

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**WALL ROSE MUTUAL INSURANCE
COMPANY**

Aliquippa, Pennsylvania

**AS OF
October 25, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: December 14, 2004

WALL ROSE MUTUAL INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, 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 Randolph L. Rohrbaugh, 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.





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
WALL ROSE MUTUAL : Section 671-A of Act 147 of 2002
INSURANCE COMPANY : (40 P.S. § 310.71)
100 Autumn Street :
Aliquippa, PA 15001 : Sections 5(a)(9)(ii) of the Unfair
: Insurance Practices Act, Act of July
: 22, 1974, P.L. 589, No. 205 (40 P.S.
: § 1171.5)
: :
: Section 3(a)(6) of the Act of July 3
: 1986, P.L. 396, No. 86 (40 P.S. § 3403)
: :
: Section 4(h) of the Casualty and Surety
: Rate Regulatory Act, Act of June 11,
: 1947, P.L. 538, No. 246 (40 P.S.
: § 1184)
: :
: Title 31, Pennsylvania Code, Sections
: 146.6 and 146.7(a)(1)
: :
Respondent. : Docket No. MC04-10-033

CONSENT ORDER

AND NOW, this *14th* day of *December*, 2004, this Order is hereby
issued by the Deputy Insurance Commissioner 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 Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is Wall Rose Mutual Insurance Company, and maintains its office at 100 Autumn Street, Aliquippa, Pennsylvania 15001.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2003 through December 31, 2003.
- (c) On October 25, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on November 16, 2004.

- (e) The Examination Report notes violations of the following:
 - (i) Section 671-A of Act 147 of 2002 (40 P.S. § 310.71) prohibits an insurance producer from transacting business within this Commonwealth without written appointment as required by the Act;

 - (ii) Section 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5), which 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;

 - (iii) Section 3(a)(6) of Act 86 (40 P.S. § 3403), which requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured, whichever is less;

 - (iv) Section 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184), which requires every insurer to make or issue a contract or policy in

accordance with filings and rates which are in effect for said insurer as provided in the Act or in accordance with subsections (f) and (g) of this section;

- (v) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot 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; and
- (vi) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires within 15 working days after receipt by the insurer or properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

(b) Respondent's violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

- (i) denial, suspension, refusal to renew or revocation of the license, if any, of the person;
- (ii) a civil penalty not to exceed five thousand dollars (\$5,000.00) for each action in violation of this Act;
- (iii) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Section 5(a)(9)(ii) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5) 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 the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (e) Respondent's violations of Sections 3(a)(6) of Act 86 (40 P.S. § 3403), are punishable under Section 8 (40 P.S. § 3408) of this act by one or more of the following causes of action:
- (i) Order that the insurer cease and desist from the violation.
 - (ii) Impose a fine or not more than \$5,000 for each violation.
- (f) Respondent's violations of Sections 4(h) of the Casualty and Surety Rate Regulatory Act, No. 246 (40 P.S. § 1184) are punishable under Section 16 of the Casualty and Surety Rate Regulatory Act:

- (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such wilful 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.
- (g) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6 and 146.7(a)(1) are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as cited above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner 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 Deputy Insurance Commissioner 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 Deputy Insurance Commissioner 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 Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner 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.

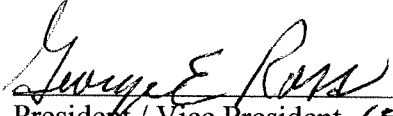
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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.

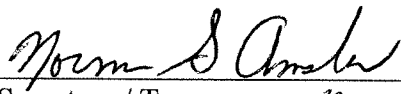
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

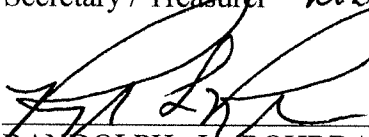
BY: WALL ROSE MUTUAL INSURANCE
COMPANY, Respondent



President / Vice President GEORGE E. ROSS



Secretary / Treasurer NORMAN S. AMADOR



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The market conduct examination was conducted at Wall Rose Mutual Insurance Company's offices located in Aliquippa, Pennsylvania from September 27, 2004, to October 7, 2004. 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%.

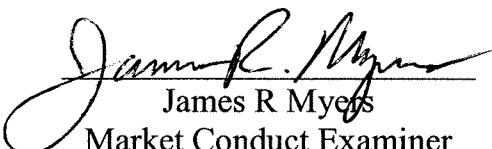
Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel 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 undersigned participated in this examination and in preparation of this Report.



Chester A. Derk, Jr., AIE, HIA
Market Conduct Division Chief



James R Myers
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Wall Rose Mutual Insurance Company, hereinafter referred to as "Company," at their office located in Aliquippa, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2003, through December 31, 2003, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Lines Property

- Underwriting – Appropriate and timely notices of nonrenewal, mid-term cancellations, 60-day cancellations and declinations.
- Rating – Proper use of all classification and rating plans and procedures.

2. Dwelling Fire

- Rating – Proper use of all classification and rating plans and procedures.

3. Commercial Lines Property

- Underwriting – Appropriate and timely notices of nonrenewals, renewals, mid-term cancellations, 60 day cancellations and declinations.

4. Claims

5. Forms

6. Advertising

7. Complaints

8. Licensing

III. COMPANY HISTORY AND LICENSING

Wall Rose Mutual Insurance Company was founded by a German immigrant named Henry Gross in 1873. Their first meeting was conducted outdoors and the Company later erected their first office in Economy Borough. Today Wall Rose Mutual is the only remaining insurance company in Beaver County. Wall Rose Mutual writes Fire, Homeowners, Mobile Homeowners, and Farm property throughout Western Pennsylvania.

LICENSING

Wall Rose Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on June 19, 1873. The Company is licensed in Pennsylvania only. The Company's 2003 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$957,361. Premium volumes related to the areas of this review were: Fire \$249,405; Farmowners' Multiple Peril \$162,861; Homeowners' Multiple Peril \$508,617.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides were furnished for homeowners, mobile homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

V. UNDERWRITING

A. Personal Lines 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.

The universe of 17 personal lines property policies, which were cancelled within the first 60 days of new business, was selected for review. The property policies consisted of homeowners, tenant homeowners and mobile homeowners. All 17 files requested were received and reviewed. No violations were noted.

2. Mid-term Cancellations

A mid-term 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 209 personal lines property policies, which were cancelled mid-term during the experience period, 115 files were selected for review. The property policies consisted of homeowners, tenant homeowners, mobile homeowners, and owner occupied dwelling fire. All 115 files requested were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 5%.

The following findings were made:

6 Violations Act 205, Section 5(a)(9)(ii) [40 P.S. §1171.5(a)(9)(ii)]

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 either at the address shown in the policy or at a forwarding address. Such notice shall state the date, not less than thirty days after the date of delivery or mailing such cancellation or

refusal to renew shall become effective. The violations noted were for failure to send a cancellation notice to the insured at least 30 days in advance.

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.

The universe of 3 personal lines property policies, which were nonrenewed during the experience period, was selected for review. The property files consisted of homeowners and tenant homeowner policies. All 3 files requested were received and reviewed. No violations were noted.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

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)], discriminatory reasons.

The universe of 5 personal lines applications reported as being declined during the experience was selected for review. All 5 files requested were received and reviewed. No violations were noted.

B. Commercial Property

1. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the 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.

This Company did not report any commercial property declinations during the experience period.

2. 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 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

The universe of 10 commercial property policies cancelled within the first 60 days of inception was selected for review. The policies consisted of commercial fire, commercial packages and tenant occupied dwelling fire.

All 10 files selected were received and reviewed. No violations were noted.

3. Mid-term Cancellations

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

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons, Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice and Section 4 (40 P.S. §3404), which establishes the requirements for the return of unearned premium to the named insured.

The universe of 123 commercial property policies cancelled mid-term during the experience period was selected for review. The commercial property files consisted of commercial packages, farm fire, commercial fire and tenant occupied dwelling fire. All 123 files requested were received and reviewed. The 72 violations noted were based on 72 files, resulting in an error ratio of 59%.

The following findings were made:

72 Violations Act 86, Section 3(a)(6) [40 P.S. §3404(a)(6)]

Requires that a cancellation notice shall state that at the insured's request, the insurer shall provide loss information to the insured for at least three years or the period of time during which the insurer has provided coverage to the insured,

whichever is less. The violations noted were for failure to provide an offer of loss information to the insured.

4. 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 review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

The Company reported no commercial policies were nonrenewed during the experience period.

5. 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 Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 855 commercial property policies identified by the Company as renewals during the experience period, 125 files were selected for review. The policies consisted of commercial fire, commercial packages, farmowners, farm fire and tenant occupied dwelling fire. All 125 files selected were received and reviewed. No violations were noted.

VI. RATING

A. Homeowners

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.

Homeowners - New Business

From the universe of 403 homeowner policies written as new business during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 403 violations noted were based on the universe of 403 files, resulting in an error ratio of 100%.

The following findings were made:

403 Violations Act 246, Section 4(h) [40 P.S. §1184]

No insurer shall make or issue a contract or policy except in accordance with filings and rates which are in effect for said insurer as provided in the Act or in accordance with subsections (f) and (g) of this section. The violations noted were for failure to use the correct Loss Cost Multiplier in

calculation of new business policies issued during the experience period.

Mobile Homeowners – New Business

From the universe of 65 mobile homeowner policies written as new business during the experience period 25 files were selected for review. All 25 files requested were received and reviewed. No violations were 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.

Homeowners – Renewals

From the universe of 1,251 homeowner policies renewed during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. The 1,251 violations noted were the result of the universe of 1,251 files, resulting in an error ratio of 100%.

The following findings were made:

1,251 Violations Act 246, Section 4(h) [40 P.S. §1184]

No insurer shall make or issue a contract or policy except in accordance with filings and rates which are in effect for said insurer as provided in the Act or in accordance with subsections (f) and (g) of this section. The violations noted were for failure to use the correct Loss Cost Multiplier in calculation of renewal policies issued during the experience period.

Mobile Homeowners – Renewals

From the universe of 228 mobile homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files requested were received and reviewed. No violations were noted.

B. Dwelling Fire

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.

From the universe of 35 dwelling fire policies written as new business during the experience period 25 files were selected for review. All 25 files requested were received and reviewed. No violations were 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 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.

From the universe of 78 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files requested 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. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Homeowner and Mobile Homeowner Claims
- B. Dwelling Fire Claims

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

A. Homeowner Claims

From the universe of 109 homeowner and mobile homeowner claims reported during the experience period, 41 files were selected for review. All 41 files selected were received and reviewed. The 11 violations noted were based on 11 files, resulting in an error ratio of 27%.

The following findings were made:

6 Violations Title 31, Pa Code, Section 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 violations noted were absent any evidence this requirement was complied with.

5 Violations Title 31, Pa. Code, Section 146.7(a)

Acceptance or denial of a claim shall comply with the following: Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. No insurer shall deny a claim on the grounds of a specific policy provision, condition, or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insured shall contain a copy of the denial. Of the violations noted, one was for failure to accept or deny a claim within 15 working days and five were for failure to advise the claimant of a denial in writing outlining the specific exclusion, provision or condition the denial was based on.

B. Dwelling Fire Claims

The universe of 4 dwelling fire claims reported during the experience period was selected for review. All 4 files selected 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 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 Act 165 of 1994 [18 Pa. C.S. §4117(k)(1)] and Act 6 of 1990 [75 Pa. C.S. §1822] which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims forms and all renewals of coverage. No violations were noted

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

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 Company provided 5 pieces of advertising, which included brochures and magazine ads. Internet advertising via the internet was also reviewed. No violations were noted.

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 4 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 4 files were selected and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act 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. No violations were noted.

The following synopsis reflects the nature of the 4 complaints that were reviewed.

• 3	Cancellation/Nonrenewal	75%
• 1	Claims Related	25%
<hr/>		<hr/>
4		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 605 [40 P.S. §235] and Section 623 [40 P.S. §253] of the Insurance Department Act, and effective June 4, 2003, Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No 147, the Company was requested to furnish a list of all active agents during the experience period and a listing of all agents terminated during the experience period. Underwriting files, applications, agency contracts and commission statements were also checked to verify proper licensing and appointment.

The following findings were made:

*1 Violation Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)
Effective 06/04/2003*

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

- (1) Delineate the services to be provided; and
- (2) Provide full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the insurer’s holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer’s license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer. The following producer was found to be writing policies but was not found in Insurance Department records of having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

William P Laughlin Insurance Agency, Inc.

XII. RECOMMENDATIONS

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

1. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations regarding status letters and claim denials as noted in the Report do not occur in the future.
2. The Company must ensure all producers are properly licensed and appointed, as required by Section 671-A [40 P.S. §310.71] of the Insurance Department Act No 147, prior to accepting any business from a producer.
3. The Company must review Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)] to ensure that violations regarding the requirements for cancellation notices, as noted in the Report, do not occur in the future.
4. The Company must reinforce its internal underwriting controls to ensure that notices of cancellation provided to the named insured meet the requirements of Act 86, Section 3 [40 P.S. §3403].
5. The Company must review Act 246, Section 4(h) regarding the use of properly filed rates to ensure that violations as noted in the report do not occur in the future. The premium overcharges noted in the rating section of this report must be refunded to the insureds and proof of such refunds

must be provided to the Insurance Department within 60 days of the report issue date.

XIII. COMPANY RESPONSE

Wall Rose Mutual Insurance Company
100 Autumn St, Aliquippa, PA 15001
(724) 375-0594

November 12, 2004

Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, PA 17120

ATTN: Chester A Derk Jr., AIE, HIA
Market Conduct Division Chief

RE: Examination Warrant Number: 04-M22-017

Dear Mr. Derk,

This letter acknowledges receipt and review of your Report of Examination dated October 25, 2004, covering the period January 1, 2003, through December 31, 2003. We would like the following comments/ responses to become attached to your report:

- (1) Sections I through IV, pages 1-6 are accepted without comment.
- (2) Section V., Underwriting; Personal Lines Property, page 7 (mid-term cancellations), we would like to comment on the following regarding the (6) violations noted:

These six owner occupied dwellings were only given 15 days notice, statute requires 30 days notice. We agree that we were in violation on these notices.

Corrective action taken: Prior to the examination, our underwriting department had identified and corrected this situation. Notices have since then complied with Act 205.

- (3) Section V., Underwriting; Commercial Property, page 11 (mid-term cancellations), we would like to make the following comments:

These 72 notices did not provide an offer of loss information. We agree that we were in violation on these notices.

Corrective action taken: Prior to the examination, our underwriting department identified and corrected this situation. Proper notifications in accord with Act 86 have been issued since that time.

Wall Rose Mutual Insurance Company
100 Autumn St, Aliquippa, PA 15001
(724) 375-0594

- (4) Section VI., Rating, Homeowners New Business (page 13): We would like to make the following comments/ observations:

Upon investigation, we discovered that the loss cost factor had been entered at 1.900 I.L.O. 1.895, a deviation of 0.005 from our filing. It is not clear at this point exactly whether our staff or our software vendor was responsible, but it was clearly human error in some way.

Corrective action taken: We have initiated a process to identify and either refund or credit the overcharges (averaging \$1.00 per policy) to all policyholders that were overcharged. This process shall be completed within 60 days of this Report, with proof of credits/ refunds provided to the Department.

- (5) Section VI, Rating, Homeowners Renewals (page 14); We would like to make the following comments:

Upon investigation, we discovered that the loss cost factor had been entered at 1.900 I.L.O. 1.895, a deviation of 0.005 from our filing. It is not clear at this point exactly whether our staff or our software vendor was responsible, but it was clearly human error in some way.

Corrective action taken: We have initiated a process to identify and either refund or credit the overcharges (averaging \$1.00 per policy) to all policyholders that were overcharged. This process shall be completed within 60 days of this Report, with proof of credits/ refunds provided to the Department.

- (6) Section VII, Claims, Homeowners Claims (page 17); We would like to make the following comments:

As to the (6) violations of Title 31, Section 146.6, we failed in these cases to provide status letters as required.

Corrective action taken: our Independent Adjuster has been notified to send all status letters in accord with Title 31, Section 146.6. He has complied with our request.

As to the (5) violations of Title 31, Section 146.7(a), four claims were denied verbally, and one was neither accepted nor denied within 15 working days of receipt of proof of loss.

Wall Rose Mutual Insurance Company
100 Autumn St, Aliquippa, PA 15001
(724) 375-0594

Corrective action taken: we have communicated these violation to our Independent Adjuster, and we are now fully in compliance.

(7) Sections VIII through X, pages 19 - 21 are accepted without comment.

(8) Section XI, Licensing (page 22); We would like to make the following comment:

In one instance, the corporation had not been appointed as a representative of our company. However, all individuals submitting business through the corporation were properly licensed with all fees paid.

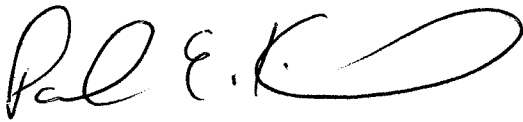
Corrective action taken: The particular corporation has been added to our list of licensees. This was an oversight on our part.

(9) Section XII, Recommendations:

As noted above, we either (1) had identified and corrected certain issues or (2) have taken corrective action since. We feel that improved controls and procedures shall avoid violations in the future.

Thank you for the opportunity to respond to these issues.

Respectfully submitted,



Paul E Kimmel
Business Manager
Wall Rose Mutual Insurance Company