COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT

MARKET CONDUCT
EXAMINATION REPORT

OF

STATE FARM MUTUAL AUTOMOBILE
INSURANCE 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 8/23, 2017

Anthony Higgins, Notary Public
Swatara Twp., Dauphin County
My Commission Expires Oct. 27, 2020

Notary Public
STATE FARM MUTUAL AUTOMOBILE INSURANCE 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
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY
ATTN: David Tideman
6 Hillman Drive
Chadds Ford, PA 19317

VIOLATIONS:

40 P.S. §§323.3(a) and 323.4(b)
40 P.S. §§991.2002(c)(3)
991.2003(a)(1), 991.2003(a)(4)
991.2006
40 P.S. §§1171.5(a)(9)
and 1171.5(a)(11)
40 P.S. §§1725, 1744, 1791.1(a)
1791.1(b), 1791.1(c), 1793(b)
1793(c) and 1799.3(f)
18 Pa Code §4117(k)(1)
31 Pa. Code §§59.6(6), 59.9(b)
61.5(1), 62.3(a)(1), 62.3(a)(2), 62.3(b)(1)
62.3(b)(2), 62.3(b)(3), 62.3(b)(4)
62.3(b)(5), 62.3(b)(7), 62.3(b)(9)
62.3(b)(10), 62.3(b)(11), 62.3(e)(7)
69.22(c), 69.52(b), 69.52(e), 146.5(a)
146.5(b), 146.5(d), 146.6
and 146.7(a)(1)
75 Pa C.S. §1161(a)&(b)

Docket No. MC17-11-005
CONSENT ORDER

AND NOW, this 23rd day of November, 2017, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

(a) Respondent is State Farm Mutual Automobile Insurance 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. §991.2002(c)(3), requires that an insurer supply the insured with a written statement of the reason for cancellation;

(iv) 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;

(v) 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;

(vi) 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;
(vii) 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;

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

(ix) 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;

(x) 75 Pa. C.S. §1744, 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;

(xi) 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;

(xii) 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;
(xiii) 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;

(xiv) 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;

(xv) 75 Pa. C.S. §1793(c), states when an insurer cancels a motor vehicle insurance policy within the first 60 days of new business, 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;

(xvi) 75 Pa. C.S. §1799.3(f), states 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. An
applicant receiving a notice of reasons under this subsection may obtain review by the Commissioner pursuant to the Automobile Insurance Policy Act. If either the applicant or insurer is aggrieved by the Commissioner's review, the Commissioner may, in his discretion and for cause shown, hold a hearing pursuant to the Automobile Insurance Policy Act. No insurer shall take any action, overt or otherwise, against any agent or broker for complying with this subsection;

(xvii) 18 Pa. C.S. §4117(k)(I), 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(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;

(xix) 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;
(xx) 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";

(xxi) 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;

(xxii) 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;

(xxiii) 31 Pa. Code §62.3(b)(1), states an appraisal shall contain a written disclosure which includes the following: (1) The dollar amount of the appraisal;

(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)(5), 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;

(xxviii) 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;

(xxix) 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;

(XXX) 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;

(xxxi) 31 Pa. Code §62.3(b)(11), states 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;

(xxxii) 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;

(xxxiii) 31 Pa. Code §69.22(c), requires the insurer, when an insured’s first-party limits have been exhausted, to provide notice to the provider and the insured within 30 days of the receipt of the provider’s bill;
(xxxiv) 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;

(.xxxv) 31 Pa. Code §69.52(e), requires an insurer to provide copies of the Peer Review Organization's written analysis to the provider and the insured within 5 days of receipt;

(.xxxvi) 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 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;

(.xxxvii) 31 Pa. Code §146.5(b), states every insurer, upon receipt of an 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;

(.xxxviii) 31 Pa. Code §146.5(d), states that an insurer, upon receiving notification of a claim, shall provide within ten working days necessary claim forms, instructions and reasonable assistance so that first-party claimants can comply with policy conditions and reasonable requirements of the insurer;
(xxxix) 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;

(xl) 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;

(xli) 75 Pa. C.S. §1161(a)&(b), states an insurer who owns, possesses or transfers 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 with an application for a certificate of salvage upon a form furnished and prescribed by the department.
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) Violations of 40 P.S. §§991.2002(c)(3), 991.2003(a)(1), 991.2003(a)(4) and 991.2006 (relating to motor vehicles) of 40 P.S. are punishable by the following, under Section 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).

(c) Respondent’s violations of 40 P.S. §§1171.5(a)(9) and 1171.5(a)(11) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):
   (i) cease and desist from engaging in the prohibited activity;
   (ii) suspension or revocation of the license(s) of Respondent.

(d) In addition to any penalties imposed by the Commissioner for Respondent’s violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under
(40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

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

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

(e) Respondent's violations of 31 Pa. Code §§146.5(a), 146.5(b), 146.5(d), 146.6 and 146.7(a)(1) 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.

(f) 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.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegate 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 delegate.

BY: STATE FARM MUTUAL AUTOMOBILE COMPANY
Respondent

[Signature]
President/Chief Executive Officer
Vice President Operations - Underwriting

[Signature]
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 Fire and Casualty 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 Fire and Casualty 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. Personal Property
   - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.

3. Claims

4. Complaints

5. Underwriting Guidelines
6. Forms

7. Data Integrity
III. COMPANY HISTORY

State Farm Fire and Casualty Company (hereinafter referred to as "SFF&CC") was incorporated on June 12, 1935, under the laws of the State of Illinois. The Company, incorporated as State Farm Fire Insurance Company, was licensed and commenced business on June 29th of the same year. The present title was adopted on July 1, 1950, when the Company merged with the State Farm Casualty Company. SFF&CC is the predominant writer of the Group's non-automobile property and casualty insurance in all states except California, Florida and Texas.

LICENSING

State Farm Fire and Casualty 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 $816,019,456. Premium volume related to the Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability $77,544,447 and Private Passenger Auto Physical Damage $46,584,198.
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.

4 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 7,578 private passenger automobile policies that were cancelled within the first 60 days of new business, 50 files were selected for review during the experience period. All 50 files requested were received and reviewed. Of the 50 files reviewed, one file was identified as a midterm cancellation. The 15 violations noted were based on 11 files, resulting in an error ratio of 22%.

The following findings were made:

1 Violation 40 P.S. §991.2002(c)(3)

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. The Company failed to provide a reason for cancellation on the written statement for the file noted.

1 Violation 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 file noted.

1 Violation 31 Pa. Code §59.6(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 file noted.

1 Violation 31 Pa. Code §59.6(6)
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 file noted.

2 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 two 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.

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

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 35,549 private passenger automobile policies which were cancelled midterm, 75 files were selected for review during the experience period. All 75 files requested were received and reviewed. Of
the 75 files reviewed, 22 files were identified as being nonrenewals. The 39 violations noted were based on 25 files, resulting in an error ratio of 33%.

The following findings were made:

3 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 cancellation was mailed to the insured for the three files noted.

7 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 seven files noted.

**7 Violations 31 Pa. Code §59.6(6)**

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 seven 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 560 private passenger automobile policies which were nonrenewed during the experience period, 25 files were selected for review during the experience period. All 25 files requested were received and reviewed. Of the 25 files reviewed, 13 files were identified as being midterm cancellations. The 13 violations noted were based on 13 files, resulting in an error ratio of 52%.

The following findings were made:

**13 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 13 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.

The universe of seven declinations for private passenger auto insurance was selected for review during the experience period. All seven files requested were received and reviewed. The four violations noted were based on two files, resulting in an error ratio of 28%.
The following findings were made:

2 Violations 40 P.S. §991.2008(b)

Any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Insurance Commissioner that he review the action of the insurer in refusing to write a policy for the applicant. The Company failed to provide a written notice of refusal to write by the Company for the two files noted.

2 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 adequate records associated with declination documentation for the two files noted.
5. Rescissions
A rescission is any policy which was void \textit{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 636 private passenger automobile policies that were identified by the Company as rescissions during the experience period, 15 files were selected for review. All 15 files were received and reviewed. No rescissions were provided in sample. Of the 15 files reviewed, 13 files were identified as being flat cancellations, one file was identified as a 60 day cancellation and one file was identified to be opened in error. No violations were noted.

B. Personal Property

1. 60-Day Cancellations
A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 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 5,034 property policies that were cancelled within the first 60 days of new business, 85 files were selected for review. The property policies consisted of homeowners, tenant homeowners, dwelling fire, and inland marine. All 85 files requested were received and reviewed. The 17 violations noted were based on 12 files, resulting in an error ratio of 14%.

The following findings were made:

7 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 notice of cancellation which was sent to the insured for the seven files noted.

5 Violations 31 Pa. Code §59.9(b) – Nonapplicability of the Acts

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 five files 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” in 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.”

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 135,285 property policies which were cancelled midterm during the experience period, 230 files were selected for review. The property policies reviewed consist of 100 homeowners, 75 tenant homeowners, 30 personal inland marine, and 25 owner-occupied dwelling fire. All 230 files requested were received and reviewed. Of the 230 property files reviewed, 13 files were identified as 60-day property cancellations, and one file was identified as being outside of the experience period. The 180 violations noted were based on 122 files, resulting in an error ratio of 53%.

The following findings were made:
13 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 13 files noted.

82 Violations 40 P.S. §1171.5(a)(9)

40 P.S. § 323.3(a)

Cancelling 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. 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 the original
notice of cancellation which was sent to the insured for the 82 files noted.

1 Violation 40 P.S. §1171.5(a)(9)
40 P.S. § 323.3(a)
Cancelling 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. 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 archive any notice of cancellation for the file noted. Unable to determine compliance.

14 Violations 31 Pa. Code §59.9(b)

40 P.S. § 323.3(a)
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. 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 copy of the original notice of cancellation which was sent to the insured for the 14 files noted.

**8 Violations  40 P.S. §1171.5(a)(9)**

Cancelling 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 provide a valid reason for midterm cancellation for the eight files noted.
27 Violations 31 Pa. Code §59.6(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 27 files noted.

27 Violations 31 Pa. Code §59.6(6)

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 27 files noted.

7 Violations 40 P.S. §1171.5(a)(9)


Cancelling 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. In addition, in order to prove a substantial increase in hazard, the insurer must present more than speculative evidence of increase in hazard. The Company failed to prove a substantial increase in hazard at the time the notice of cancellation was sent to the insured in the seven files noted.

1 Violation 40 P.S. §1171.5(a)(9)
40 P.S. §636.1
Cancelling 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 provide a valid reason for cancellation for the file noted. The Company also failed to provide property policy coverage one hundred and eighty (180) days after the death of named insured for the file 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 4,406 property policies which were nonrenewed during the experience period, 90 files were selected for review. All 90 files requested were received and reviewed. The property policies consisted of homeowners, tenant homeowners, inland marine and owner occupied
dwellings fire. All 90 files requested were received and reviewed. The 79 violations noted were based on 77 files, resulting in an error ratio of 86%.

The following findings were made:

73 Violations  40 P.S. §1171.5(a)(9)

40 P.S. § 323.3(a)
Cancelling 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. In addition, regarding the states authority, scope and scheduling of examinations (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 the original notice of cancellation which was sent to the insured for the 73 files noted.

4 Violations 40 P.S. §1171.5(a)(9)
40 P.S. § 323.3(a)
Cancelling 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. 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 archive any notice of cancellation in the four files noted. Compliance could not be determined.

2 Violations 40 P.S. §1171.5(a)(9)
Cancelling 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 state a valid reason for nonrenewal in the two files noted.

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 1,749 property policies which were declined by the Company during the experience period, 75 files were selected for review during the experience period. The property policies consisted of homeowners, tenant homeowners, inland marine and dwelling fire. All 75 files requested were received and reviewed. The 150 violations noted were based on 75 files, resulting in an error ratio of 100%.
The following findings were made:

75 Violations  31 Pa. Code §59.9(b) – Nonapplicability of the Acts

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 maintain a copy of the original notice of cancellation which was sent to the insured for a 60-day cancellation for the 75 files noted.

75 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 adequate records associated with declination documentation for the 75 files 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. Property Homeowners Claims
H. Property Tenant Homeowner Claims
I. Property Dwelling Fire 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 8,280 private passenger automobile property damage liability claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 20 violations noted were based on 16 files, resulting in an error ratio of 32%.
The following findings were made:

14 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 14 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.

3 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 statement identifying 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.
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.

**B. Automobile Comprehensive Claims**

From the universe of 3,894 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 27 violations noted was based on 14 files, resulting in an error ratio of 56%.

The following finding was 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.
5 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 five claims noted.

1 Violations  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 include an explanation of the abbreviations or symbols used to describe the work being done for the claim 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 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.

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.

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 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.

The following concern was noted:

**CONCERN:** When the Company closes a claim file with no payment 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 without payment.

**C. Automobile Collision Claims**

From the universe of 9,679 private passenger automobile collision claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The 22 violations noted were based on 12 files, resulting in an error ratio of 24%.

The following finding was 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.

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(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.

1 Violation 31 Pa. Code §62.3(b)(7)
Requires that an 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.

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.

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 the required fraud warning on an appraisal for the claim noted.

The following concern was noted:

CONCERN: When the Company closes a claim file with no payment for 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 without payment.

D. Automobile Total Loss Claims

From the universe of 4,673 private passenger automobile total loss claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. The 29 violations noted were based on 13 files, resulting in an error ratio of 52%.
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.

1 Violation 31 Pa. Code § 146.9.(b)
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. The Company failed to pay the claim when negligence could not be determined.

1 Violation 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 claim 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 include an
explanation of the abbreviations or symbols used to describe
the work being done for 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.

1 Violation 31 Pa. Code §62.3(b)(7)
Requires that an 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.

9 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 nine claims noted.
1 Violation  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 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 the required fraud warning on an appraisal for the claim noted.

E.  Automobile First Party Medical Claims

From the universe of 4,431 private passenger automobile first party medical claims reported during the experience period, 35 claim files were selected
for review. All 35 files requested were received and reviewed. The 21 violations noted were based on 19 files, resulting in an error ratio of 54%.

The following findings were made:

**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.

**19 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 19 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

The universe of two automobile first party medical claims that were referred to a peer review organization by the Company during the experience period were selected for review. Both 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 two violations noted were based on one file, resulting in an error ratio of 50%.

The following findings were made:

1 Violation 31 Pa. Code §146.6
Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the claim noted.

1 Violation 31 Pa. Code §69.52(a)
A provider’s bill shall be referred to a PRO only when circumstances or conditions relating to medical and rehabilitative services provided cause a prudent person, familiar with PRO procedures, standards and practices, to believe it necessary that a PRO 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. An insurer shall notify a provider, in writing, when referring bills for PRO review at the time of the referral. The Company failed to notify the provider, in writing, when referring bills to a Peer Review Organization for the claim noted.

G. Homeowner and Dwelling Fire Claims

From the universe of 30,830 homeowner and dwelling fire claims reported during the experience period, 125 files were selected for review. All 125 files selected were received and reviewed. The sample files consisted of homeowners and dwelling fire (condominium) policy claims. The 14 violations noted were based on 10 files, resulting in an error ratio of 8%.

9 Violations  31 Pa. Code §146.6

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

2 Violations  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 two claims 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 Company failed to notify the claimant of the intent to accept or deny the claim within 15 working days of receipt for the claim file noted.

2 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 adequate records adequate claim records by agent for the two files noted.
The following concerns were noted:

**CONCERN:** During the review of the Homeowner’s claims, the examiners identified one (1) claim which was adjudicated incorrectly. The Company reprocessed the claim and paid additional monies owed to the claimant after inconsistencies between appraisals and payments were brought to the Company’s attention.

**CONCERN:** When the Company closes a claim file with non payment, 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 without payment.

**CONCERN:** When Agents are using claims drafting authority, adequate documentation of claim report date is not being maintained. Compliance cannot be determined. Company should maintain documentation of claim report date in a consistent format that is readily accessible to support compliance.

**H. Tenant Homeowner**

From the universe of 3,338 tenant homeowner claims reported during the experience period, 25 claim files were selected for review. All 25 files requested were received and reviewed. The 2 violations noted were based on 2 files, resulting in an error ratio of 8%.

The following findings were made:
2 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 two claims 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 without payment due to lack of interest.
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 and Title 18, Pa. C.S. §4117(k)(1), which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claim forms.

The following findings were made:

4 Violations 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 a fraud warning notice on four forms.

2 Violations 31 Pa. Code §59.6(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’’. For the two forms noted, the Company failed to clearly label forms ‘‘Notice of Cancellation or Refusal to Renew’’.

2 Violations 31 Pa. Code §59.6(6)

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 date premium was due for the two forms noted.

1 Violation 40 P.S. §1171.5(a)(9)(i)

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. Such notice shall: (i) Be approved as to form by the Insurance Commissioner prior to use. The Company used a notice of cancellation form that was not approved by the Insurance Commissioner prior to use.

The following concern was noted:

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

Pennsylvania Insurance Department
Bureau of Consumer Services
1209 Strawberry Square
Harrisburg, PA 17120
Toll Free Consumer Line: 1-877-881-6388
Fax: (717) 787-8585
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 331 consumer complaints received during the experience period and provided all consumer complaint logs requested. From the universe of 331 complaint files, 50 files were selected for review during the experience period. All 50 files requested were received and reviewed. Of the 50 complaints reviewed, 49 were from the Pennsylvania Insurance Department and one was from the Indiana Department of Insurance.

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 statues 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 complaint’s belong to each separate company. The NAIC code field is not completed for all complaints in the logs.

1 Violation 40 P.S. §323.3(a)
40 P.S. §323.4(b)
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. In addition, every company or person from whom information is sought, its officers, directors and agents must provide to the examiners appointed under subsection (a) 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. The officers, directors, employees and agents of the company or person must facilitate such examination and aid in such examination so far as it is in their power to do so. The refusal of any company by its officers, directors, employees or agents to submit to examination or to comply with any reasonable written request of the examiners shall be grounds for suspension or refusal of or nonrenewal of any license or authority held by the company to engage in an insurance or other business subject to the
department's jurisdiction. Any such proceedings for suspension, revocation or refusal of any license or authority shall be conducted pursuant to 2 Pa.C.S. (relating to administrative law and procedure). The Company failed to maintain a complete complaint file for the file noted.

2 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. In addition, an insurer which terminates a homeowners liability policy due to substantial increase in hazards by reason of willful or negligent acts
of an insured must prove both that there has been an increase in hazard and that the increased hazard was due to willful or negligent acts by the insured. The Company failed to prove a significant increase in hazard at the time the notice of cancellation was sent to the insured for the two files noted.

2 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. In addition, an insurer which terminates a homeowners liability policy due to
substantial increase in hazards by reason of willful or negligent acts of an insured must prove \textit{both} that there has been an increase in hazard and that the increased hazard was due to willful or negligent acts by the insured. The Company failed to prove a significant increase in hazard by reason provided in the notice of cancellation for the two files noted, but no financial penalty will be assessed by the Department regarding these violations.

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

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<tbody>
<tr>
<td>28</td>
<td>Cancellation/Nonrenewal</td>
<td>56%</td>
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<td>18</td>
<td>Claims Related</td>
<td>36%</td>
</tr>
<tr>
<td>4</td>
<td>Miscellaneous</td>
<td>8%</td>
</tr>
</tbody>
</table>

| 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.

Property Midterm Cancellations
Situation: As the examiners reviewed the property midterm cancellation files of the underwriting section of the exam, it was noted that not all 230 files selected for review were midterm cancellation files.

Finding: Of the 230 property nonrenewal files reviewed, 13 files were identified as 60-day cancellations, and one (1) file was outside of the experience period of the examination.

Automobile Nonrenewals
Situation: As the examiners reviewed the private passenger automobile nonrenewal files of the underwriting section of the exam, it was noted that not all 25 files selected for review were nonrenewal files.
Finding: Of the 25 private passenger automobile nonrenewal files reviewed, 13 files were identified as midterm cancellations.

**Automobile Midterm Cancellations**

Situation: As the examiners reviewed the private passenger automobile midterm cancellation files of the underwriting section of the exam, it was noted that not all 75 files selected for review were midterm cancellation files.

Finding: Of the 75 private passenger automobile midterm cancellation files reviewed, 22 files were identified as nonrenewals.

**Automobile 60-Day Cancellations**

Situation: As the examiners reviewed the private passenger automobile 60-day cancellation files of the underwriting section of the exam, it was noted that not all 50 files selected for review were 60-day cancellation files.

Finding: Of the 50 private passenger automobile 60-day files reviewed, one file was identified as a midterm cancellation.

**Automobile Rescissions**

Situation: As the examiners reviewed the auto rescissions section of the exam, it was noted that none of the 15 files selected for reviewed were rescission files.

Finding: Of the 15 auto rescission files reviewed, one file was identified as a 60 day cancellation and one file was identified to be opened in error.
Collision Claims
Situation: As the examiners reviewed the private passenger automobile collision claim files of the claims section of the exam, it was noted that not all 25 files selected for review were collision claims.

Finding: Of the 50 private passenger automobile collision claim files reviewed, one file was identified as a motorcycle claim which is not private passenger automobile.

Consumer Complaints
Situation: As the examiners reviewed the consumer complaint section of the exam, it was noted that not all of the files reviewed were Pennsylvania Insurance Department complaints.

Finding: Of the 50 consumer complaint files reviewed, one file was identified as being an Indiana Department of Insurance complaint file.

The following finding was made:

General Violation  40 P.S. §323.4(b)
Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The violation resulted in the failure to exercise sufficient due diligence to ensure compliance with Insurance Department Act of 1921.
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.

66,805 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.

66,805 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.

66,805 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.

66,805 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.

66,805 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 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.

168,778 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.

168,778 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.

168,778 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.
168,778 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, 991.2006 and 991.2008, so that the violations noted in the Report do not occur in the future.

2. The Company must reinforce its internal 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(1) to ensure the use of a cancellation notice clearly labeled as “Notice of Cancellation or Refusal to Renew”.

4. 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.

5. 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.

6. The Company must review 31 Pa. Code §59.9(b) and 40 P.S. § 323.3(a) to ensure it maintains a copy of the original notice of cancellation which was sent to the insured for a 60-day cancellation.

7. 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”.

8. The Company must review 40 P.S. §1171.5(a)(9) 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.

9. The Company must review 40 P.S. §1171.5(a)(9) with its staff to ensure the use of valid reasons for nonrenewal and midterm cancellations and to ensure a copy of the original notice mailed to the insured is maintained.

10. The Company must review 40 P.S. §1171.5(a)(9) and 40 P.S. §636.1 with its claim staff to ensure to provide a valid reason for cancellation and to provide property policy coverage one hundred and eighty (180) days after the death of a named insured.

11. The Company must review 40 P.S. §1171.5(a)(9)(i) to ensure that the cancellation form utilized by the Company has been filed and approved for use by the Insurance Commissioner.

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 acceptance or denial of claims, acknowledgment of claims, status letters as noted in the Report do not occur in the future.

13. The Company must review 31 Pa. Code § 146.9(b) with its claim staff to ensure claims are paid when negligence cannot be determined.

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

15. 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.

16. The Company must review Title 18, PA § 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.

17. The Company must review 31 Pa. Code § 69.52(a) with its claim staff to ensure that a provider is notified, in writing, when bills are referred for a PRO review at the time of the referral.

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 40 P.S. §1171.5(a)(11) to ensure that a complete complaint log is maintained during the four preceding years.

20. 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.

21. 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.

22. 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.

23. 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.

24. 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

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-M32-013; Company Response to Report

Dear Ms. Krakowski:

Please accept this letter as the response of State Farm Fire and Casualty 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, 991.2006 and 991 .2008, 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.
3. The Company must review 31 Pa. Code §59.6(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 procedures 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 §59.6(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.

5. 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.

6. The Company must review 31 Pa. Code §59.9(b) and 40 P.S. §323.3(a) to ensure it maintains a copy of the original notice of cancellation which was sent to the insured for a 60-day cancellation.

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

8. The Company must review 40 P.S. §1171.5(a)(9) 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 procedures 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.

9. The Company must review 40 P.S. §1171.5(a)(9) with its staff to ensure the use of valid reasons for nonrenewal and midterm cancellations and to ensure a copy of the original notice mailed to the insured is maintained.

Company Response: The recommendation regarding record maintenance has been resolved. The recommendation regarding valid reasons for nonrenewal is being addressed through additional employee guidance and procedural adjustments.

10. The Company must review 40 P.S. §1171.5(a)(9) and 40 P.S. §636.1 with its claim staff to ensure to provide a valid reason for cancellation and to provide property policy coverage one hundred and eighty (180) days after the death of a named insured.

Company Response: The Company is addressing this recommendation through additional employee guidance and procedural adjustments.
11. The Company must review 40 P.S. §1171.5(a)(9)(i) to ensure that the cancellation form 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.

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 acceptance or denial of claims, acknowledgment of claims, status letters 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 denial letters so that the violations noted in the Report do not occur in the future.

13. The Company must review 31 Pa. Code §146.9(b) with its claim staff to ensure claims are paid when negligence cannot be determined.

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

14. The Company must review 31 Pa. Code §§62.3(a)(l)(2) and 62.3(b)(2)(3)(4)(7)(9)(10) 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.

15. 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 claim handlers to ensure compliance.

16. The Company must review Title 18, P.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: This issue has been resolved. 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.

17. The Company must review 31 Pa. Code §69.52(a) with its claim staff to ensure that a provider is notified, in writing, when bills are referred for a PRO review at the time of the referral.

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 has 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 40 P.S. §1171.5(a)(11) 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.

20. 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.

21. 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. In order to ensure compliance consistent with the Department’s interpretation of this section, the Company will meet with the Department to share the intended revisions.

22. 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.

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.
23. 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.

24. 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 the Department to conclude the issues raised in this examination, and again thank you for the courtesy and professionalism extended to Company personnel throughout.

Very truly yours,

[Signature]

David R. Tideman
Counsel, Law Department
State Farm Fire & Casualty Co.