



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

**USAA CASUALTY
INSURANCE COMPANY**
San Antonio, TX

**As of: June 21, 2016
Issued: August 22, 2016**

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

VERIFICATION

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



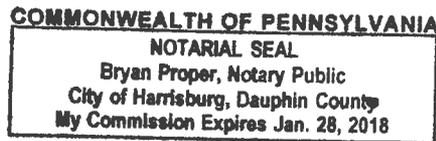
Karen A. Veronikis, Examiner-in-Charge

Sworn to and Subscribed Before me

This 16 Day of May, 2016



Notary Public



USAA CASUALTY INSURANCE COMPANY

TABLE OF CONTENTS

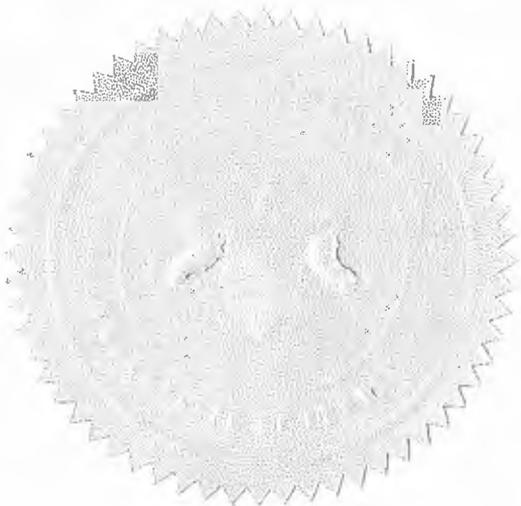
Order	
I.	Introduction 1
II.	Scope of Examination 3
III.	Company History/Licensing 5
IV.	Underwriting Practices and Procedures 6
V.	Underwriting
	A. Private Passenger Automobile 9
	B. Personal Property 16
VI.	Rating
	A. Private Passenger Automobile 29
	B. Personal Property 39
VII.	Claims
	A. Automobile Property Damage Claims. 53
	B. Automobile Comprehensive Claims. 55
	C. Automobile Collision Claims 55
	D. Automobile Total Loss Claims 55
	E. Automobile First Party Benefit Claims 57
	F. Automobile First Party Benefit Claims Referred to a PRO. . . 60
	G. Homeowners Claims 61
	H. Tenant Homeowners Claims 61

I.	Dwelling Fire Owner Occupied Claims	62
VIII.	Forms	63
IX.	Advertising	65
X.	Complaints	67
XI.	Producer Licensing	69
XII.	Data Integrity	70
XIII.	MCAS Reporting	
A.	Private Passenger Automobile	73
B.	Personal Property	76
XIV.	Recommendations	80
XV.	Company Response	85

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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




Teresa D. Miller
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
USAA CASUALTY : 40 P.S. §323.4(b)
INSURANCE COMPANY : :
9800 Fredericksburg Road : 40 P.S. §§991.2001, 991.2003(a)(8)&(10)
San Antonio, TX 78288 : 991.2006 and 991.2008(b)
: :
: 40 P.S. §§1171.3, 1171.5(a)(4)
: 1171.5(a)(7)(ii), 1171.5(a)(9)
: 1171.5(a)(9)(ii), 1171.5(a)(9)(iv)
: and 1171.5(a)(11)
: :
: 40 P.S. §1184(a)&(h)
: :
: 18 Pa. Code §4117(k)(1)
: :
: 31 Pa. Code §§51.32(b), 51.61, 59.6(6)
: 69.12(a), 69.22(c), 69.42, 69.43, 69.52(a)
: 69.52(b), 69.52(e), 146.5(a), 146.5(d)
: and 146.6
: :
: 75 Pa. C.S. §§1161(a)&(b)
: 1705(a)(1)&(4), 1716, 1738(d)(2)
: 1791.1(b), 1793(b), 1793(c) and 1799.3(f)
: :
Respondent. : Docket No. MC16-07-017

CONSENT ORDER

AND NOW, this 22nd day of August, 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 USAA Casualty Insurance Company, and maintains its address at 9800 Fredericksburg Road, San Antonio, TX 78288.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2013 through December 31, 2013.

- (c) On June 21, 2016, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on July 22, 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. §991.2001 defines “renewal” or “to renew” as to issue and deliver at the end of an insurance policy period a policy which supersedes a policy previously issued and delivered by the same insurer and which provides types and limits of coverage at least equal to those contained in the policy being superseded, or to issue and deliver a certificate or notice extending the term of a policy beyond its policy period or term with types and limits of coverage at least equal to those contained in the policy being extended: Provided,

however, that any policy with a policy period or term of less than 12 months or any period with no fixed expiration date shall for the purpose of this article be considered as if written for successive policy periods or terms of 12 months;

- (iii) 40 P.S. §991.2003(a)(8)&(10) states that an insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reasons: marital status and lawful occupation (including military service);
- (iv) 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;
- (v) 40 P.S. §991.2008(b), requires any applicant for a policy who is refused such policy by an insurer shall be given a written notice of refusal to write by the insurer. Such notice shall state the specific reason or reasons of the insurer for refusal to write a policy for the applicant. Within 30 days of the receipt of such reasons, the applicant may request in writing to the Commissioner that he review the action of the insurer in refusing to write a policy for the applicant;
- (vi) 40 P.S. §1171.3 states that a “renewal” or “to renew” is to issue and deliver at the end of an insurance policy period a policy which supersedes a policy previously issued and delivered by the same insurer or affiliated insurance and

which provides types and limits of coverage at least equal to those contained in the policy being superseded, or to issue and deliver a certificate or notice extending the term of the policy beyond its policy period or term with types and limits of coverage at least equal to those contained in the policy being extended: Provided, however, That any policy with a policy period or term of less than twelve (12) months or any period with no fixed expiration date shall for the purpose of this article be considered as written for successive policy periods or terms of twelve (12) months;

- (vii) 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;

- (viii) 40 P.S. §1171.5(a)(7)(ii) "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 of essentially the same hazard in the amount of premium, policy, fees or rates charged for any policy or contract of insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any manner whatever;

- (ix) 40 P.S. §1171.5(a)(9), prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner;
- (x) 40 P.S. §1171.5(a)(9)(ii), prohibits any cancellation or refusal to renew to become effective in a period of less than thirty days from the date of delivery or mailing;
- (xi) 40 P.S. §1171.5(a)(9)(iv), requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer;
- (xii) 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;

- (xiii) 40 P.S. §1184(a)&(h), requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in this Commonwealth and prohibits an insurer from making or issuing a contract or policy with rates other than those approved;

- (xiv) 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;

- (xv) 31 Pa. Code §51.32(b), states the source of any statistics used in an advertisement shall be identified in the advertisement, if the failure to so identify would have the capacity or tendency to mislead purchasers or prospective purchasers;

- (xvi) 31 Pa. Code §51.61, states an advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of premium rate which the company would charge for such insurance unless if it is the company's intent and actual practice to refuse to render a quote to certain individuals or classes of individuals for any reason,

the advertisement shall clearly and conspicuously disclose in prominent type, “WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN,” and on the application for such quotation immediately in bold type or contrasting color state, “Do you understand that the company reserves the right to refuse to give you a quotation for automobile insurance; Yes ___ No ___?”;

(xvii) 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;

(xviii) 31 Pa. Code §69.12(a), states that acute care treatment and services for life-threatening or urgent injuries, and services for burn patients rendered by providers during transport to and while at a trauma center or a burn facility, shall be paid at the usual and customary charge when the insured’s condition meets the definition of urgent or life-threatening injury, based upon information available at the time of the insured’s assessment;

- (xix) 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;
- (xx) 31 Pa. Code §69.42, states an insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer;
- (xxi) 31 Pa. Code §69.43, states an insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill

submitted by the provider delineating the services rendered and the information from which a determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount;

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

(xxiii) 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;

(xxiv) 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;

(xxv) 31 Pa. Code §146.5(a), requires every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;

(xxvi) 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;

(xxvii) 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;

(xxviii) 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;

(xxix) 75 Pa. C.S. §1705(a)(1)&(4), requires every insurer, prior to the 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 a standardized form as adopted by the Commissioner;

(xxx) 75 Pa. C.S. §1716, states that benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended;

(xxxii) 75 Pa. C.S. §1738(d)(2), states the named insured shall be informed that he may exercise the waiver of stacked limits for underinsured motorist coverage by signing written rejection forms;

(xxxiii) 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;

(xxxiii)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;

(xxxiv)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;

(xxxv) 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.

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. §§991.2001, 991.2003(a)(8)&(10), 991.2006 and 991.2008(b) (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. §§1171.3, 1171.5(a)(4), 1171.5(a)(7)(ii), 1171.5(a)(9), 1171.5(a)(9)(ii), 1171.5(a)(9)(iv) and 1171.5(a)(11) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):
 - (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
 - (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40

P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Violations of Section 4 of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. §1184(a)&(h)) are punishable under Section 16 of the Act:
- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such willful violation;
 - (ii) suspension of the license of any insurer which fails to comply with an Order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.
- (f) Respondent's violations of 31 Pa. Code §§146.5(a), 146.5(d) and 146.6 are punishable under Sections 1 through 5 and Section 9 of the Unfair Insurance Practices Act (40 P.S. §§1171.1 – 1171.5 and 1171.9):
- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (g) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Should Respondent fail to exercise sufficient due diligence to ensure compliance with 40 P.S. §323.4 in regard to data integrity, Respondent shall be subject to a

\$10,000 penalty per violation, as well as any other sanctions or remedies as provided for by law.

- (c) Respondent shall pay One Hundred Fifty Thousand Dollars (\$150,000) to the Pennsylvania Insurance Department of which One Hundred Twenty Five Thousand Dollars (\$125,000) is in settlement of all violations identified during the examination, and Twenty Five Thousand Dollars (\$25,000) is for reimbursement to the Department for costs and expenditure of resources associated with the exam.
- (d) 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.
- (e) 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.
- (f) 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.

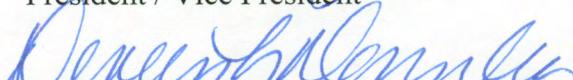
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

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.

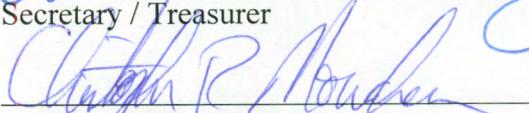
BY: USAA CASUALTY INSURANCE COMPANY
Respondent



President / Vice President



Secretary / Treasurer



CHRISTOPHER R. MONAHAN
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at the office of USAA Casualty Insurance Company, hereinafter referred to as "Company," located in San Antonio, Texas from January 5, 2015, through January 16, 2015. 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.

Constance L. Arnold, MCM
Market Conduct Division Chief
Pennsylvania Insurance Department

Kelly Krakowski
Market Conduct Examiner
Pennsylvania Insurance Department

Karen Veronikis
Market Conduct Examiner
Pennsylvania Insurance Department

Joshua Taylor
Market Conduct Examiner Trainee
Pennsylvania Insurance Department

Lindsay Breach
Market Conduct Examiner Trainee
Pennsylvania Insurance Department

Sean Betta
Market Conduct Examiner
AIG Services

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on USAA Casualty Insurance Company, at its office located in San Antonio, Texas. 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, 2013, through December 31, 2013, 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, and declinations.
 - Rating - Proper use of all classification and rating plans and procedures.
2. Personal Property
 - Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, and declinations.
 - Rating - Proper use of all classification and rating plans and procedures.
3. Claims
4. Forms
5. Advertising
6. Complaints

7. Producer Licensing

8. Data Integrity

9. MCAS Reporting

- Private Passenger Automobile
- Personal Property

III. COMPANY HISTORY

The company was incorporated September 6, 1968 under the laws of Texas and began business on December 1, 1969. The company operated under the title United States Casualty Insurance Company until December 2, 1970 when the present title was adopted. Effective December 31, 1990 the company merged with the newly formed USAA Casualty Insurance Company of Florida and redomesticated from San Antonio to Tampa, Florida. The company is a wholly owned subsidiary of USAA.

LICENSING

USAA Casualty Insurance Company's Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2015. The Company is licensed in all 50 states, the District of Columbia, and the U.S. Virgin Islands. The Company's 2013 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$129,465,450. Premium volume related to the areas of this review were: Fire \$1,111,869; Homeowners Multiple Peril \$39,093,982; Inland Marine \$1,817,618; Private Passenger Automobile Direct Written Premium was reported as Other Private Passenger Auto Liability \$40,461,646, Private Passenger Auto No-Fault (personal injury protection) \$6,676,853 and Private Passenger Auto Physical Damage \$37,804,743.

IV. UNDERWRITING PRACTICES AND PROCEDURES

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

The following findings were made:

1 Violation 40 P.S. §991.2001

States that a "renewal" or "to renew" is to issue and deliver at the end of an insurance policy period a policy which supersedes a policy previously issued and delivered by the same insurer or affiliated insurance and which provides types and limits of coverage at least equal to those contained in the policy being superseded, or to issue and deliver a certificate or notice extending the term of the policy beyond its policy period or term with types and limits of coverage at least equal to those contained in the policy being extended:

Provided, however, That any policy with a policy period or term of less than twelve (12) months or any period with no fixed expiration date shall for the purpose of this article be considered as written for successive policy periods or terms of twelve (12) months. The Company's Auto Underwriting Guidelines indicate that it is their practice to modify or eliminate Physical Damage coverage from an automobile policy in lieu of cancellation or nonrenewal.

3 Violations 40 P.S. §1171.3

States that a “renewal” or “to renew” is to issue and deliver at the end of an insurance policy period a policy which supersedes a policy previously issued and delivered by the same insurer or affiliated insurance and which provides types and limits of coverage at least equal to those contained in the policy being superseded, or to issue and deliver a certificate or notice extending the term of the policy beyond its policy period or term with types and limits of coverage at least equal to those contained in the policy being extended:

Provided, however, That any policy with a policy period or term of less than twelve (12) months or any period with no fixed expiration date shall for the purpose of this article be considered as written for successive policy periods or terms of twelve (12) months. The USAA Group Homeowners Insurance Underwriting Guidelines, USAA Group Renters Protection Policy Underwriting Guidelines, and USAA Group Rental Property Insurance Underwriting Guidelines indicate that it is their practice to reduce coverage on a policy midterm.

2 Violations 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 of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The USAA Group Renters Protection Policy Underwriting Guidelines and Valuable Personal Property Insurance

Underwriting Guidelines contain language indicating that it is in their practice to require supporting business.

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 151 private passenger automobile policies that were cancelled within the first 60 days of new business, 15 files were selected for review. All 15 files requested were received and reviewed. The eight (8) violations noted were based on eight (8) files, resulting in an error ratio of 53%.

The following findings were made:

2 Violations 75 Pa. C.S. §1793(c)

When an insurer cancels a motor vehicle insurance policy the insurer shall, within 30 days of canceling the policy, return to the insured all premiums paid under the policy less any proration for the period the policy was in effect. Premiums

are overdue if not paid to the insured within 30 days after canceling the policy. Overdue return premiums shall bear interest at the rate of 12% per annum from the date the return premium became due. The Company failed to return unearned premium within 30 days of canceling the policy for the two (2) violations noted. The refund amount for those policyholders was \$.99.

6 Violations 40 P.S. §323.4(b)

Requires that 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 six (6) violations resulted in the failure to provide a cancellation notice within the file.

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

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 4,531 private passenger automobile policies which were cancelled during the experience period, 100 files were selected for review. All 100 files requested were received and reviewed. The 16 violations noted were based on 16 files, resulting in an error ratio of 16%.

The following findings were made:

13 Violations 40 P.S. §991.2006

40 P.S. §323.4(b)

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. In addition, 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 13 violations resulted from the Company's failure to provide a cancellation notice within the file.

3 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The three (3) violations resulted in the failure to provide a cancellation notice, policy release form, or notes in the file to indicate that the insured requested cancellation.

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

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 122 private passenger automobile policies which were nonrenewed during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. Of the 50 files reviewed, 49 were identified as nonrenewals and one (1) was identified as a midterm cancellation file. The four (4) violations noted were based on four (4) files, resulting in an error ratio of 8%.

The following findings were made:

1 Violation 40 P.S. §991.2003(a)(10)

States that an insurer may not cancel or refuse to renew a policy of automobile insurance for the following reason: lawful occupation (including military service). The Company nonrenewed a member's policy due to a family member's lack of military service.

3 Violations 40 P.S. §991.2006

40 P.S. §323.4(b)

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. In addition, 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 three (3) violations resulted from the Company's failure to provide a nonrenewal notice within the file.

The following concerns were noted:

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

Pennsylvania Insurance Department

Bureau of Consumer Services

1209 Strawberry Square

Harrisburg, PA 17120

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

Fax: (717) 787-8585

CONCERN: The Company is mailing nonrenewal notices with variable text that is unclear to the reader. The company should make sure all text is aligned properly for readability by the insured.

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 six (6) declinations for private passenger auto insurance, all six (6) files were selected for review. All six (6) files requested were received and reviewed. The eight (8) violations noted were based on six (6) files, resulting in an error ratio of 100%.

The following findings were made:

4 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 four (4) violations noted were the result of the Company not providing a specific reason for the refusal to write a policy.

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 two (2) violations noted were the result of the Company not providing proper right of review information on the written notice.

2 Violations 75 Pa. C.S. §1799.3(f)

If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the Commissioner. The Company failed to provide a refusal to write to the applicant on a form approved by the Commissioner for the two (2) violations 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 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days' notice of the termination.

From the universe of 1,068 property policies which were cancelled within the first 60 days of new business, 45 files were selected for review. The property files consisted of homeowners, tenant homeowners, and inland marine. All 45 files were received and reviewed. Of the 45 files reviewed, 32 files were identified as 60-day cancellations and 13 were identified as flat cancellations. The seven (7) violations noted were based on seven (7) files, resulting in an error ratio of 16%.

The following findings were made:

1 Violation 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to

the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company failed to use a valid cancellation notice for the one (1) violation noted. The Company was using a single notice of cancellation to cancel two separate policies that are not a package policy for non-payment of premium.

6 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The six (6) violations resulted from the Company's failure to provide a cancellation notice, policy release form, or notes in the file to indicate that the insured requested cancellation.

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

2. Midterm Cancellations

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

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

From the universe of 3,513 property policies which were cancelled midterm during the experience period, 100 files were selected for review. The property files consisted of homeowners and tenant homeowners. All 100 files were received and reviewed. Of the 100 files reviewed, 72 files were identified as midterm cancellations, 12 files were identified as 60-day cancellations, 14 were identified as nonrenewals, and two (2) were identified as flat cancellations. The 75 violations noted were based on 40 files, resulting in an error ratio of 40%.

The following findings were made:

17 Violations 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company failed to use a valid cancellation notice for the 17 violations noted. The Company was using a single notice of cancellation to cancel two separate policies that are not a package policy for non-payment of premium.

1 Violation 40 P.S. §1171.5(a)(9)

Adjudication: Dunn/Allstate, P97-03-050 (1997)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the Company; or there has been a substantial change or increase

in hazard in the risk assumed by the Company subsequent to the date the policy was issued; or there is a substantial increase in hazard insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. In addition, failure of the insureds to respond to a letter and questionnaire from the insurer, without more, does not establish a substantial increase in hazard by reason of willful or negligent acts or omissions, unless insurer can also present evidence of an actual increase in hazard. The Company failed to provide a proper reason for cancellation due to an increase in hazard not being documented for the one (1) violation noted.

1 Violation 40 P.S. §1171.5(a)(9)(ii)

Adjudication: Pursell/Goschenhoppen Mutual, PH91-11-24 (1992)

Requires that a cancellation notice shall state the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. In addition, when computing the 30-day time period after the date of mailing on which the termination shall become effective, the first and 30th terminal day must be excluded. The one (1) violation noted resulted from the Company not providing the required thirty days' notice of cancellation.

20 Violations 40 P.S. §1171.5(a)(9)(iv)

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt

of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The 20 violations noted resulted from the Company failing to advise the insured of his right to request a review by the Insurance Commissioner within ten days of the receipt of the notice of cancellation specifically for the Property policy identified on the notice.

17 Violations 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. The 17 violations noted resulted from the Company's failure to identify the amount and date of premium due, specifically for the Property policy, where the reason is non-payment of premium.

19 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The 19 violations resulted from the Company's failure to provide a cancellation notice, policy release form, or notes in the file to indicate that the insured requested cancellation.

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

3. Nonrenewals

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

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

From the universe of 185 property policies which were nonrenewed during the experience period, 48 files were selected for review. The property files consisted of homeowners, tenant homeowners, inland marine, and dwelling

fire owner occupied policies. All 48 files were received and reviewed. The 30 violations noted were based on 29 files, resulting in an error ratio of 60%.

The following findings were made:

1 Violation 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company failed to use a valid cancellation notice for the one (1) violation noted. The Company was using a single nonrenewal notice to cancel two separate policies that are not a package policy for non-payment of premium.

4 Violations 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of

individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of cancellation or refusal to renew is received by the insured. The Company failed to provide a nonrenewal notice for the four (4) violations noted.

6 Violations 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or

negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company failed to provide a valid reason for nonrenewal for the six (6) violations noted.

10 Violations 40 P.S. §1171.5(a)(9)(iv)

Requires that a cancellation notice shall advise the insured of his right to request, in writing, within ten days of the receipt of the notice of cancellation or intention not to renew that the Insurance Commissioner review the action of the insurer. The 10 violations noted resulted from the Company failing to advise the insured of his right to request a review by the Insurance Commissioner within ten days of the receipt of the nonrenewal notice.

1 Violation 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. The one (1) violation noted resulted from the Company's failure to identify the amount and date of premium due, specifically for the Property policy, where the reason is non-payment of premium.

8 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The eight (8) violations resulted from the Company's failure to provide a nonrenewal notice, policy release form, or notes in the file to indicate that the insured requested cancellation.

The following concerns were noted:

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

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

CONCERN: The Company is mailing nonrenewal notices with variable text that is unclear to the reader. The company should make sure all text is aligned properly for readability by the insured.

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 28 homeowner declinations, 10 files were selected for review. All 10 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 5,039 personal automobile policies identified as new business without surcharges by the Company, 25 files were selected for review. All 25 policy files requested were received and reviewed. The 19,002 violations noted were based on the universe of 5,039 files, resulting in an error ratio of 100%.

The following findings were made:

5,039 Violations 75 Pa. C.S. §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d). The Company did provide the notice of tort options to the insured at the time of application; however, the wording on the notice was not verbatim.

5,039 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 include the number of years that a surcharge will be in effect within the surcharge disclosure plan provided to the insured.

4,462 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

4,462 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

The following concern was noted:

CONCERN: The Company provides notice at renewal regarding collision damage to rental vehicles and any limitations on such coverage. However, the Department requires that this be printed on the first page of the renewal policy, the declaration page.

Private Passenger Automobile Rating – New Business with Surcharges

From the universe of 1,141 personal automobile policies identified as new business with surcharges by the Company, 25 files were selected for review. All 25 policy files requested were received and reviewed. The 4,297 violations noted were based on the universe of 1,141 files, resulting in an error ratio of 100%.

The following findings were made:

1 Violation 75 Pa. C.S. §1705(a)(1)&(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 Company did not provide the signed limited tort option selection for the one (1) violation noted.

1 Violation 75 Pa. C.S. §1738(d)(2)

The named insured shall be informed that he may exercise the waiver of stacked limits for underinsured motorist coverage by signing written rejection forms. The Company did not

provide the signed rejection form of stacked limits for underinsured motorists coverage for the one (1) violation noted.

1,141 Violations 75 Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705© and (d). The Company did provide the notice of tort options to the insured at the time of application; however, the wording on the notice was not verbatim.

1,141 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 include the number of years that a surcharge will be in effect within the surcharge disclosure plan provided to the insured.

1 Violation 40 P.S. §1184(a)&(h)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also,

no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The violation was the result of the policy being issued with an improper territory which resulted in an undercharge of \$20.48.

1,006 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

1,006 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the

Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

The following concern was noted:

CONCERN: The Company provides notice at renewal regarding collision damage to rental vehicles and any limitations on such coverage. However, the Department requires that this be printed on the first page of the renewal policy, the declaration page.

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 – Renewals without Surcharges

From the universe of 46,259 personal automobile policies identified as renewals without surcharges, 25 files were selected for review. All 25 policy files requested were received and reviewed. The 138,778 violations noted were based on the universe of 46,259 files, resulting in an error ratio of 100%.

The following findings were made:

46,259 Violations 40 P.S. §1171.5(a)(7)(ii)

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 of essentially the same hazard in the amount of premium, policy, fees, or rates charged for any policy or contract of insurance. The Company failed to apply a consistent standard for rating renewal policies, specifically regarding the Company's inconsistent use of Motor Vehicle Reports across renewal populations.

1 Violation 40 P.S. §1184(a)&(h)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to apply the proper territory resulting in an undercharge of \$30.47.

46,259 Violations 75 Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d). The Company did provide the notice of tort options to the insured at the time of application; however, the wording on the notice was not verbatim.

46,259 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 include the number of years that a surcharge will be in effect within the surcharge disclosure plan provided to the insured.

The following concern was noted:

CONCERN: The Company provides notice at renewal regarding collision damage to rental vehicles and any limitations on such coverage. However, the Department requires that this be printed on the first page of the renewal policy, the declaration page.

Private Passenger Automobile – Renewals with Surcharges

From the universe of 6,372 private passenger automobile policies identified as renewals with surcharges, 25 files were selected for review. All 25 policy files requested were received and reviewed. The 19,116 violations noted were based on the universe of 6,372 files, resulting in an error ratio of 100%.

The following findings were made:

6,372 Violations 40 P.S. §1171.5(a)(7)(ii)

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 of essentially the same hazard in the amount of premium, policy, fees, or rates charged for any policy or contract of insurance. The Company failed to apply a consistent standard for rating renewal policies, specifically regarding the Company’s inconsistent use of Motor Vehicle Reports across renewal populations.

6,372 Violations 75 Pa. C.S §1791.1(b)

Requires an insurer to provide an insured a notice of the availability of two alternatives of full tort insurance and limited tort insurance described in section 1705(c) and (d). The Company did provide the notice of tort options to the insured at the time of application; however, the wording on the notice was not verbatim.

6,372 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 include the number of years that a surcharge will be in effect within the surcharge disclosure plan provided to the insured.

The following concern was noted:

CONCERN: The Company provides notice at renewal regarding collision damage to rental vehicles and any limitations on such coverage. However, the Department requires that this be printed on the first page of the renewal policy, the declaration page.

B. Personal Property

1. New Business

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

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

Homeowner Rating - New Business Without Surcharges

From the universe of 2,444 homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The 4,770 violations noted were based on 2,385 files, resulting in an error ratio of 100%.

The following findings were made:

2,385 Violations 40 P.S. §323.4(b)

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

disclosure information. Compliance could not be determined for the violations noted.

2,385 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

The following concern was noted:

CONCERN: Homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Homeowner Rating - New Business With Surcharges

From the universe of 137 homeowner policies written as new business with surcharges during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 231 violations noted were based on 115 files, resulting in an error ratio of 100%.

The following findings were made:

115 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

115 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the

Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

1 Violation 40 P.S. §1184(a)&(h)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to apply the filed and approved rates for the violation noted.

The following concern was noted:

CONCERN: Homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Tenant Homeowner Rating - New Business Without Surcharges

From the universe of 2,570 tenant homeowner policies written as new business without surcharges during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 4,062 violations noted were based 2,031 files, resulting in an error ratio of 100%.

The following findings were made:

2,031 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

2,031 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

The following concern was noted:

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

Tenant Homeowner Rating - New Business With Surcharges

From the universe of 19 tenant homeowner policies written as new business with surcharges during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 34 violations noted were based on 17 files, resulting in an error ratio of 100%

The following findings were made:

17 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

17 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

The following concern was noted:

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

Dwelling Fire Owner Occupied Rating - New Business

From the universe of 21 dwelling fire owner occupied policies written as new business during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. The 43 violations

noted were based on the universe of 21 files, resulting in an error ratio of 100%.

The following findings were made:

1 Violation 40 P.S. §1184(a)&(h)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to apply the filed and approved rates for the violation noted which resulted in an overcharge of \$.01.

21 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to retain phone sales recordings which demonstrate and contain application and disclosure information. Compliance could not be determined for the violations noted.

21 Violations 40 P.S. §323.4(b)

40 P.S. §1184(a)&(h)

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. In addition, every insurer shall file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. The Company failed to maintain record of first policy issuance for the violations noted.

2. Renewals

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

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

Homeowner Rating – Renewals Without Surcharges

From the universe of 2,418 homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed.

The following concern was noted:

CONCERN: Homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Homeowner Rating – Renewals With Surcharges

From the universe of 54 homeowner policies renewed with surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed.

The following concern was noted:

CONCERN: Homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Tenant Homeowner Rating – Renewals Without Surcharges

From the universe of 64 tenant homeowner policies renewed without surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The two (2) violations noted were

based on two (2) files, resulting in an error ratio of 20%.

The following findings were made:

1 Violation 40 P.S. §1184a)&(h)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. The Company failed to apply the filed and approved rates for the violation noted which resulted in an overcharge of \$.01.

1 Violation 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to maintain record of policy information. Accurate rating could not be determined for the violation noted due to missing original renewal declaration.

The following concern was noted:

CONCERN: Tenant homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is

provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Tenant Homeowner Rating – Renewals With Surcharges

From the universe of 236 tenant homeowner policies renewed with surcharges during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The one (1) violation noted was based on one (1) file, resulting in an error ratio of 10%.

The following finding was made:

1 Violation 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to maintain record of policy information. Accurate rating could not be determined for the violation noted due to missing original renewal declaration.

The following concern was noted:

CONCERN: Tenant homeowner policies are subject to a surcharge for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what

surcharge percentage applies for paid losses as provided in the Company's rate filing and how long the surcharge will last. Notification of the surcharge disclosure requirement was provided to all companies in an Important Notice dated 9/18/1998.

Dwelling Fire Owner Occupied Rating - Renewals

From the universe of 30 dwelling fire owner occupied policies renewed during the experience period, 10 files were selected for review. All 10 files selected were received and reviewed. No violations were noted.

VII. CLAIMS

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

The Claims review consisted of the following areas of review:

- A. Automobile Property Damage Claims
- B. Automobile Comprehensive Claims
- C. Automobile Collision Claims
- D. Automobile Total Loss Claims
- E. Automobile First Party Benefits Claims
- F. Automobile First Party Benefits Claims Referred to a PRO
- G. Homeowners Claims
- H. Tenant Homeowners Claims
- I. Dwelling Fire Owner Occupied Claims

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

A. Automobile Property Damage Claims

From the universe of 4,378 private passenger automobile property damage claims reported during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. Of the 50 files, 48 files were identified as property damage claims, one (1) file was

identified as a collision claim and one (1) file was identified as a total loss claim. The four (4) violations noted were based on four (4) files, resulting in an error ratio of 8%.

The following findings were made:

3 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 did not acknowledge the three (3) claims noted within ten working days.

1 Violation 31 Pa. Code §146.6

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

B. Automobile Comprehensive Claims

From the universe of 16,120 private passenger automobile comprehensive claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. Of the 25 files, 23 files were identified as comprehensive claims, one (1) file was identified as a total loss claim, and one (1) file was identified as a collision claim. No violations were noted.

C. Automobile Collision Claims

From the universe of 8,374 private passenger automobile collision claims reported during the experience period, 25 files were selected for review. All 25 files selected were received and reviewed. The two (2) violations noted were based on two (2) files, resulting in an error ratio of 8%.

The following findings were made:

2 Violations 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 (2) claims noted.

D. Automobile Total Loss Claims

From the universe of 1,446 private passenger automobile total loss claims reported during the experience period, 50 files were selected for review. All

50 files selected were received and reviewed. The one (1) violation noted was based on one (1) file, resulting in an error ratio of 2%.

The following finding was made:

1 Violation 75 Pa. C.S. §1161(a)&(b)

(a) General rule – Except as provided in Sections 1162 and 1163, a person, including an insurer or self-insurer as defined in Section 1702 (relating to definitions), 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. (b) Application for certificate of salvage. – An owner who transfers a vehicle to be destroyed or dismantled, salvaged or recycled shall assign the certificate of title to the person to whom the vehicle is transferred. Except as provided in Section 1163, the transferee shall immediately present the assigned certificate of title to the Department or an authorized agent of the Department with an application for a certificate of salvage upon a form furnished and prescribed by the Department. An insurer as defined in Section 1702 to which title to a vehicle is assigned upon payment to the insured or claimant of the replacement value of a vehicle shall be regarded as a transferee under this subsection. The Company failed to obtain salvage certificate prior to issuing a claim check on an owner-retained vehicle for the one (1) violation noted.

The following concern was noted:

CONCERN: The Company was using 75 Pa. C.S. §1822 on claims forms. The Company should use 18 Pa. C.S. §4117(k)(1) with verbatim wording on all claims forms.

E. Automobile First Party Benefits Claims

From the universe of 1,177 private passenger automobile first party medical claims reported during the experience period, 50 claim files were selected for review. All 50 files requested were received and reviewed. The 15 violations noted were based on 11 files, resulting in an error ratio of 22%.

The following findings were made:

1 Violation 31 Pa. Code §69.12(a)

Acute care treatment and services for life-threatening or urgent injuries, and services for burn patients rendered by providers during transport to and while at a trauma center or a burn facility, shall be paid at the usual and customary charge when the insured's condition meets the definition of urgent or life-threatening injury, based upon information available at the time of the insured's assessment. The Company failed to pay the trauma bill at the usual and customary charge.

2 Violations 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. The two (2) violations noted were due to the insurer not

notifying the insured and provider that the first-party limits have been exhausted.

1 Violation 31 Pa. Code §69.42

31 Pa. Code §69.43

An insurer shall make payments to providers in accordance with the Medicare Program as applied in this Commonwealth by the carrier and intermediaries. Care covered under the Medicare Program shall be reimbursed at 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). Medicare co-insurance and deductibles may not be excluded in payments made by the insurer. Also, an insurer shall pay the provider's usual and customary charge for services rendered when the charge is less than 110% of the Medicare payment or a different allowance as may be determined under §69.12(b). An insurer shall pay 80% of the provider's usual and customary charge rendered if no Medicare payment exists. In calculating the usual and customary charge, an insurer may utilize the requested payment amount on the provider's bill for services or the data collected by the carrier or intermediaries to the extent that the data is made available. An insurer shall provide a complete explanation of the calculations made in computing its determination of the amount payable including whether the calculation is based on 110% of the Medicare payment, 80% of the usual and customary charge or at a different allowance determined by the Commissioner under §69.12(b). A bill submitted by the provider delineating the services rendered and the information from which a

determination could be made by the insurer as to the appropriate payment amount will not be construed as a demand for payment in excess of the permissible payment amount. The Company failed to have the medical bill repriced or adjusted for cost containment.

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 two (2) violations noted resulted because the medical bills were not paid within 30 days.

7 Violations 31 Pa. Code §146.5(d)

Requires 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. The Company did not provide the necessary claim forms to the claimant within ten working days for the seven (7) violations noted.

2 Violations 75 Pa. C.S. §1716

Payment of Benefits. Benefits are overdue if not paid within 30 days after the insurer receives reasonable proof of the amount of benefits. If reasonable proof is not supplied as to all benefits, the portion supported by reasonable proof is overdue if not paid within 30 days after the proof is received by the insurer. Overdue benefits shall bear interest at the rate

of 12% per annum from the date the benefits become due. In the event the insurer is found to have acted in an unreasonable manner in refusing to pay the benefits when due, the insurer shall pay, in addition to the benefits owed and the interest thereon, a reasonable attorney fee based upon actual time expended. The Company did not pay interest on two (2) claims that were not paid within 30 days, resulting in restitution of \$8.34.

The following concern was noted:

CONCERN: The Company was using 75 Pa. C.S. §1822 on claims forms. The Company should use 18 Pa. C.S. §4117(k)(1) with verbatim wording on all claims forms.

F. Automobile First Party Benefits Claims Referred to a PRO

From the universe of 60 automobile first party medical claims that were referred to a peer review organization by the Company, 25 files were selected for review. All 25 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 nine (9) violations noted were based on eight (8) files, resulting in an error ratio of 32%.

The following findings were made:

1 Violation 31 Pa. Code §69.52(a)

Requires an insurer to refer a provider's bill 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. The insurer shall notify a provider, in writing, when referring bills for PRO review at the time of referral. The Company did not notify the provider, in writing, upon referring bills to a PRO for the one (1) claim noted.

8 Violations 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. The Company did not provide a copy of the PRO report to the provider and insured within 5 days for the eight (8) violations noted.

G. Homeowners Claims

From the universe of 1,708 homeowners claims reported during the experience period, 30 claim files were selected for review. All 30 files requested were received and reviewed. No violations were noted.

H. Tenant Homeowners Claims

From the universe of 293 tenant homeowners claims during the experience period, 15 claim files were selected for review. All 15 files requested were received and reviewed. The one (1) violation noted was based on one (1) file, resulting in an error ratio of 7%.

The following finding was made:

1 Violation 31 Pa. Code §146.6

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

I. Dwelling Fire Owner Occupied Claims

From the universe of three (3) dwelling fire owner occupied claims reported during the experience period, all three (3) claim files were selected for review. All three (3) files requested were received and reviewed. No violations were noted.

VIII. FORMS

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

The following findings were made:

2 Violations 18 Pa. C.S. §4117(k)(1)

All applications for insurance and all claims forms shall contain or have attached thereto the following notice: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties. The Company failed to provide the required fraud warning language on two (2) claim forms.

1 Violation 75 Pa. C.S. §1799.3(f)

If requested by the applicant, an agent for an insurer shall submit an application for automobile insurance to the insurer or provide the applicant written notice of the reasons for refusal to write on a form supplied by the insurer and approved by the Commissioner. The Company failed to provide a refusal to write to the applicant on a form approved by the Commissioner.

The following concerns were noted:

CONCERN: The Company was using 75 Pa. C.S. 1822 on claim form #66592-0213 PA-7101, Power of Attorney. The Company should be use 18 Pa. C.S. §4117(k)(1) with verbatim wording on all claim forms.

CONCERN: The Company was using 75 Pa. C.S. 1822 on claim form #RAP008-0213 PA-7101, Release For Property Damage. The Company should be use 18 Pa. C.S. §4117(k)(1) with verbatim wording on all claim forms.

CONCERN: The Company was using 75 Pa. C.S. 1822 at the time of auto application. The Company should be use 18 Pa. C.S. §4117(k)(1) with verbatim wording at the time of auto application.

CONCERN: The Company was using 75 Pa. C.S. 1822 on claim form #MA062-095, Application of Benefits. The Company should be use 18 Pa. C.S. §4117(k)(1) with verbatim wording on all claim forms.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period. The Company provided 346 pieces of advertising which included brochures, direct mailers, postcards, emails, and outbound call scripts. Of the 346 pieces of advertising, 50 pieces were reviewed. The Company website was also reviewed.

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

The following findings were made:

37 Violations 40 P.S. §991.2003(a)(8)

40 P.S. §991.2003(a)(10)

States that an insurer may not cancel or refuse to write or renew a policy of automobile insurance for the following reasons: marital status and lawful occupation (including military service). As noted in the advertisement files and on the Company's website, the Company is refusing to write or renew a policy or cancelling a policy due to a change in marital status, rank, or military status.

25 Violations 31 Pa. Code §51.61

An advertisement for automobile liability or physical damage insurance coverage shall not invite a prospective insured to apply for a quotation of premium rate which the company would charge for such insurance unless if it is the company's intent and actual

practice to refuse to render a quote to certain individuals or classes of individuals for any reason, the advertisement shall clearly and conspicuously disclose in prominent type, "WE RESERVE THE RIGHT TO REFUSE TO QUOTE ANY INDIVIDUAL A PREMIUM RATE FOR THE INSURANCE ADVERTISED HEREIN," and on the application for such quotation immediately in bold type or contrasting color state, "Do you understand that the company reserves the right to refuse to give you a quotation for automobile insurance; Yes__ No__?". For the 25 violations noted, the Company offered to quote a premium rate, but did not disclose that it is the Company's intent and actual practice to refuse to render a quote to those individuals that are not eligible for membership.

2 Violations 31 Pa. Code §51.32(b)

The source of any statistics used in an advertisement shall be identified in the advertisement, if the failure to so identify would have the capacity or tendency to mislead purchasers or prospective purchasers. One (1) advertising file and the Company's website each failed to provide a statistical source within the advertisement.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 35 consumer complaints received during the experience period and provided all consumer complaint logs requested. From the universe of 35 complaint files, all 35 files were selected for review. All 35 files were received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, (40 P.S. §§1171.1 – 1171.5). Section 5(a)(11) of the Act (40 P.S. §1171.5(a)(11)), requires a company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. The individual complaint files were reviewed for the relevancy to applicable statutes and to verify compliance with 31 Pa. Code §146.5(b)(c).

The following findings were made:

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 the complaint, the disposition of these complaints and the time it took to process each complaint. For the four (4) violations noted, the Company failed to provide complete complaint registers. The records did not contain the total number of complaints.

11 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The 11 violations resulted from the Company's failure to maintain a complete complaint file.

The following concern was noted:

CONCERN: The four (4) complaint registers provided by the Company for the years 2009 through 2012 were combined. The Company should provide four (4) separate complaint registers for each of the years specified.

The following synopsis reflects the nature of the 35 complaints that were reviewed.

17	Cancellation/Nonrenewal	49%
17	Claims Related	49%
1	Miscellaneous	2%
<hr/>		<hr/>
35		100%

XI. PRODUCER LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1-A(a) and Section 671-A of the Insurance Department Act No. of 1921, (40 P.S. §§310.41(a)a, 310.71), the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. The Company does not print producer names on policy documents; therefore the Department could not review each producer for compliance. The Department corresponded with the Company regarding the producer licensing and appointment process. Detailed information was provided by the Company regarding the credentialing of its Member Service Representatives and call routing system. No violations were noted.

XII. DATA INTEGRITY

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

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

Midterm Cancellations

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

Finding: Of the 100 property midterm cancellation files reviewed, 81 were identified as midterm cancellations, 12 were identified as 60-day cancellations, five (5) were identified as nonrenewals, and two (2) were identified as flat cancellations.

60-Day Cancellations

Situation: As the examiners reviewed the 60-day cancellation files of the property underwriting section of the exam, it was noted that not all the 45 files selected for review were 60-day cancellation files.

Finding: Of the 45 property 60-day cancellation files reviewed, 32 were identified as 60-day cancellations and 13 were identified as flat cancellations.

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 of the 50 files selected for review were nonrenewal files.

Finding: Of the 50 private passenger automobile nonrenewal files reviewed, 49 were identified as nonrenewals and one (1) file was identified as a private passenger automobile midterm cancellation.

Comprehensive Claims

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

Finding: Of the 25 comprehensive claims reviewed, 23 were identified as comprehensive claims, one (1) file was identified as a total loss claim and one (1) was identified as a collision claim.

Property Damage Claims

Situation: As the examiners reviewed the property damage claims files of the exam, it was noted that not all the 50 files selected for review were property damage claims.

Finding: Of the 50 property damage claims files received, 48 were identified as property damage claims, one (1) was identified as a total loss claim and one (1) was identified as a collision claim.

First Party Benefits Referred to a PRO Claims

Situation: As the examiners reviewed the first party benefit referred to a PRO claims files of the exam, it was noted that not all of the 25 files selected for review were within the experience period.

Finding: Of the 25 first party benefit referred to a PRO claims files received, one (1) file was identified as being outside of the experience period.

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.

XIII. MCAS REPORTING

A. Private Passenger Automobile

In Pennsylvania, insurers are required annually to submit a Market Conduct Annual Statement (MCAS) to the National Association of Insurance Commissioners (NAIC). The review of MCAS data was conducted pursuant to the authority granted by Section 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the Market Conduct Annual Statement (MCAS) reporting for 2013.

The examination team reviewed the Company's 2013 MCAS Submissions. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the sections that were reviewed.

A.	Number of autos which have policies in-force at the end of the period.
B.	Number of Policies in-force at the end of the period.
C.	Number of new business policies written during the period.
D.	Number of Company-Initiated nonrenewals during the period.
E.	Number of cancellations for non-pay, non-sufficient funds or insured's request.
F.	Number of Company-Initiated cancellations that occur in the first 59 days after effective date, excluding rewrites to an affiliated Company.
G.	Number of Company-Initiated cancellations that occur 60 or more days after effective date, excluding rewrites to an affiliated Company.
H.	Number of Complaints received directly from the consumer.

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

The review consisted of three phases, as noted below.

Phase 1

The Company was asked to provide the claims and policy data listings that support the 2013 MCAS filing. Each list contained the claim and policy numbers for each category. The 2013 data submitted was validated to ensure the information was accurate and consistent with the information provided to the NAIC.

The following findings were made:

3 Violations 40 P.S. §323.4(b)

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

failed to provide 2013 data that was consistent with the information provided to the NAIC for one (1) claim category and two (2) underwriting categories.

Phase 2

The Company was asked to provide a record of all claims and policy data listings which supported the 2013 MCAS filings. From each universe list of 2013 data, a random sample of five (5) claims or policy files was requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations.

The following findings were made:

11 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide accurate data for one (1) claim category and three (3) underwriting categories.

Phase 3

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

The following findings were made:

7 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide accurate data for three (3) claim categories and one (1) underwriting category.

B. Personal Property

In Pennsylvania, insurers are required annually to submit a Market Conduct Annual Statement (MCAS) to the National Association of Insurance Commissioners (NAIC). The review of MCAS data was conducted pursuant to the authority granted by Section 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the Market Conduct Annual Statement (MCAS) reporting for 2013.

The examination team reviewed the Company's 2013 MCAS Submissions. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the sections that were reviewed.

A.	Number of dwellings which have policies in-force at the end of the period.
B.	Number of policies in-force at the end of the period.

C.	Number of new business policies written during the period.
D.	Dollar amount of direct written premium during the period.
E.	Number of Company-initiated nonrenewals during the period.
F.	Number of cancellations for non-pay, nonsufficient funds or insured's request.
G.	Number of Company-Initiated cancellations that occur in the first 59 days after effective date, excluding rewrites to a related Company.
H.	Number of Company-Initiated cancellations that occur 60 or more days after effective date, excluding rewrites to a related Company.
I.	Number of Complaints received directly from the consumer.
J.	Number of Claims open at the beginning of the Period
K.	Number of Claims opened during the period.
L.	Number of Claims closed during the period, with payment.
M.	Number of Claims closed during the period, without payment.
N.	Number of Claims remaining open at the end of the period.
O.	Number of Claims closed with payment within 0-60 days.
P.	Number of Claims closed with payment >60 days.
Q.	Number of Suits open at beginning of the period.
R.	Number of Suits opened during the period.
S.	Number of Suits closed during the period.
T.	Number of Suits open at end of period.

The review consisted of three phases, as noted below.

Phase 1

The Company was asked to provide the claims and policy data listings that support the 2013 MCAS filing. Each list contained the claim and policy numbers for each category. The 2013 data submitted was validated to ensure the information was accurate and consistent with the information provided to the NAIC.

The following findings were made:

2 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide 2013 data that was consistent with the information provided to the NAIC for one (1) claim category and one (1) underwriting category.

Phase 2

The Company was asked to provide a record of all claims and policy data listings which supported the 2013 MCAS filings. From each universe list of 2013 data, a random sample of five (5) claims or policy files was requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations.

The following findings were made:

14 Violations 40 P.S. §323.4(b)

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

failed to provide accurate data for two (2) claim categories and four (4) underwriting categories.

Phase 3

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

The following findings were made:

14 Violations 40 P.S. §323.4(b)

Requires every company or person from whom information is sought must provide to the examiners timely, convenient and free access to all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the company being examined. The Company failed to provide accurate data for one (1) claim category, four (4) underwriting categories, and three (3) rating categories.

XIV. RECOMMENDATIONS

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

1. The Company must review 40 P.S. §1171.3 to ensure that the violations relative to the reduction of coverages, as 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 and revise internal control procedures to ensure compliance with nonrenewal and cancellation notices requirements of 40 P.S. §§991.2001, 991.2003, 991.2006 and 991.2008, so that the violations noted in the Report do not occur in the future.
4. The Company must review the return of premiums of cancelled policies, which have not been paid within 30 days. Unearned premium which has not been paid within 30 days shall bear interest at the rate of 12% per annum from the date the benefits become due as required by 75 Pa. C.S. §1793(c). The unearned premium and interest amount must be paid to the insured and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
5. The Company must review 75 Pa. C.S. §1799.3(f) to ensure that a notice of refusal to write is provided to the applicant on a form approved by the

- Commissioner, so that the violations noted in the Report do not occur in the future.
6. The Company must review 40 P.S. §1171.5(a)(9) to ensure that violations regarding the requirements for nonrenewal and cancellation notices, as noted in the Report, do not occur in the future.
 7. The Company must review the requirements for advising the insured of their right to request a review by the Commissioner within the specified time frame requirements under 40 P.S. §1171.5(a)(9)(iv).
 8. The Company must review 31 Pa. Code §59.6(6) to ensure that violations regarding cancellation or refusal to renew due to failure to pay a premium, as noted in the Report, do not occur in the future.
 9. 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)(1)&(4) do not occur in the future.
 10. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for underinsured motorist coverage by signing written rejection forms. This is to ensure that the violation noted under 75 Pa. C.S. §1738(d)(2) does not occur in the future.

11. The Company must review 75 Pa. C.S. §1791.1(b) to ensure that the notice of tort options provided to the insured at the time of application, and at every renewal, is written verbatim.
12. The Company must review 75 Pa. C.S. §1793(b) to ensure that the surcharge disclosure plan provided to the insured at the time of application and at every renewal, includes the number of years that the surcharge will be in effect.
13. The Company must review 40 P.S. §1171.5(a)(7)(ii) and take appropriate measures to ensure that unfair discrimination, relating to the use of a predictive model when rating renewal policies, does not occur in the future.
14. The Company must reinforce its internal data controls to ensure that all phone sale recordings containing application and disclosure information are maintained in accordance with 40 P.S. §323.4, so that violations noted in the Report do not occur in the future.
15. The Company must reinforce its internal data controls to ensure that a record of first policy issuance is maintained in accordance with 40 P.S. §§323.4 and 1184(a)&(h), so that violations noted in the Report do not occur in the future.
16. The Company must review 40 P.S. §1184 and take appropriate measures to ensure the rating violations listed in the report do not occur in the future. The premium overcharges noted in this report must be refunded to the insured and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

17. The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code §146, so that the violations relating to providing acknowledgements, claim acceptance or denials and providing status letters, as noted in the Report, do not occur in the future.
18. The Company must review Title 18, Pa. C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all applications and claim forms, as noted in the Report, do not occur in the future.
19. The Company must review 31 Pa. Code §69.12(a) with its claim staff to ensure that all trauma bills are being paid at the usual and customary charge.
20. The Company must review 31 Pa. Code §69.22 with its claim staff to ensure that the provider and insured are properly notified when first-party medical benefits have been exhausted.
21. The Company must review 31 Pa. Code §§69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.
22. The Company must review 31 Pa. Code §69.52(a) with its claim staff to ensure that providers are notified in writing when referring bills for PRO review at the time of referral.
23. 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.

24. The Company must review 31 Pa. Code §69.52(e) with its claim staff to ensure that the insured is provided a copy of a PRO evaluation in a timely manner.
25. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% per annum from the date the benefits become due as required by 75 Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.
26. The Company must review 75 Pa. C.S. §1161(a)&(b) with its claim staff to ensure that Pennsylvania salvage certificates are obtained and are retained within the claim file.
27. The Company must review 31 Pa. Code §§51.32(b) and 51.61 to ensure that violations relative to statistical sources and refusing to render a quote to individuals based on eligibility requirements without proper disclosure in advertising, as noted in the Report, do not occur in the future.
28. The Company must review 40 P.S. §1171.5(a)(11) to ensure that the violations relative to complaint records noted in the Report does not occur in the future.
29. 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.

XV. COMPANY RESPONSE

9800 Fredericksburg Road
San Antonio, Texas 78288



Kelly Krakowski
Chief, Property & Casualty Division
Pennsylvania Department of Insurance
1321 Strawberry Square
Harrisburg, Pennsylvania 17120

July 22, 2016

Reference: USAA Casualty Insurance Company NAIC 25968

Dear Ms. Krakowski,

USAA Casualty Insurance Company appreciates the opportunity to review and respond to the Pennsylvania Insurance Department's Examination report dated June 21, 2016. As discussed further below, the Company has taken immediate action or is in the process of finalizing action plans resulting from the Department's recommendations. We appreciate the Department's assistance with the Company's ongoing work to achieve better compliance results and to address any Department concerns. We trust that the Department recognizes our commitment to compliance and consumer protection.

Please find below our responses to the Department's Recommendations:

1. The Company must review 40 P.S. §1171.3 to ensure that the violations relative to the reduction of coverages, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed the statute and has made the necessary changes to its underwriting guidelines to further ensure ongoing compliance.

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 has reviewed the statute and has made changes to its underwriting guidelines to further ensure ongoing compliance.

3. The Company must review and revise internal control procedures to ensure compliance with nonrenewal and cancellation notices requirements of 40 P.S. §§991.2001, 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 has reviewed the applicable statutes and made modifications to the related processes to further ensure ongoing compliance.

4. The Company must review the return of premiums of cancelled policies, which have not been paid within 30 days. Unearned premium which has not been paid within 30 days shall bear interest at the rate of 12% per annum from the date the benefits become due as required by 75 Pa. C.S. §1793(c). The unearned premium and interest amount must be paid to the insured and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

The Company is aware of the return of premium requirements as set forth in 75 Pa.C.S. §1793(c). For any cancelled policies identified, the Company has provided the Department with proof of the payments with applicable interest.

5. The Company must review 75 Pa. C.S. §1799.3(f) to ensure that a notice of refusal to write is provided to the applicant on a form approved by the Commissioner, so that the violations noted in the Report do not occur in the future.

Company Response:

The Company has reviewed the applicable statute and will make necessary changes to the applicable form, subject to the Department's approval.

6. The Company must review 40 P.S. §1171.5(a)(9) to ensure that violations regarding the requirements for nonrenewal and cancellation notices, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed the applicable statute and has developed system solutions to address the Department's concern. The solutions have been communicated to the Department. As reported, an interim solution was implemented on June 27, 2016 and the Company will continue to provide updates to the Department until the final solution is fully implemented.

7. The Company must review the requirements for advising the insured of their right to request a review by the Commissioner within the specified time frame requirements under 40 P.S. §1171.5(a)(9)(iv).

Company Response:

The Company has reviewed the applicable requirements and has developed system solutions to address the Department's concern. The solutions have been communicated to the Department. As reported, an interim solution was implemented on June 27, 2016, and the Company will continue to provide updates to the Department until the final solution is fully implemented.

8. The Company must review 31 Pa. Code §59.6(6) to ensure that violations regarding cancellation or refusal to renew due to failure to pay a premium, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed the applicable requirements and has developed system solutions to address the Department's concern. The solutions have been communicated to the Department. As reported, an interim solution was implemented on June 27, 2016, and the Company will continue to provide updates to the Department until the final solution is fully implemented.

9. 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)(1)&(4) do not occur in the future.

Company Response:

The Company has reviewed the applicable statute, and will take appropriate action to ensure compliance.

10. The Company must revise underwriting procedures to ensure that the insured is aware that he may exercise the waiver of stacked limits for underinsured motorist coverage by signing written rejection forms. This is to ensure that the violation noted under 75 Pa. C.S. §1738(d)(2) does not occur in the future.

Company Response:

The Company has reviewed the applicable statute and will take appropriate action to ensure compliance.

11. The Company must review 75 Pa. C.S. §1791.1(b) to ensure that the notice of tort options provided to the insured at the time of application, and at every renewal, is written verbatim.

Company Response:

The Company has reviewed the applicable statute and is in the process of updating the notice of tort options form so that the content is written verbatim.

12. The Company must review 75 Pa. C.S. §1793(b) to ensure that the surcharge disclosure plan provided to the insured at the time of application and at every renewal, includes the number of years that the surcharge will be in effect.

Company Response:

The Company has reviewed the applicable statute and is in the process of updating the form to include the number of years that the surcharge will be in effect.

13. The Company must review 40 P.S. §1171.5(a)(7)(ii) and take appropriate measures to ensure that unfair discrimination, relating to the use of a predictive model when rating renewal policies, does not occur in the future.

Company Response:

The Company has reviewed the applicable statute, and will ensure compliance.

14. The Company must reinforce its internal data controls to ensure that all phone sale recordings containing application and disclosure information 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:

Violations noted in the report surrounding the Company's recordkeeping practices should not be misconstrued as problems with procedures, violations of law or any other consumer issue. The Company is committed to ensuring practices and procedures adhere to all laws and regulations. In an effort to address the Department's ongoing concerns, the Company is working with the Department to implement additional record retention procedures. The Company will continue to provide update to the Department until the process is implemented

15. The Company must reinforce its internal data controls to ensure that a record of first policy issuance is maintained in accordance with 40 P.S. §323.4 and §1184 (a)&(h), so that violations noted in the Report do not occur in the future.

Company Response:

Violations noted in the report surrounding the Company's recordkeeping practices should not be misconstrued as problems with procedures, violations of law or any other consumer issue. The Company is committed to ensuring practices and procedures adhere to all laws and regulations. In an effort to address the Department's ongoing concerns, the Company is working with the Department to implement additional record retention procedures. The Company will continue to provide update to the Department until the process is implemented

16. The Company must review 40 P.S. §1184 and take appropriate measures to ensure the rating violations listed in the report do not occur in the future. The premium overcharges noted in this report must be refunded to the insured and proof of such refunds must be provided to the Insurance Department within 30 days of the report issue date.

Company Response:

The Company has reviewed the applicable statute and a filing was submitted to the Department that addresses the concerns noted and was approved with an effective date of October 15, 2015. In addition, the Company provided proof of the refund during the examination.

17. The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code §146, so that the violations relating to providing acknowledgements, claim acceptance or denials and providing status letters, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed the applicable regulation. The Company will continue to monitor, and where appropriate, revise internal controls to further ensure compliance.

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

Company Response:

The Company has reviewed the applicable regulation and is making the necessary system changes as required to comply with the requirement regarding the fraud warning. The auto application changes have been approved by the Department.

19. The Company must review 31 Pa. Code §69.12(a) with its claim staff to ensure that all trauma bills are being paid at the usual and customary charge.

Company Response:

The Company has reviewed the applicable regulation and will continue to ensure that all bills are paid in accordance with the law.

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

Company Response:

The Company has reviewed the applicable regulation with the appropriate claims staff.

21. The Company must review 31 Pa. Code §§69.42 and 69.43 with its claim staff to ensure that provider bills are repriced for cost containment as required.

Company Response:

The Company has reviewed the applicable regulation and will ensure compliance.

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

Company Response:

The Company has reviewed the applicable regulation with appropriate claims staff.

23. 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 has reviewed the applicable regulation with the appropriate claims staff.

24. The Company must review 31 Pa. Code §69.52(e) with its claim staff to ensure that the insured is provided a copy of a PRO evaluation in a timely manner.

Company response:

The Company has reviewed the applicable regulation with the appropriate claims staff. To further support that this communication has been effective Claims Staff will conduct a review of PA claims for the third and fourth quarter of 2016.

25. The Company must review the first party medical claims, which have not been paid within 30 days. Those claims that have not been paid within 30 days shall bear interest at the rate of 12% per annum from the date the benefits become due as required by 75 Pa. C.S. §1716. The interest amount must be paid to the claimant and proof of such payment must be provided to the Insurance Department within 30 days of the Report issue date.

Company Response:

The Company has evaluated and paid the appropriate interest for the claims noted by the Department. Supports of these payments were provided to the Department during the exam.

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

Company Response:

The Company has reviewed the applicable regulation with appropriate claims staff.

27. The Company must review 31 Pa. Code §5 1.32(b) and 51.61 to ensure that violations relative to statistical sources and refusing to render a quote to individuals based on eligibility requirements without proper disclosure in advertising, as noted in the Report, do not occur in the future.

Company Response:

The Company has reviewed the applicable regulations. The advertisements that were reviewed that led to cited violation are no longer in use.

28. The Company must review 40 P.S. §1171.5(a)(11) to ensure that the violations relative to complaint records noted in the Report does not occur in the future.

Company Response:

The Company has reviewed the applicable statute. Controls have been enhanced to improve the complaint management process. Specifically, the Company has modernized the data management tool to further improve accuracy and record management.

29. 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 has reviewed the applicable statute. The Company's intent was to submit data as requested. We have reviewed our processes around the collection of data and made changes that will ensure greater accuracy for future requests. This includes enhanced review of data prior to release and improved communication to ensure full understanding of the request.

The Company would like to thank the Department for its constructive feedback, courtesies and professionalism extended during this examination.

Sincerely,



Daniel Dilley, AIC, AMCM
AVP – Insurance Compliance
USAA