in an error ratio of 36%.

6 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 six claims noted.

2 Violations 31 Pa. Code §62.3(a)(1)

An appraisal shall be signed by the appraiser before the appraisal is submitted to the insurer, the consumer or another involved party. The appraiser may utilize an electronic signature. The Company failed to provide a signed appraisal for the two claims noted.

3 Violations 31 Pa. Code §62.3(b)(9)

An appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the three claims noted.

1 Violation 31 Pa. Code §62.3(b)(10)

An appraisal shall contain a written disclosure which includes the following: If the appraisal includes aftermarket crash parts, a statement that the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part

being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better than the remainder of the existing warranty. The Company failed to provide a statement informing the policy holder that if the appraisal has been prepared based on the use of aftermarket crash parts, and that if the use of an aftermarket crash part voids the existing warranty on the part being replaced or any other part, the aftermarket crash part shall have a warranty equal to or better than the remainder of the existing warranty for the claim noted.

H. Assigned Risk Comprehensive Claims

The universe of one assigned risk comprehensive claims reported during the experience period was selected for review. The file selected was received and reviewed. The violation noted was based on one file, resulting in an error ratio of 100%.

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 claim noted.

I. Assigned Risk Collision Claims

The universe of eight assigned risk collision claims reported during the experience period was selected for review. All 8 files selected were received and reviewed. Of the eight files selected for review, one file was identified as being opened in error. The violation noted was based on 1 file, resulting in an error ratio of 13%.

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 claim noted.

J. Assigned Risk Total Loss Claims

From the universe of 14 assigned risk total loss claims reported during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 70%.

The following findings were made:

7 Violations 31 Pa. Code §62.3(b)(9)

An appraisal shall contain a written disclosure which includes the following: The location where the listed parts are available in a condition equivalent to, or better than, the

condition of the replaced parts prior to the accident. The Company failed to provide a written disclosure informing the consumer of the location where the listed parts are available in a condition equivalent to, or better than, the condition of the replaced parts prior to the accident for the seven claims noted.

K. Assigned Risk First Party Medical Claims

From the universe of 96 assigned risk first party medical claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 30 violations noted were based on 19 files, resulting in an error ratio of 76%.

The following findings were made:

10 Violations 31 Pa. Code §69.22(c)

If an insured's first-party limits have been exhausted, the insurer shall, within 30 days of the receipt of the provider's bill, provide notice to the provider and the insured that the first-party limits have been exhausted. The Company failed to provide notice to the provider and/or insured that the first-party benefits have been exhausted for the 10 claims noted.

2 Violations 31 Pa. Code §69.52(b)

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

3 Violations 31 Pa Code §146.5(d)

Every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions, and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer. The Company failed to provide necessary claim forms, within 10 working days of claim notification for the three claims noted.

15 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 15 claims noted.

The following concern was noted:

CONCERN: When the Company closes a claim file with no payment for “lack of interest” or providing proof of loss documentation they are not providing the policyholder/claimant with written notice indicating their action. The Company should provide policyholders/claimants with written notice when a claim file is being closed due to lack of interest or not providing proof of loss documentation.

VII. 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 75 Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted.

The following findings were made:

3 Violations 18 Pa. C.S. §4117(k)(1)

All applications for insurance and all claim forms shall contain or have attached there to 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 include a fraud warning notice on three forms.

1 Violation 75 Pa. C.S. §1799.3(f)

If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the commissioner. The Company utilized a declination letter that has not been filed for approval by the insurance commissioner.

1 Violation 31 Pa. Code §59.9(b)

The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company cannot use a single notice of cancellation to cancel two separate policies that are not a package policy for non-payment of premium for the form noted.

1 Violation 31 Pa. Code §61.5(1)

Notices of cancellation or refusal to renew shall meet the following requirements: (1) The form shall be clearly labeled: "Notice of Cancellation or Refusal to Renew." The

Company failed to clearly label the form as “Notice of Cancellation or Refusal to Renew”.

The following concern was noted:

CONCERN: The following language included in non-pay notices of cancellation is misleading and contradicts other statements contained in the same notice. This language appears to indicate the policy is cancelled at date of notice, when in fact coverage is still in effect. The Company should remove this language from notices of cancellation for non-payment when policy coverage is still in force.

“We welcome the opportunity to provide your future insurance protection. Should you wish to reinstate this policy, please forward your payment immediately. Payment prior to the date and time of cancellation will reinstate your policy. If paid after that date and time, you will be informed whether your policy has been reinstated and if so, the exact date and time of reinstatement. There is no coverage between the date and time of cancellation and the date and time of reinstatement.”

VIII. 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 381 consumer complaints received during the experience period and provided all consumer complaint logs requested. From the universe of 381 complaint files, 50 files were selected for review. All 50 files requested were received and reviewed. Of the 50 complaint files that were reviewed, one file was identified as being outside of the experience period and five files were identified as complaints to other state insurance departments.

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:

4 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 each complaint, the

disposition of these complaints and the time it took to process each complaint

The Company failed to provide a complete complaint log for the four preceding years. The logs provided do not contain the necessary information to determine which complaints belong to each separate company. The NAIC code field is not completed for all complaints in the logs.

1 Violation 31 Pa. Code §146.5(b)

Every insurer, upon receipt of any inquiry from the Department respecting a claim shall, within 15 working days of receipt of such inquiry, furnish the Department with an adequate response to the inquiry. The Company failed to provide a response to the Department's claim inquiry within 15 working days for the claim noted.

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 failed to provide timely status letters for the claim noted.

1 Violation 31 Pa. Code §146.7(a)(1)

Requires acceptance or denial of a claim shall comply with the following: (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 denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial. The Company failed to provide a timely denial letter to the claimant in writing for the claim noted.

The following concern was noted:

CONCERN: The Company received one (1) underwriting related inquiry from the Department and did not respond within 15 working days. The Company should respond to the Department's inquiry within 15 working days.

The following synopsis reflects the nature of the 50 complaints that were received.

19	Cancellation/Nonrenewal	38%
26	Claims Related	52%
5	Miscellaneous	10%
<hr/>		<hr/>
50		100%

IX. 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 exam.

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

Automobile Nonrenewals

Situation: As the examiners reviewed the nonrenewal files of the underwriting section of the exam, it was noted that not all of the 25 files selected for review were nonrenewal files.

Finding: Of the 25 nonrenewal files reviewed, five files were identified as midterm cancellations.

Automobile Midterm Cancellations

Situation: As the examiners reviewed the midterm cancellation files of the underwriting section of the exam, it was noted that not all of the 100 files selected for review were midterm cancellation files.

Finding: Of the 100 midterm cancellation files reviewed, 44 files were identified as nonrenewals.

Automobile 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 of the 50 files selected for review were 60-day cancellation files.

Finding: Of the 50 60-day cancellation files reviewed, six files were identified as midterm cancellations.

Assigned Risk Nonrenewals

Situation: As the examiners reviewed the assigned risk nonrenewal files of the underwriting section of the exam, it was noted that not all of the 15 files selected for review were assigned risk nonrenewal files.

Finding: Of the 15 assigned risk nonrenewal files reviewed, one file was identified as an assigned risk midterm cancellation.

Automobile Property Damage Claims

Situation: As the examiners reviewed the property damage files of the automobile claims section of the exam, it was noted that not all of the 75 files selected for review were property damage files.

Finding: Of the 75 property damage claim files reviewed, one file was opened in error. The file was reviewed as 1st party collision claims.

Automobile Total Loss Claims

Situation: As the examiners reviewed the total loss files of the automobile claims section of the exam, it was noted that not all of the 75 files selected for review were total loss files.

Finding: Of the 75 total loss claim files reviewed, one file was identified as a property damage claim that did not result in a total loss.

Assigned Risk Collision Claims

Situation: As the examiners reviewed the assigned risk collision files of the automobile claims section of the exam, it was noted that not all of the eight files selected for review were assigned risk collision files.

Finding: Of the eight assigned risk collision claim files reviewed, one file was identified as being opened in error.

Consumer Complaints

Situation: As the examiners reviewed the complaint files of the exam, it was noted that not all of the 50 files selected for review were part of the experience period or Pennsylvania Insurance Department/Pennsylvania policyholder complaints.

Finding: Of the 50 complaint files that were reviewed, one file was identified as being outside of the experience period and five files were identified as complaints to other state insurance departments.

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 was the result of a failure to exercise sufficient due diligence to ensure compliance with Insurance Department Act of 1921.

X. RATING ADDENDUMS

A. New Business

The following violations were written as a result of the review of Consumer Complaints to the Pennsylvania Insurance Department. These violations have been added as an addendum to the Market Conduct Report.

110,728 Violations 75 Pa. C.S. §1725

Requires that every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to provide the required notice indicating whether the policy covers collision damage to rental vehicles in boldface capital letters on the first page of the policy for all policies noted.

110,728 Violations 75 Pa. C.S. §1791.1(a)

Requires that at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured an itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages. The invoice must contain the following notice in print of no less than ten-point type: "The laws of the Commonwealth of Pennsylvania, as enacted by the General Assembly, only require that you purchase liability and first-party medical benefit coverages. Any additional coverages or coverages in

excess of the limits required by law are provided only at your request as enhancements to basic coverages". The insurer shall provide the itemized invoice to the insured in conjunction with the declaration of coverage limits and premium for the insured's existing coverages. The Company failed to provide at time of application the required itemized invoice for all policies noted.

110,728 Violations 75 Pa. C.S. §1791.1(b)

Requires that an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the following notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d) (relating to election of tort options). The Company failed to provide the required notice of tort options at the time of application for all policies noted.

110,728 Violations 75 Pa. C.S. §1791.1(c)

Requires that except where the commissioner has determined that an insurer may omit a discount because the discount is duplicative of other discounts or is specifically reflected in the insurer's experience, at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured a notice stating that discounts are available for drivers who meet the requirements of sections 1799 (relating to restraint system), 1799.1 (relating to antitheft devices) and 1799.2 (relating to driver improvement course discounts). The Company failed to provide

disclosure notice of the required premium discounts at the time of application for all policies noted.

110,728 Violations 75 Pa. C.S. §1793(b)

Requires that all insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:(1) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder. (2) The number of years any surcharge will be in effect. The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage. The Company failed to provide the required surcharge disclosure plan at the time of application for all policies noted.

B. Renewals

The following violations were written as a result of the review of Consumer Complaints to the Pennsylvania Insurance Department. These violations have been added as an addendum to the Market Conduct Report.

3,309,512 Violations 75 Pa. C.S. §1725

Requires that every motor vehicle insurance policy shall contain a notice as to whether the policy covers collision damage to rental vehicles, and any limitations on such coverage. The notice shall be written in clear, plain

language and shall be printed on the first page of the policy in boldface capital letters. The Company failed to provide the required notice indicating whether the policy covers collision damage to rental vehicles in boldface capital letters on the first page of the policy for all policies noted.

3,309,512 Violations 75 Pa. C.S. §1791.1(b)

Requires that an insurer must, at the time of application for original coverage for private passenger motor vehicle insurance and every renewal thereafter, provide to an insured the following notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d) (relating to election of tort options): The Company failed to provide the required notice of tort options at the time of renewal for all policies noted.

3,309,512 Violations 75 Pa. C.S. §1791.1(c)

Requires that except where the commissioner has determined that an insurer may omit a discount because the discount is duplicative of other discounts or is specifically reflected in the insurer's experience, at the time of application for original coverage and every renewal thereafter, an insurer must provide to an insured a notice stating that discounts are available for drivers who meet the requirements of sections 1799 (relating to restraint system), 1799.1 (relating to antitheft devices) and 1799.2 (relating to driver improvement course discounts). The Company failed to provide disclosure notice of the required premium discounts at the time of renewal for all policies noted.

3,309,512 Violations 75 Pa. C.S. §1793(b)

Requires that all insurers shall provide to the insured a surcharge disclosure plan. The insurer providing the surcharge disclosure plan shall detail the provisions of the plan including, but not limited to:(1) A description of conditions that would assess a premium surcharge to an insured along with the estimated increase of the surcharge per policy period per policyholder. (2) The number of years any surcharge will be in effect. The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. The Company failed to provide the required surcharge disclosure plan at the time of renewal for all policies noted.

XI. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with nonrenewal and cancellation notices requirements of 40 P.S. §§991.2002, 991.2003 and 991.2006, so that the violations noted in the Report do not occur in the future.

2. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.3(a) and 40 P.S. §323.4(b), so that violations noted in the Report do not occur in the future.

3. The Company must review 31 Pa. Code §59.6(6) to ensure that violations regarding failure to identify the amount and date premium due, specifically for the Property policy, where the reason is non-payment of premium, as noted in the Report, do not occur in the future.

4. The Company must review 31 Pa. Code §59.9(b) to ensure the use of a valid cancellation notice. The Company must refrain from using a single notice of cancellation to cancel multiple policies that are not a package policy for non-payment of premium.

5. The Company must review 31 Pa. Code §61.5(1) to ensure the use of a cancellation notice clearly labeled as “Notice of Cancellation or Refusal to Renew.”

6. 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.
7. The Company must review policies with unearned premium not returned within 30 days of cancelling the policy. Those with unearned premium not returned within 30 days of cancellation of the policy shall bear interest at the rate of 12% per annum from the date the return premium became due as required by 75 Pa. C.S. §1793(c). The interest amount must be paid to the policyholder and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
8. The Company must review 75 Pa. C.S. §1799.3(f) to ensure that the declination letter utilized by the Company has been filed and approved for use by the insurance commissioner.
9. The Company must review 75 Pa. Code §1744 and Pennsylvania Assigned Risk Manual Section 14 to ensure the producer of record is furnished with a copy of the cancellation notice 15 days prior to the effective date of cancellation.
10. The Company must review 75 Pa. C.S. §1744 and Pennsylvania Assigned Risk Manual Section 16 to ensure that the producer of record is furnished with the end of assignment notice at least 60 calendar days prior to the expiration date of the final renewal.

11. The Company must review 75 Pa. C.S. §1744, 40 P.S. § 323.3(a) and Pennsylvania Assigned Risk Manual Section 12 to ensure that the producer of record is furnished with take-out notices at least 45 days but no more than 60 days prior to the Plan policy to be replaced.
12. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to claim forms, acknowledgement, status letters and acceptance and denials, as noted in the Report do not occur in the future.
13. The Company must review 31 Pa. Code §§62.3(a)(1)(2) and 62.3(b)(1)(2)(3)(4)(5)(7)(9)(10)(11) with its claim staff to ensure all appraisal requirements are met so the violations noted in the Report do not occur in the future.
14. The Company must review 31 Pa. Code §62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.
15. The Company must review 18 Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all applications and claim forms, as noted in the Report, do not occur in the future.
16. The Company must review 75 Pa. C.S. §1161 (a)&(b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained with the claim file.

17. The Company must review 31 Pa. Code §69.22(c) with its claim staff to ensure that the insured and provider are properly notified when first-party medical benefits have been exhausted.
18. The Company must review 31 Pa. Code §69.52(b) with its claim staff to ensure that first party medical bills are paid within 30 days.
19. The Company must review 31 Pa. Code §69.52(e) with its claim staff to ensure that the PRO report is provided to the provider and insured within 5 days of receipt of claim.
20. The Company must review 31 Pa. Code §146.5(b) to ensure that all Department inquiries are responded to within 15 working days of receipt of such inquiry.
21. The Company must review 40 P.S. §1171.5(a)(11) to ensure that a complete complaint log is maintained during the four preceding years.
22. The Company must review 75 Pa. C.S. §1725 to ensure that the required notice indicating whether the policy covers collision damage to rental vehicles is in boldface capital letters on the first page of the policy at the time of application and renewal as noted in the Report.
23. The Company must review 75 Pa. C.S. §1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and at least once annually, as noted in the Report.

24. The Company must review 75 Pa. C.S. §1791.1(a) to ensure that the required itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages is provided at time of application as noted in the Report.

25. The Company must review 75 Pa. C.S. §1791.1(b) to ensure that the notice of tort options is given to the insured at the time of application, and at every renewal as noted in the Report.

26. The Company must review 75 Pa. C.S. §1791.1(c) to ensure that the notice of the required premium discounts is provided at the time of application, and at every renewal as noted in the Report.

XII. COMPANY RESPONSE

November 3, 2017

Law Department
6 Hillman Drive, Suite 200
Chadds Ford, PA 19317

David R. Tideman, Counsel
Phone: 610-361-4146
Fax: 610-361-4152

Commonwealth of Pennsylvania
Insurance Department
Bureau of Market Actions
1321 Strawberry Square
Harrisburg, PA 17120
ATTN: Kelly Krakowski, Chief, Property and Casualty Division

RE: Examination Warrant Number 16-M32-012; Company Response to Report

Dear Ms. Krakowski:

Please accept this letter as the response of State Farm Mutual Automobile Insurance Company to the Department's Report of Examination dated October 5, 2017. We would like to express our appreciation for the courtesy and professionalism extended by the examiners and Department personnel in this process. This letter will address each of the Recommendations raised by the Department individually:

1. The Company must review and revise internal control procedures to ensure compliance with nonrenewal and cancellation notices requirements of 40 P.S. §§991.2002, 991.2003 and 991.2006, so that the violations noted in the Report do not occur in the future.

Company Response: The Company is in the process of revising internal control procedures as recommended. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective procedures.

2. The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.3(a) and 40 P.S. §323.4(b), so that violations noted in the Report do not occur in the future.

Company Response: This issue has been resolved. Records are being maintained consistent with this recommendation.

Kelly Krakowski, Chief, Property and Casualty Division

November 3, 2017

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3. The Company must review 31 Pa. Code §59.6(6) to ensure that violations regarding failure to identify the amount and date premium due, specifically for the Property policy, where the reason is non-payment of premium, as noted in the Report, do not occur in the future.

Company Response: The Company is in the process of revising its process and forms. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective measures.

4. The Company must review 31 Pa. Code §59.9(b) to ensure the use of a valid cancellation notice. The Company must refrain from using a single notice of cancellation to cancel multiple policies that are not a package policy for non-payment of premium.

Company Response: The Company is in the process of revising its process and forms. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective measures.

5. The Company must review 31 Pa. Code §61.5(1) to ensure the use of a cancellation notice clearly labeled as "Notice of Cancellation or Refusal to Renew."

Company Response: The Company is in the process of revising its process and forms. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective measures.

6. 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.

Company Response: The Company is in the process of revising its process and forms. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective measures.

7. The Company must review policies with unearned premium not returned within 30 days of cancelling the policy. Those with unearned premium not returned within 30 days of cancellation of the policy shall bear interest at the rate of 12% per annum from the date the return premium became due as required by 75 Pa. C.S. §1793(c). The interest amount must be paid to the policyholder and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response: This issue has been resolved. The Company has reviewed the handling of this issue and determined that any unearned premium was returned within 30 days.

8. The Company must review 75 Pa. C.S. §1799.3(f) to ensure that the declination letter utilized by the Company has been filed and approved for use by the insurance commissioner.

Company Response: This issue has been resolved. Upon identification of this issue during the course of the examination, this form was filed and has been approved for use by the Insurance Commissioner.

9. The Company must review 75 Pa. Code §1744 and Pennsylvania Assigned Risk Manual Section 14 to ensure the producer of record is furnished with a copy of the cancellation notice 15 days prior to the effective date of cancellation.

Company Response: The Company will review the applicable regulation with management and staff to ensure compliance.

10. The Company must review 75 Pa. C.S. § 1744 and Pennsylvania Assigned Risk Manual Section 16 to ensure that the producer of record is furnished with the end of assignment notice at least 60 calendar days prior to the expiration date of the final renewal.

Company Response: The Company will review the applicable regulation with management and staff to ensure compliance.

11. The Company must review 75 Pa. C.S. §1744, 40 P.S. §323.3(a) and Pennsylvania Assigned Risk Manual Section 12 to ensure that the producer of record is furnished with take-out notices at least 45 days but no more than 60 days prior to the Plan policy to be replaced.

Company Response: The Company believes it has been in compliance with this section but was unable to produce satisfactory verification for purposes of the examination. The Company is revising its verification processes.

12. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to claim forms, acknowledgement, status letters and acceptance and denials, as noted in the Report do not occur in the future.

Company Response: The Company will review the applicable regulations with claim management and claim handlers to ensure compliance. Letters and forms are being reviewed, and an automated process is being developed to provide status letters, acknowledgement, and acceptance and denials letters so that the violations noted in the Report do not occur in the future.

13. The Company must review 31 Pa. Code §§62.3(a)(1)(2) and 62.3(b)(1)(2)(3)(4)(5)(7)(9)(10)(11) with its claim staff to ensure all appraisal requirements are met so the violations noted in the Report do not occur in the future.

Company Response: The Company is revising its procedures. In order to ensure compliance consistent with the Department's interpretations of these sections, the Company will meet with the Department to share the intended corrective measures. The Company will review the cited regulations and procedural changes with claim management and staff appraisers.

14. The Company must review 31 Pa. Code §62.3(e)(7) with its claim staff to ensure that the consumer receives the total loss evaluation report within 5 working days after the appraisal is completed.

Company Response: The Company will review the applicable regulation with claim management and staff appraisers to ensure compliance.

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

Company Response: The Company has reviewed the applicable regulation and has made the necessary system changes as required to comply with the requirement regarding the fraud warning.

16. The Company must review 75 Pa. C.S. §1161 (a) & (b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained with the claim file.

Company Response: The Company will review the applicable regulations with claim management and claim handlers to ensure compliance.

17. The Company must review 31 Pa. Code §69.22(c) with its claim staff to ensure that the insured and provider are properly notified when first-party medical benefits have been exhausted.

Company Response: The Company will review the applicable regulation with claim management and claim handlers to ensure compliance.

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

Company Response: The Company will review the applicable regulation with claim management and claim handlers to ensure compliance. In addition, the company evaluated and paid the appropriate interest on claims that were validated with medical bills that were not addressed within 30 days.

19. The Company must review 31 Pa. Code §69.52(e) with its claim staff to ensure that the PRO report is provided to the provider and insured within 5 days of receipt of claim.

Company Response: The Company will review the applicable regulation with claim management and claim handlers to ensure compliance.

20. The Company must review 31 Pa. Code §146.5(b) to ensure that all Department inquiries are responded to within 15 working days of receipt of such inquiry.

Company Response: The Company's complaint handling department has reviewed the turnaround time requirements with staff, provided additional training, and updated processes to reinforce these requirements.

21. The Company must review 40 P.S. §1171.5(a)(1) to ensure that a complete complaint log is maintained during the four preceding years.

Company Response: This issue has been resolved. A complete complaint log is being maintained consistent with the statutory requirement.

22. The Company must review 75 Pa. C.S. §1725 to ensure that the required notice indicating whether the policy covers collision damage to rental vehicles is in boldface capital letters on the first page of the policy at the time of application and renewal as noted in the Report.

Company Response: The Company is in the process of revising the forms as recommended. In order to ensure compliance consistent with the Department's interpretations of this section, the Company will meet with the Department to share the intended corrective measures.

23. The Company must review 75 Pa. C.S. §1793(b) to ensure that violations regarding the requirement to provide the insured with a surcharge disclosure plan at the time of application and at least once annually, as noted in the Report.

Company Response: The Company is in the process of revising the disclosures as recommended. In order to ensure compliance consistent with the Department's interpretations of this section, the Company will meet with the Department to share the intended corrective measures.

24. The Company must review 75 Pa. C.S. §1791.1(a) to ensure that the required itemized invoice listing the minimum motor vehicle insurance coverage levels mandated by the Commonwealth and the premium charge for the insured to purchase the minimum mandated coverages is provided at time of application as noted in the Report.

Kelly Krakowski, Chief, Property and Casualty Division
November 3, 2017
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Company Response: The Company believes it has been in compliance with this section but was unable to produce satisfactory verification for purposes of the examination. The Company is revising its verification processes.

25. The Company must review 75 Pa. C.S. §1791.1 (b) to ensure that the notice of tort options is given to the insured at the time of application, and at every renewal as noted in the Report.

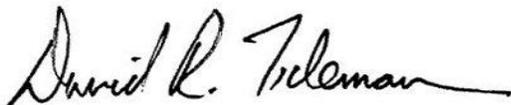
Company Response: The Company believes it has been in compliance with this section but was unable to produce satisfactory verification for purposes of the examination. The Company is revising its verification processes.

26. The Company must review 75 Pa. C.S. §1791.1(c) to ensure that the notice of the required premium discounts is provided at the time of application, and at every renewal as noted in the Report.

Company Response: The Company believes it has been in compliance with this section but was unable to produce satisfactory verification for purposes of the examination. The Company is revising its verification processes.

In conclusion, we look forward to the opportunity to work with you to conclude the issues raised in this examination, and again thank you for your courtesy and professionalism throughout.

Very truly yours,

A handwritten signature in black ink that reads "David R. Tideman". The signature is written in a cursive, flowing style with a long horizontal line extending to the right.

David R. Tideman
Counsel, Law Department
State Farm Mutual Automobile Insurance Co.