



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

**MARKET CONDUCT  
EXAMINATION REPORT**

**OF**

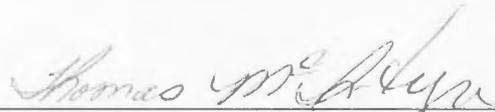
**MERIDIAN SECURITY  
INSURANCE COMPANY**  
Indianapolis, IN

**As of: February 23, 2016  
Issued: April 11, 2016**

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

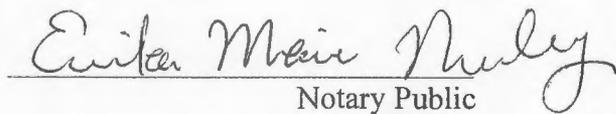
VERIFICATION

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

  
Thomas McIntyre, Examiner-in-Charge

Sworn to and Subscribed Before me

This Day of February 19, 2016

  
Notary Public

Erika Marie Nunley



**MERIDIAN SECURITY INSURANCE COMPANY**  
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

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

  
Teresa D. Miller  
Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:  
: :  
MERIDIAN SECURITY : 40 P.S. §323.4(b)  
INSURANCE COMPANY : :  
518 East Broad Street : 40 P.S. §§1171.5(a)(4)  
Columbus, OH 43215 : and 1171.5(a)(7)(ii)  
: :  
: 18 Pa. C.S. §4117(k)(1)  
: :  
: 75 Pa. C.S. §§1705(a)(4), 1731(b)&(c)  
: 1738(d)(1)&(2), 1793(b)(1), 1793(b)(2)  
and 1799.3(d)  
: :  
Respondent. : Docket No. MC16-03-009

CONSENT ORDER

AND NOW, this 11<sup>th</sup> day of April, 2016, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order

duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law. supra, or other applicable law.

### FINDINGS OF FACT

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

- (a) Respondent is Meridian Security Insurance Company, and maintains its address at 518 East Broad Street, Columbus, OH 43215.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from July 1, 2014 through June 30, 2015.
- (c) On February 23, 2016, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on March 24, 2016.

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

- (i) 40 P.S. §323.4(b). requires every company or person from whom information is sought. its officers, directors and agents must provide to the examiners timely, convenient and free access at all reasonable hours at its offices to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined;
- (ii) 40 P.S. §1171.5(a)(4). prohibits unfair methods of competition and unfair or deceptive acts or practices by entering into any agreement to commit, or by any concerted action committing, any act or boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance;
- (iii) 40 P.S. §1171.5(a)(7)(iii), defines and prohibits unfair methods of competition as making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status;

- (iv) 18 Pa. C.S. §4117(k)(l). states any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties;
  
- (v) 75 Pa. C.S. §1705(a)(4), requires every insurer, prior to the first issuance of a private passenger motor vehicle liability insurance policy to provide each applicant with the notice required by paragraph (1). A policy may not be issued until the applicant has been provided an opportunity to elect a tort option. The notice shall be standardized form as adopted by the Commissioner;
  
- (vi) 75 Pa. C.S. §1731(b)&(c). requires that the named insured shall be informed that uninsured and underinsured motorist coverage may be rejected by signing a written rejection form;
  
- (vii) 75 Pa. C.S. §1738(d)(1)&(2). requires the named insured to be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms;

- (viii) 75 Pa. C.S. §1793(b)(1), requires all insurers 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 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;
  
- (ix) 75 Pa. C.S. §1793(b)(2), requires all insurers 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 the number of years any surcharge will be in effect. The surcharge disclosure plan shall be delivered to each insured by the insurer at least once annually. Additionally, the surcharge information plan shall be given to each prospective insured at the time application is made for motor vehicle insurance coverage;
  
- (x) 75 Pa. C.S. §1799.3(d), requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the named insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect.

## CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of 40 P.S. §§1171.5(a)(4) and 1171.5(a)(7)(iii) 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.
- (c) 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 Seven Thousand Five Hundred Dollars (\$7,500.00) 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.

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

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

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

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

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

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

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

BY: MERIDIAN SECURITY  
INSURANCE COMPANY  
Respondent

*Michael J. LaRocca*

President / ~~Vice President~~ CEO

*Melissa A. Centers* SVP/General Counsel/  
Secretary / ~~Treasurer~~ Secretary

*Christopher R. Monahan*  
CHRISTOPHER R. MONAHAN  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## I. INTRODUCTION

The market conduct examination was conducted at the office of Meridian Security Insurance Company, hereinafter referred to as "Company," located in Columbus, Ohio, from September 21, 2015, through October 1, 2015. Subsequent review and follow-up was conducted in the examiner offices 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  
Market Conduct Division Chief  
Pennsylvania Insurance Department

Thomas McIntyre  
Market Conduct Examiner  
Dixon Hughes Goodman LLP

Robert Flege  
Market Conduct Examiner  
Dixon Hughes Goodman LLP

## **II. SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted on Meridian Security Insurance Company, at its office located in Columbus, Ohio. 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 July 1, 2014, through June 30, 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, and 60-day cancellations.
  - Rating - Proper use of all classification and rating plans and procedures.
  
2. Data Integrity

### **III. COMPANY HISTORY**

Meridian Security Insurance Company was incorporated on July 27, 1967 under the laws of Indiana and began business on October 2, 1967, as the Meridian Standard Insurance Company. The Company changed its name to the present title in January 1984. On June 1, 2001, Meridian Mutual Insurance Company was merged into State Automobile Mutual Insurance Company.

### **LICENSING**

Meridian Security Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2015. The Company is licensed in the District of Columbia, Alabama, Alaska, Arizona, Arkansas, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and Wisconsin. The Company's 2014 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$12,290,317. Premium volume related to the Private Passenger Automobile Direct Written Premium was reported as Private Passenger Auto Liability \$5,380,685 and Private Passenger Auto Physical Damage \$5,187,739.

#### 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. §1171.5(a)(4)*

States that “Unfair methods of competition” and “unfair or deceptive acts or practices in the business of insurance means entering into any agreement to commit, or by any concerted action committing, any act or boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The violation noted was the result of the Company requiring supporting business.

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

*Adjudication: Aetna Casualty and Surety Companies, MC90-03-24 (1991)*

States that “Unfair methods of competition” and “unfair or deceptive acts or practices in the business of insurance means making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting. The Company’s 2014 and 2015 Underwriting Guidelines

(Automobile) allow for one major violation in the past three years if one driver has more than five years driving experience and the Company's 2014 and 2015 Underwriting Guidelines (Recreational Vehicles) do not allow for accidents for an operator with less than five years experience.

*1 Violation 40 P.S. §1171.5(a)(7)(iii)*

States that “Unfair methods of competition” and “unfair or deceptive acts or practices in the business of insurance means making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting. The Company's 2014 Underwriting Guidelines for the “Friends for a Lifetime” program require the named insured and spouse be age 45 or older.

## 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.

The universe of 22 private passenger automobile policies that were cancelled within the first 60 days of new business were selected for review. All 22 files were received and reviewed. Of the 22 files reviewed, 16 files were identified as 60-day cancellations and six files were identified as mid-term cancellations. No violations were noted.

#### **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 2,102 private passenger automobile policies which were cancelled midterm, 100 files were selected for review. All 100 files requested were received and reviewed. The violation noted resulted in an error ratio of 1%.

The following findings were made:

*1 Violation 40 P.S. §323.4*

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

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 82 private passenger automobile policies which were nonrenewed, 50 files were selected for review. All 50 files requested were received and reviewed. No violations were noted.

## VI. RATING

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

#### 1. New Business

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

The primary purpose of the review was to measure compliance with The Casualty and Surety Rate Regulatory Act, Section 4(a) and (h) (40 P.S. §1184(a), (h)), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with all provisions of the Motor Vehicle Financial Responsibility Law (75 Pa. C.S. §§1701 – 1799.7) and Act 68, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company uses an automated system to process and issue personal automobile policies. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the

examiners were able to determine compliance with the Company's filed and approved rating plans.

Private Passenger Automobile Rating – New Business without Surcharges

From the universe of 329 private passenger automobile policies identified as new business without surcharges, 50 files were selected for review. All 50 files requested were received and reviewed. The 665 violations noted were based on the universe of 329 files, resulting in an error ratio of 100%.

The following findings were made:

*1 Violation 75 Pa. C.S. §1705(a)(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to provide a signed limited tort form for the file noted.

*1 Violation 75 Pa. C.S. §1731(b)&(c)*

The named insured shall be informed that he may reject uninsured and underinsured motorist coverage by signing a written rejection form. The file noted contained signed rejection forms for uninsured and underinsured motorist coverages, but the policy included both coverages.

*4 Violations 75 Pa. C.S. §1738(d)(1)(2)*

The named insured shall be informed that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. The Company did not provide the signed rejection form of stacked limits for uninsured and underinsured motorists coverage for the four files noted.

*329 Violations 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. The Company failed, at the time of application, to provide a surcharge disclose plan that accurately provided an estimate of the surcharge per policy, per policyholder.

*329 Violations 75 Pa. C.S. §1793(b)(2)*

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. The Company failed, at the time of application, to

provide a surcharge disclose plan that included the period the rate penalty will be in effect.

*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 did not provide the required fraud language on the application for the file noted.

Private Passenger Automobile Rating – New Business with Surcharges

From the universe of 60 private passenger automobile policies identified as new business with surcharges, 25 files were selected for review. All 25 files requested were received and reviewed. The 182 violations noted were based on the universe of 60 files, resulting in an error ratio of 100%.

The following findings were made:

*1 Violation 75 Pa. C.S. §1705(a)(4)*

Requires every insurer, prior to the issuance of a private passenger motor vehicle liability insurance policy to provide each applicant an opportunity to elect a tort option. A policy

may not be issued unless the applicant has been provided an opportunity to elect a tort option. The Company failed to provide a signed limited tort form for the file noted.

*60 Violations 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. The Company failed, at the time of application, to provide a surcharge disclose plan that accurately provided an estimate of the surcharge per policy, per policyholder.

*60 Violations 75 Pa. C.S. §1793(b)(2)*

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. The Company failed, at the time of application, to provide a surcharge disclose plan that included the period the rate penalty will be in effect.

*60 Violations 75 Pa. C.S. §1799.3(d)*

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect.

The Company failed to provide the amount of the surcharge on the premium notice.

*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 did not provide the required fraud language on the application for the file noted.

2. Renewals

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

The purpose of the review was to measure compliance with The Casualty and Surety Rate Regulatory Act, Section 4(a) and (h) (40 P.S. §1184(a), (h)), which requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time. Files were also reviewed to determine compliance with Act 68 of 1998, Section 2005(c) (40 P.S. §991.2005(c)), which requires insurers to provide to insureds a detailed statement of the components of a premium and shall specifically show the amount of surcharge or other additional amount that is charged as a result of a claim having been made under a policy of insurance, or as a result of any other factors.

The Company processes and issues personal automobile policies using an automated system. In order to verify the automated system, several policies were manually rated to ensure the computer had been programmed correctly. Once the computer programming had been verified, only the input data needed to be verified. By reviewing base premiums, territory assignments, rating symbols, classifications and surcharge disclosures, the examiners were able to determine compliance with the Company's filed and approved rating plans.

#### Private Passenger Automobile Rating – Renewals without Surcharges

From the universe of 9,280 private passenger automobile policies identified as renewal business without surcharges, 100 files were selected for review. All 100 files requested were received and reviewed. The 18,560 violations

noted were based on the universe of 9,280 files, resulting in an error ratio of 100%.

The following findings were made:

*9,280 Violations 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. The Company failed to provide a surcharge disclose plan that accurately provided an estimate of the surcharge per policy, per policyholder.

*9,280 Violations 75 Pa. C.S. §1793(b)(2)*

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. The Company failed to provide a surcharge disclose plan that included the period the rate penalty will be in effect.

Private Passenger Automobile Rating – Renewals with Surcharges

From the universe of 1,600 private passenger automobile policies identified as renewal business with surcharges, 100 files were selected for review. All 100 policy files requested were received and reviewed. The 4,800 violations noted were based on the universe of 1,600 files, resulting in an error ratio of 100%.

The following findings were made:

*1,600 Violations 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. The Company failed to provide a surcharge disclose plan that accurately provided an estimate of the surcharge per policy, per policyholder.

*1,600 Violations 75 Pa. C.S. §1793(b)(2)*

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. The Company failed to provide a surcharge disclose plan that included the period the rate penalty will be in effect.

*1,600 Violations 75 Pa. C.S. §1799.3(d)*

Requires insurers who make a determination to impose a surcharge, rate penalty or driver record point assignment, to inform the insured of the determination and specify the manner in which the surcharge, rate penalty or driver record point assignment was made and clearly identify the amount of the surcharge or rate penalty on the premium notice for as long as the surcharge or rate penalty is in effect.

The Company failed to provide the amount of the surcharge on the premium notice.

Private Passenger Automobile Rating – Renewals in a Higher Tier

From the universe of 398 private passenger automobile policies identified as renewals in a higher tier, 25 files were selected for review. All 25 files requested were received and reviewed. The 796 violations noted were based on the universe of 398 files, resulting in an error ratio of 100%.

The following findings were made:

*398 Violations 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. The Company failed to provide a surcharge disclose plan that accurately provided an estimate of the surcharge per policy, per policyholder.

*398 Violations 75 Pa. C.S. §1793(b)(2)*

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. The Company failed to provide a surcharge disclose plan that included the period the rate penalty will be in effect.

## **VII. 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, Section 904(b) [40 P.S. §904(b)] . Several data integrity issues were found during the on-site portion of the exam.

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

### **60-Day Cancellations**

**Situation:** As the examiners reviewed the 60-day cancellation files of the underwriting section of the exam, it was noted that not all of the 22 files selected for review were 60-day cancellation files.

**Finding:** Of the 22 cancellation files in the 60-day cancellation section, six files were identified as midterm cancellations. In addition, two files contained inaccurate information when compared to the Company listing.

### **Midterm Cancellations**

**Situation:** As the examiners reviewed the mid-term cancellation files, it was noted that, several of the 100 files selected for review contained inaccurate information.

Finding: Of the 100 files reviewed, four files contained inaccurate information when compared to the Company listing.

### **Non-renewals**

Situation: As the examiners reviewed the nonrenewal files in the underwriting section of the exam, it was noted that not all of the 50 files selected for review were non-renewals and several files contained inaccurate information.

Finding: Of the 50 files reviewed, two files were identified as mid-term cancellations and two files contained inaccurate information when compared to the Company listing.

### **New Business with Surcharges**

Situation: As the examiners reviewed the new business with surcharge files in the rating section of the exam, it was noted that several of the 25 files selected for review contained inaccurate information.

Finding: Of 25 files reviewed, the Company listing indicated five policies were issued with limited tort; however, those five files were issued with full tort coverage. In addition, 18 files had non-stacked UM & UIM coverage; however, the Company listing noted all had stacked coverage.

### **New Business without Surcharges**

Situation: As the examiners reviewed the new business without surcharge files in the rating section of the exam, it was noted that several of the 50 files selected for review contained inaccurate information.

Finding: Of 50 files reviewed, the Company listing indicated 11 policies were issued with limited tort; however, those 11 files were issued with full tort coverage. In addition, four policyholders rejected UM & UIM coverage and 43 had non-stacked UM & UIM coverage; however, the Company listing noted all had stacked coverage.

### **Renewals without Surcharges**

Situation: As the examiners reviewed the renewals without surcharge files in the rating section of the exam, it was noted that several of the 100 files selected for review contained inaccurate information.

Finding: Of the 100 files reviewed, the Company listing indicated 42 policies were issued with limited tort; however, those 42 files were renewed with full tort coverage. In addition, eight policyholders rejected UM & UIM coverage and 68 had non-stacked UM & UIM coverage; however, the Company listing noted all had stacked coverage.

### **Renewals with Surcharges**

Situation: As the examiners reviewed the renewals with surcharges files in the rating section of the exam, it was noted that several of the 100 files selected for review contained inaccurate information.

Finding: Of the 100 files reviewed, the Company listing indicated 29 policies were issued with limited tort; however those 29 files were renewed with full tort coverage. In addition, four policyholders rejected UM & UIM coverage and 65 had non-stacked UM & UIM coverage; however, the Company listing noted all had stacked coverage. Two files were not policies renewed with a surcharge, and therefore should not have been included in the population of renewals with a surcharge, or sampled for testing.

### **Renewals in a higher Tier**

Situation: As the examiners reviewed the renewals in a higher tier files in the rating section of the exam, it was noted that several of the 25 files selected for review contained inaccurate information.

Finding: Of the 25 files reviewed, the Company listing indicated 10 policies were issued with limited tort; however, those 10 files were issued with full tort coverage. In addition, four policyholders rejected UM & UIM coverage and 17 had non-stacked UM & UIM coverage; however, the Company listing noted all had stacked coverage.

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.

### **VIII. 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 reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.4, so that violations noted in the Report do not occur in the future.
2. The Company must review 40 P.S. §1171.5(a)(4) to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.
3. The Company must review 40 P.S. §1171.5(a)(7)(iii) to ensure that the violations relative to using age as a criteria in Underwriting noted in the Report do not occur in the future.
4. The Company must review 18 Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all applications, as noted in the Report, do not occur in the future.
5. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option selection forms are obtained and retained with the underwriting file. This is to ensure that violations noted under 75 Pa. C.S. §1705(a)(4) do not occur in the future.

6. The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage and forms are obtained and retained with the underwriting file. This is to ensure that violation noted under 75 Pa. C.S. §1731(b) & (c) does not occur in the future.
  
7. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under 75 Pa. C.S. §1738(d)(1) and (2) do not occur in the future.
  
8. The Company must provide the insured with a surcharge disclosure plan at the time of application and at least once annually that accurately provides an estimate of the surcharge. This is to ensure that the violations noted under 75 Pa. C.S. §1793(b) do not occur in the future.
  
9. The Company must provide the insured with a surcharge disclosure plan at the time of application and at least once annually that includes the period the rate penalty will be in effect. This is to ensure that the violations noted under 75 Pa. C.S. §1793(b)(2) do not occur in the future.
  
10. When a surcharge is imposed on a private passenger automobile policy, the Company must identify the amount of surcharge and give notice to the insured on the premium notice. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under 75 Pa. C.S. §1799.3(d) do not occur in the future.

**IX. COMPANY RESPONSE**

March 24, 2016

Delivered via electronic mail to [kkrakowski@pa.gov](mailto:kkrakowski@pa.gov)

Kelly A. Krakowski, MCM  
Chief, Property & Casualty Division  
Pennsylvania Department Insurance  
1321 Strawberry Square  
Harrisburg PA 17120

**RE: Company Response to Examination Report – Meridian Security Insurance Company 15-M08-014**

Dear Ms. Krakowski:

Thank you for the opportunity to respond to the Department's Report of Examination for Meridian Security Insurance Company covering the period July 1, 2014 through June 20, 2015. Enclosed for your review and consideration is the Company's response to the Examination Report.

The Company would like to express its appreciation for the professionalism and courtesy extended by the Department during the examination process.

Please contact me with any questions you may have regarding this response.

Sincerely,

Sunitha Venkatesan  
Compliance Assurance Manager  
[sunitha.venkatesan@stateauto.com](mailto:sunitha.venkatesan@stateauto.com)  
614-917-5087

## MERIDIAN SECURITY INSURANCE COMPANY

### IX. COMPANY RESPONSE TO PENNSYLVANIA DEPARTMENT OF INSURANCE REPORT OF EXAMINATION

**Recommendation #1:** The Company must reinforce its internal data controls to ensure that all records and documents are maintained in accordance with 40 P.S. §323.4, so that violations noted in the Report do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. A cross functional team formed in December, 2015 reviewed and revised the Company's data production process as well as the internal data controls and is in the process of instituting formal procedures for data production and validation so that future data requests can be handled in a timely and accurate manner.

**Recommendation #2:** The Company must review 40 P.S. §1171.5(a) (4) to ensure that the violation relative to supporting coverage noted in the Report does not occur in the future.

**Company Response:** The Company acknowledges this recommendation and has revised the underwriting guidelines to eliminate any reference to supporting coverage.

**Recommendation #3:** The Company must review 40 P.S. §1171.5(a)(7)(iii) to ensure that the violations relative to using age as a criteria in Underwriting noted in the Report do not occur in the future.

**Company Response:** The Company acknowledges this recommendation and has revised its underwriting guidelines to eliminate references to driving experience. The Company would also like to note that it does not agree that the underwriting guideline

referenced in the report violated 40 P.S. §1171.5(a) (7) (iii) since the underwriting guideline was based on driver experience and not based on individual driver's age.

Additionally, the Company would like to report that the "Friends For A Lifetime" program cited in this recommendation has been discontinued and is no longer available for new business policies issued beginning 12/28/2014.

**Recommendation #4:** The Company must review 18 Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all applications, as noted in the Report, do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. The Company requires its agents to maintain the current version of ACORD 90 PA on file for use at the point of sale. The Company will emphasize to its agents the importance of ensuring that the appropriate forms are provided to the insured for completion.

**Recommendation #5:** The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to elect a tort option and that signed tort option election forms are obtained and retained with the underwriting file. This is to ensure that violations noted under 75 Pa. C.S. §1705(a) (4) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. This violation is a result of two policies whose tort option elections as uploaded to the Company system did not match the tort option elections made by the insured on Form ACORD 61PA. The Company requires its agents to retain the Form ACORD 61PA completed by the insured in its files and will emphasize to its agents the importance of verifying that the elections match the completed forms.

**Recommendation #6:** The Company must revise its underwriting procedures to ensure that each applicant for private passenger automobile liability insurance is provided an opportunity to exercise the waiver for uninsured and underinsured motorist coverage and

forms are obtained and retained with the underwriting file. This is to ensure that violation noted under 75 Pa. C.S. §1731(b) & (c) does not occur in the future.

**Company Response:** The Company acknowledges this recommendation and will emphasize to its agents the importance of ensuring that the waiver elections uploaded to the Company match the election forms completed by the insured and retaining the completed ACORD 60PA and ACORD 62PA on file.

**Recommendation #7:** The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for uninsured and underinsured motorist coverage by signing written rejection forms. This is to ensure that violations noted under 75 Pa. C.S. §1738(d) (1) and (2) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation and will emphasize to its agents the importance of ensuring that the waiver elections uploaded to the Company match the election forms completed by the insured and retaining the completed ACORD 60PA and ACORD 62PA on file.

**Recommendation #8:** The Company must provide the insured with a surcharge disclosure plan at the time of application and at least once annually that accurately provides an estimate of the surcharge. This is to ensure that the violations noted under 75 Pa. C.S. §1793(b) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. Form CF330 (12/15) was revised by the Company in December, 2015 to provide an estimate of the surcharge for new business policies beginning 12/29/15 and renewals beginning 1/25/16.

**Recommendation #9:** The Company must provide the insured with a surcharge disclosure plan at the time of application and at least once annually that includes the

period the rate penalty will be in effect. This is to ensure that the violations noted under 75 Pa. C.S. §1793(b) (2) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation. Form CF330 has been revised by the Company to clarify the period for which the rate penalty will be in effect. The revised form was submitted to the Department on March 22, 2016.

**Recommendation #10:** When a surcharge is imposed on a private passenger automobile policy, the Company must identify the amount of surcharge and give notice to the insured on the premium notice. This procedure must be implemented within 30 days of the Report issue date. This is to ensure that violations noted under 75 Pa. C.S. §1799.3(d) do not occur in the future.

**Company Response:** The Company acknowledges this recommendation and would like to note the premium surcharges notice was provided to the insureds utilizing Form AU374-7/14 which was furnished with the policy. Based on the Department's recommendation, the Company has revised the premium notice (i.e., policy declaration page) to include the premium surcharge information that was previously provided to the insureds in Form AU374. The revised premium notice was to the Department on March 22, 2016. Work is currently underway to complete the system automation so that new business policies will meet this requirement effective June 23, 2016 and renewal policies effective July 6, 2015. The Company will provide applicable documentation upon completion of the implementation.