

MARKET CONDUCT EXAMINATION REPORT

OF

ELECTRIC INSURANCE COMPANY

AS OF

MARCH 31, 2010

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

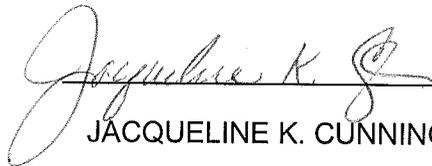


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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of Electric Insurance Company as of March 31, 2010, which took place at the company's offices in Beverly, Massachusetts is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this 22nd day of June, 2011.



JACQUELINE K. CUNNINGHAM

Commissioner of Insurance

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the private passenger automobile line of business written by Electric Insurance Company at the office of the State Corporation Commission Bureau of Insurance office in Richmond, Virginia.

The examination commenced August 9, 2010 and concluded November 15, 2010. Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Richard L. Howell, Edwin N. Millan, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joy M. Morton, Market Conduct Supervisor of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on February 11, 2010 and was assigned the examination number of VA199-M17. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE

Electric Insurance Company was incorporated on April 21, 1966, under the laws of Massachusetts and became licensed on September 28, 1966. Operations commenced the following day. Effective June 30, 1995, all outstanding shares were held by Wilmington Trust Company. EMLICO, the prior owner of the shares, was the sole beneficiary of the trust. In 2001, EMLICO assigned its interest in the trust to General Electric Company (GE). Prior to June 30, 1995, the company's shares were held directly by EMLICO. Electric Insurance Company is licensed in the District of Columbia, Puerto Rico, and all states. It is also licensed in all Canadian provinces and territories. The company is based in Beverly, Massachusetts.*

* Source: Best's Insurance Reports, Property & Casualty, 2009 Edition.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period.

GROUP CODE: 0057	ELECTRIC
NAIC Company Number	21261
LICENSED IN VIRGINIA	05/18/1967
LINES OF INSURANCE	
Accident and Sickness	04/14/1999
Aircraft Liability	X
Aircraft Physical Damage	
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	
Burglary and Theft	
Commercial Multi-Peril	X
Credit	
Farmowners Multi-Peril	X
Fidelity	04/14/1999
Fire	X
General Liability	
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	04/14/1999
Water Damage	X
Workers' Compensation	04/04/1995

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2009 for the line of insurance included in this examination.* This business was developed through direct marketing sales.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Electric Insurance Company		
Private Automobile Liability	\$1,161,604	0.05%
Private Automobile Physical Damage	\$920,549	0.05%

* Source: The 2009 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's private passenger automobile line of business written in Virginia for the period beginning April 1, 2009 and ending March 31, 2010. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with the public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Examiners' Notes. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the company's practices that are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	<u>Population</u> Sample Requested				
	<u>Electric</u>	<u>FILES</u> <u>REVIEWED</u>	<u>FILES NOT</u> <u>FOUND</u>	<u>FILES WITH</u> <u>ERRORS</u>	<u>ERROR</u> <u>RATIO</u>
<u>Private Passenger Auto</u>					
	<u>67</u>	24	0	24	100%
New Business	25				
	<u>2028</u>	50	0	50	100%
Renewal Business	50				
	<u>9</u>	7	0	3	43%
Co-Initiated Cancellations ¹	9				
	<u>107</u>	20	0	16	80%
All Other Cancellations ²	20				
	<u>17</u>	11	0	4	36%
Nonrenewals ³	10				
	<u>101</u>	10	0	0	0%
Rejected Applications	10				
<u>Claims</u>					
	<u>378</u>	61	0	26	43%
Auto	61				

Footnote ¹ One moved to Insured Requested Category. One moved to Non-Renewal Category.

Footnote ² One expired policy not reviewed. One moved from After 60 Category.

Footnote ³ One moved from After 60 Category.

Footnote⁴ One policy issued in Florida was not reviewed

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau requested 25 new business policy files for review. The examiners reviewed 24 of these files. One file was not a Virginia policy. The examiners found overcharges totaling \$879.00 and undercharges totaling \$664.00 during the review of these files. The net amount that should be refunded to insureds is \$879.00 plus six percent (6%) simple interest.

- (1) The examiners found ten violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information as required by the statute. The company listed the Accident Forgiveness endorsement on the declarations page when it was not applicable to the policy.
- (2) The examiners found nine violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the applicable discounts.
- (3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an Adverse Underwriting Decision (AUD).
- (4) The examiners found one violation of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured in writing that his policy had been surcharged for an at fault accident.

- (5) The examiners found 40 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In two instances, the company failed to apply the correct accident and/or conviction surcharge.
 - b. In one instance, the company failed to use the correct symbol.
 - c. In one instance, the company failed to use the correct territory.
 - d. In four instances, the company failed to use the correct tier eligibility criteria.
 - e. In nine instances, the company failed to use the correct base and/or final rates.
 - f. In 23 instances, the company failed to use the filed rounding rule.

Automobile Renewal Business Policies

The Bureau requested 50 renewal business policy files for review. The examiners reviewed all of these files. The examiners found overcharges totaling \$1138.00 and undercharges totaling \$2001.00 during the review of these files. The net amount that should be refunded to insureds is \$1138.00 plus six percent (6%) simple interest.

- (1) The examiners found 25 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy accurate information as required by the statute.
- a. In two instances, the company failed to list applicable endorsements on the declarations page.
 - b. In 23 instances, the company listed the Accident Forgiveness endorsement on the declarations page when it was not applicable to the policy.

- (2) The examiners found 15 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company misrepresented the applicable discounts.
- (3) The examiners found two violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide applications and/or relevant underwriting notes.
- (4) The examiners found 115 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In 12 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to apply the correct accident and/or conviction surcharge.
 - c. In five instances, the company failed to use the correct symbol.
 - d. In two instances, the company failed to use the correct territory.
 - e. In seven instances, the company failed to use the correct tier eligibility criteria.
 - f. In seven instances, the company failed to use the correct driver classification factor.
 - g. In 31 instances, the company failed to use the correct base and/or final rates.
 - h. In 48 instances, the company failed to use the filed rounding rule.
 - i. In one instance, the company failed to use filed the rating rules.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies**NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE**

The Bureau requested three cancellations that were initiated by the company where the company mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed all of these files. The examiners found no overcharges and no undercharges during the review of these files.

The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company failed to mail the cancellation notice to the name and/or address of the insured shown in the policy.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested six automobile cancellations that were initiated by the company where the company mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. The examiners reviewed four of these files. One file was moved to the insured requested category. One file was moved to the non-renewal category. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.

- (2) The examiners found one violation of § 38.2-2208 B of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the lienholder.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested ten automobile cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed nine of these files. Three file were expirations policy and therefore not reviewed. The examiners found no overcharges and no undercharges during the review of these files.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found six violations of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found three violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation notice to the lienholder.
 - b. In two instances, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (4) The examiners found two violations of § 38.2-2212 E of the Code of Virginia.
 - a. In one instance, the company failed to send the notice of cancellation to the name and/or address of the insured shown on the policy.
 - b. In one instance, the company failed to send the cancellation notice to the insured at least 15 days prior to the effective date of cancellation.

REQUESTED BY THE INSURED

The Bureau requested ten automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. The examiners reviewed one additional file that the company incorrectly provided as a cancellation notice mailed after the 59th day of coverage. The examiners found overcharges totaling \$181.00 and undercharges totaling \$66.35 during the review of these files. The net amount that should be refunded to insureds is \$181.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found nine occurrences where the company failed to comply with the provisions of the insurance contract. The company failed to obtain advanced notice of cancellation from the insured.

Other Law Violations

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to report the cancellation of the policy to the Virginia Department of Motor Vehicles.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested ten automobile nonrenewals that were initiated by the company. The examiners reviewed all of these files. The examiners reviewed one additional file that the company incorrectly provided as a cancellation after the 59th day of coverage.

- (1) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the non-renewal notice to the insured.
- (2) The examiners found four violations of § 38.2-2208 B of the Code of Virginia.
 - a. In three instances, the company failed to retain proof of mailing the refusal to renew notice to the lienholder.
 - b. In one instance, the company failed to provide the lienholder proper notice of the company's refusal to renew the policy.
- (3) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the notice of refusal to renew to the name and/or address of the insured shown on the policy.

Rejected Applications – Automobile Policies

The Bureau requested ten automobile insurance applications for which the company declined to issue a policy. The examiners reviewed all of these files.

The examiners found no violations in this area.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 61 automobile claims for the period of April 1, 2009 through March 31, 2010. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. The examiners found overpayments totaling \$239.50 and underpayments totaling \$166.69 during the review of these files. The net amount that should be paid to claimants is \$127.94 plus six percent (6%) simple interest.

- (1) The examiners found four violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were

pertinent to the claim.

- (2) The examiners found 14 violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
 - a. In six instances, the company failed to accurately inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - b. In five instances, the company failed to accurately inform an insured of his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - c. In three instances, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found three violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 10 working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found four violations of 14 VAC 5-400-70 D. The company failed

to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.

- a. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Uninsured Motorist (UM) coverage.
 - b. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expense coverage.
 - c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Other than Collision (OTC) or Collision coverage.
- (6) The examiners found 18 violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue. The company failed to properly convey to the insured and claimant the company's obligation concerning payment of a total loss claim.
- These findings occurred with such frequency as to indicate a general business practice.
- (7) The examiners found one violation of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (8) The examiners found seven occurrences where the company failed to comply with the provisions of the insurance contract.
- a. In six instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

- b. In one instance, the company failed to properly pay a UM claim.

REVIEW OF FORMS

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

AUTOMOBILE POLICY FORMS

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 33 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the company's policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the company received the Examination Data Call. The company was instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the company enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The company provided five new business policies mailed on April 9, 30, and May 7, 12, 17, 2010. In addition, the company provided five renewal business policies mailed on April 7, 2010.

NEW BUSINESS POLICIES

The examiners found no violations in this area.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the company is required to provide to insureds and used by the company for the line examined, the examiners used the same new business policy and renewal business policy mailings that were previously described. The details of these policies have been set forth previously under the Review of the Policy Issuance Process section of the Report. The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

The examiners found no violations in this area.

Statutory Vehicle Notices

The examiners found no violations in this area.

Other Notices

The examiners found no additional notices to review.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business personal automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agent

The examiners found no violations in this area.

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information. A review was made of this program to verify compliance with § 38.2-613.2 of the Code of Virginia.

The company provided its information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the company, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Electric Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to this Report.

Rating and Underwriting Review

Electric Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

- (4) Include accurate information in the policy by listing only those endorsements that are applicable to the policy on the declarations page.
- (5) Properly represent those credits that are applicable to the policy on the declarations page.
- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points under a safe driver insurance plan, symbol, territory, driver classification factors, tier eligibility, base and/or final rates, rounding rules and rating rules.

Termination Review

Electric Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited During the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Calculate earned premium according to its filed rules and policy provisions.
- (5) Obtain and retain valid proof of mailing the cancellation or non-renewal notice to the insured.
- (6) Obtain and retain valid proof of mailing the cancellation or non-renewal notice to the lienholder.

- (7) Comply with the provisions of the policy by mailing a cancellation notice to the correct name and/or address shown on the policy.

Claims Review

Electric Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to Medical Expense Benefits, Transportation Expenses and rental benefits under the UMPD coverages.
- (5) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

Review of Statutory Notices

Electric Insurance Company shall:

- (1) Develop a Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.

PART THREE – EXAMINERS' NOTES

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

Rating and Underwriting

- Failure to provide applications and/or underwriting notes.

Claims

- Properly document claims file so that all events and dates pertinent to the claim can be reconstructed
- Offer the insured and amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions
- Failure to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.
- Failure to respond to written correspondence within 10 working days.

RECOMMENDATIONS

We recommend that the company take the following actions:

Rating and Underwriting

- The company should amend the wording under Part B to read Medical Expenses instead of Medical Payments.
- The company should not list the Rating Information-Virginia statement EIC4529 as an endorsement.
- The company should contact the Rates and Forms Section to make any filling revisions necessary to amend the rules to match the company's current practice.

- The company should revise the declarations page to match the vehicle assignments on the applications..

Terminations

- The company should discontinue the practice of post-dating their cancellation notices.
- The company should record terminations in the appropriate category.

Claims

- The company should use the term "Other than Collision" coverage on the check instead of the term "Comprehensive."
- The company should use the term "Medical Expenses Benefits" coverage on the check instead of the term "Medical Payments."
- The company should use the term "Transportation Expenses" coverage on the check instead of the term "Rental Reimbursement."

Statutory Notices

- The company should correct its Important Information Regarding Your Insurance notice to include the company's customer service number, the correct the zip code and TTD number for the Bureau.
- The company should amend its Offer of Rental Reimbursement Coverage notice to include the correct terminology of "Other than Collision."

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

The Bureau conducted one prior market conduct examination of the Electric Insurance Company.

During the examination of June 30, 2006, the Electric Insurance Company violated § 38.2-502, 38.2-1906 D, 38.2-2206, 38.2 2208, 28.2-2212, 38.2-2223, and 38.2-2234 of the Code of Virginia, as well as 14 VAC 5-400-40 A and 14 VAC 5-400-80 D.

ACKNOWLEDGEMENT

The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen S. Gerber". The signature is fluid and cursive, with the first name "Karen" being the most prominent.

Karen S. Gerber
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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December 16, 2010

VIA UPS 2nd DAY DELIVERY

Ellen S. Robbins
Manager of Regulatory Compliance
Electric Insurance Company
75 Sam Fonzo Drive
Beverly, MA 01915

Re: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Robbins:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of April 1, 2009 through March 31, 2010. The Preliminary Market Conduct Examination Report has been drafted for the company's review.

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report), copies of review sheets that have been withdrawn or revised since November 15, 2010. Also enclosed are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the company, I would urge you to review the Report closely. Please provide a written response. If the company disagrees with an item(s) or wish to further comment on an item(s), please respond to the items in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if they agree with the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

Secondly, the company should respond to the corrective action plan (CAP) outlined in Part II of the Report. In some cases, the issues that should be addressed may be broader than those that are in the CAP. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions they are taking to prevent those issues from becoming a business practice.

Thirdly, if the company has comments they wish to make regarding the Examiners' Notes in Part III of the Report, please use the same headings and numbering for the comments.

Ms. Ellen Robbins
December 16, 2010
Page 2 of 2

Of course, should the company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

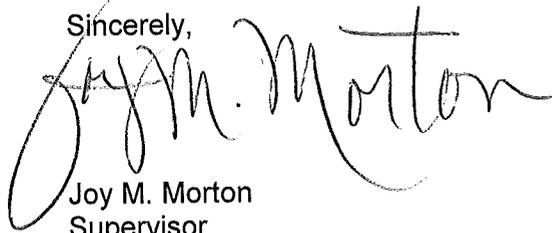
Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified overcharges (rating) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by January 24, 2011.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by January 24, 2011.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is written in a cursive style with a large, prominent "J" and "M".

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9731
joy.morton@scc.virginia.gov

JMM
Enclosures



STATE CORP COMMISSION
BUREAU OF INSURANCE
11 JAN 24 AM 10:02

January 24, 2011

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Morton:

Electric Insurance Company ("the Company") has received and reviewed the Preliminary Market Conduct Examination Report ("the Report") issued by the Virginia Bureau of Insurance ("the Bureau"). At the outset, the Company would like to recognize and thank the Bureau's staff for their professionalism and courtesy during the examination process. The Company is addressing all non-contested alleged violations and will be issuing any non-contested refunds or underpayments. There are, however, a number of items in the Report that the Company believes do not constitute violations of the laws or regulations cited. The Company's reasoning is set forth below.

COMPANY PROFILE

The Company Profile section indicates the following: "During 1996, General Electric proposed to purchase all of the outstanding stock of the company. This proposal has not been acted upon by the Massachusetts Commissioner of Insurance." The Company requests that these two sentences be removed from the Company Profile section. Although it is accurate that General Electric did make such a proposal in 1996, no action was taken and, therefore, the information does not seem relevant almost fifteen years later. Additionally, the final sentence of the Company Profile indicates that the Company's "business was developed through independent agents." The Company does not use independent agents in Virginia. The Company is a direct writer and develops business through its Contact Center located in Beverly, Massachusetts and through sales on the internet. The Company would, therefore, propose changing the sentence to read: "This business was developed through the direct marketing channel."

Rating And Underwriting Review

Automobile New Business Policies

First Accident Forgiveness Endorsement – Section (1) indicates that in ten instances the Company “...listed the Accident Forgiveness endorsement on the declarations page when it was not applicable to the policy.” The Company agrees with these findings, however, the Company would like to offer the following explanation. During the audit in 2006 the Bureau identified the fact that the Company was failing to list the endorsement on its declarations pages when it was applicable to the policy. The Company committed to fix this error in its Corrective Action Plan. In March 2007 programming was put in place to correct the issue identified in 2006. A subsequent internal audit in June 2009 identified the fact that the correction had overcompensated and that some policyholders who should not receive the endorsement were, in fact, receiving it. The Company took steps to immediately correct this issue in September 2009, however, the Bureau’s sample period overlapped with the self-identified period of non-compliance resulting in the violations identified during this audit.

Tier Eligibility Criteria – Section (5)d. indicates that in six instances the Company “...failed to use the correct tier eligibility criteria.” The Company disagrees with two of the findings as outlined below.

RPA005 - The Bureau alleges that the Company was unable to provide documentation of the insured’s prior BI limits in order to calculate the insured’s UQI score. The insured changed his mind after purchasing the policy and never returned any of the written documentation required to keep the policy in force. The insured did, however, provide information about his prior BI limits to the New Business Sales representative during the quote and bind process. This call was recorded. A transcription of the call is attached showing that the Company used the prior BI limits provided by the insured in rating the policy. (Please see line 8 in Attachment #1.)

RPA007 – The Bureau alleges that this policy was incorrectly tiered based on credit score. The policy was rated using a credit score of 713 and is properly tiered. Please see Attachment #2 for a copy of the credit score file reflecting the 713 credit score for this policy.

Correct Base or Final Rates – Section (5)e. indicates that in eleven instances the Company “...failed to use the correct base and/or final rates.” The Company disagrees with two of the findings as outlined below.

RPA019 – The criticism states: “The company failed to use the correct base rates when rating vehicle #4. The declarations page shows a \$500 deductible for the comprehensive and collision coverages; however, the rates on file, 19.B, with the Bureau do not include a deductible amount of \$500.00 for a trailer. This resulted in an overcharge.”

The company disagrees with the finding as Rule 19.B states that there are two different methods for rating trailers. Utility trailers are rated using the rates contained on page VA-MISC-4. However, the policy contains a travel trailer as indicated by the code “T” for travel trailers as opposed to a “U” for utility trailers. (Please see Attachment #3 showing a screen shot of the policy information.)

Recreational travel trailers are rated for physical damage using motorhome rates, which in turn use the deductible options available for standard automobiles. Support for this method can be found in Rule19.A, Rule 19.B and page VA-MISC-4.

RPA020 – The Company disagrees with the examiner’s Income Loss calculations on all vehicles. The Company believes that the examiner did not apply the class factor in the calculations. Please see the attached rating sheet for the appropriate factors to apply in rating the coverage.

Rating Variables	Vehicle 1	Vehicle 2	Vehicle 3
Base Rate	16.00	16	16
Tier Factor	1.00	1.00	1.00
Liability Symbol	1.00	1.00	1.00
Model Year Factor	1.00	1.00	1.00
Increased Limit / Deductible Factor	0.00	0.00	0.00
Total Class Factor	1.10	0.70	0.70
Married Discount	1.00	1.00	1.00
Defensive Driver Discount	1.00	1.00	1.00
Anti Lock Brakes	1.00	1.00	1.00
Passive Restraint	1.00	1.00	1.00
Anti Theft	1.00	1.00	1.00
Safe Driver	0.98	0.98	0.98
Mass Marketing Discount	1.00	1.00	1.00
Annual Miles	1.00	1.00	1.00
Multi-Policy	0.95	0.95	0.95
Total	17.00	10.00	10.00

Rounding – Section (5)f indicates that “[i]n 25 instances, the company failed to use the filed rounding rule.” The Company disagrees with this finding for the following reasons:

- Virginia Statute 38.2-1906(D) requires that insurers rate policies “...in accordance with the rate and supplementary rate information and filings that are in effect for the insurer.” Rule 11 states that customers should be charged whole dollar premiums. The Company’s rating system is fully automated to assign rates and automatically round each coverage charge to achieve the whole dollar premium as filed. The process for assigning rates

and rounding coverage charges is consistent with the filed rule, is uniformly applied, and is repeatable for each policyholder, in compliance with VA 38.2-1906(D), and the Company's filed rates, including Rule 11.

- The Bureau suggests that rounding be performed at the point of the final premium calculation, rather than at the point of each coverage calculation, which is systemically applied by the Company in order to achieve a whole dollar premium. Both methodologies produce nearly the same results with only de minimus discrepancies. Of the twenty-five police files in the New Business Sample, only two of them have a difference of \$10 or greater. Twenty-three of the files came out to nearly the same charge (less than a \$10 difference) when calculated under either methodology.
- The Company was previously examined by the Bureau in 2006. The Bureau raised no issue regarding the Company's rounding methodology. The Company uses the exact same rounding methodology that it used at the time of the 2006 examination.

For all of the above reasons, the Company requests that the findings related to rounding of policy premium be removed from the Report.

Automobile Renewal Business Policies

First Accident Forgiveness Endorsement – Section (1)b. indicates that in twenty-three instances the Company "...listed the Accident Forgiveness endorsement on the declarations page when it was not applicable to the policy." The Company agrees with these findings, however, the Company would like to offer the following explanation. During the audit in 2006 the Bureau identified the fact that the Company was failing to list the endorsement on its declarations pages when it was applicable to the policy. The Company committed to fix this error in its Corrective Action Plan. In March 2007 programming was put in place to correct the issue identified in 2006. A subsequent internal audit in June 2009 identified the fact that the correction had overcompensated and that some policyholders who should not receive the endorsement were, in fact, receiving it. The Company took steps to immediately correct this issue in September 2009, however, the Bureau's sample period overlapped with the self-identified period of non-compliance resulting in the violations identified during this audit.

Books & Records – Section (3) indicates that in four instances the Company "...failed to provide convenient access to the files, documents, and records relating to the examination." § 38.2-1318(C) states that "[e]very company...shall provide...convenient access at all reasonable hours to its...records, files...documents...that are relevant to the examination." The Company provided the Bureau with 24-hour access to its mainframe policy system via VPN access in addition to sending hard copy screen prints and documents at the request of the Bureau. The Company at no time failed to give the Bureau access to any documents or records in its possession and disagrees with these findings as individually outlined below.

RPA035 – The Bureau alleges that the policy screens were “locked” and the examiner could not view them. The Company’s system does not have the ability to “lock” screens. The Company system has only two possible avenues: full access or no access; there is no selective screen access. The only time the system locks is when passwords are incorrectly entered suggesting that the party attempting to enter the system is unauthorized. This is done automatically by the system at sign in, not after access has been secured. Should access be declined, it can only be reset by an authorized Company IT representative. When the Bureau requested hard copies of the policy information, the Company inadvertently sent hard copies from the prior policy term. The printouts for the prior policy term were sent in error, not as a means to prevent the Bureau from having access to company records. Upon calling this error to the attention of the Company via Review Sheet R&URBPPA1481661570, the Company sent the requested screen prints within 24 hours. The Company, therefore, not only provided 24-hour access to its mainframe policy system, it promptly responded to requests for hard copies of the information contained therein. The Company, therefore, requests that this violation be removed from the report.

RPA036 - The Bureau alleges that the Company does not have the necessary documentation to properly rate this policy including information about the insured’s home ownership, occupation, and education. The customer is well-known to the Company due to the length of his tenure as a policyholder (17 years) and the package of insurance that he carries with us including multiple automobiles, three homes, umbrella, excess umbrella, and flood. The insured has had multiple conversations with the Company during his 17-year tenure and has completed many documents during that time. Many of the documents that he would have completed initially may not have contained the information sought by the examiners as the detail on those documents has changed over the years as the company’s rating practices have become more sophisticated. It does not mean that the Company does not know the insured’s status relative to his home ownership, occupation, and education. Further, the Company has provided detailed applications completed at a later date that prove what the Company already knew about the insured – namely that he is a home owner, President & CEO of a financial institution, and a 4-year college graduate. (Please see Attachment #4 for copies of the Personal Umbrella Application, Virginia Automobile Insurance Application, and Homeowner’s Declarations Page from 2007.) The Company, therefore, requests that this violation be removed from the report as the Company did not refuse access to any of its records.

RPA045 – The Company did not refuse access to the information; it does not have the requested information. The Company, therefore, requests that the violation be removed.

RPA047 – The Company did not refuse access to the information; it does not have the requested information. The Company provided the original application from 2000. This document did not contain all the information sought by the examiners as the detail on those documents has changed over the years as the company’s rating practices have become more sophisticated. In addition, while the Bureau states that it does not know how long the insured has been at his current residence, this information is contained in the declarations page. The declarations page shows that the insured has been living at the

same address that he was living at when he completed his application in 2000, at least 10 years. (Please see Attachment #5 for a copy of the 2000 Automobile Application and the Declarations Page for the policy period subject to examination.)

Discounts & Surcharges – Section (4)a indicates that “[i]n 12 instances, the company failed to use the correct discounts and or surcharges.” The Company disagrees with one of those findings as outlined below and requests that it be removed from the Report.

RPA027 –The Bureau alleges that the Company was unable to provide documentation that the insured was married and, therefore, entitled to the marriage discount resulting in an undercharge to the policyholder. Please see Attachment #6 for three documents that evidence the insured’s marital status. The first document is a questionnaire completed by the insured in 1999. The insured lists his marital status as married and notes in the comments field that his wife never had a driver’s license. The second document is a questionnaire from 2003 where the insured has checked off that his spouse is a homemaker. The third document is a diary note from 2005 where the Customer Service representative documented a conversation with the insured where he tells her that he is married and that his wife does not have a driver’s license. The Company, therefore, requests that this violation be removed from the Report.

Four violations in this area related to the Company being unable to provide the required proof for application of the Good Student discount. The Company agreed to these findings during the examination. The Company’s rating system is designed to strip the discount on an annual basis, however, as a result of the examination, we discovered that the discount was not being stripped as it was supposed to have been. The Company is working to correct this issue. It should be pointed out that this was not an issue in the prior examination. More importantly, the errors result in potential undercharges to an insured who *may* no longer qualify for the discount, therefore, no harm resulted to the customer as a result of our error.

Surcharges for Accidents/Convictions – Section (4)b indicates that “[i]n three instances the company failed to apply the correct accident and/or conviction surcharge.” The Company disagrees with all three of these findings as outlined below and requests that they be removed from the Report.

RPA026 – The accident was not surcharged because it was below the \$1,000 threshold. ISO changed the limit from \$500 to \$1,000 in conjunction with the adoption of the PAP 2005 program. The Company adopted this revision by reference which required no separate filing with the Bureau. Please see Attachment #7 for a copy of the Manual page.

RPA036 – The Company paid \$872.59 for the accident, therefore, it was not surcharged because it was below the \$1,000 threshold. ISO changed the limit from \$500 to \$1,000 in conjunction with the adoption of the PAP 2005 program. The Company adopted this revision by reference which required no separate filing with the Bureau. Please see Attachment #7 for a copy of the Manual page.

RPA037 - The accident was not surcharged because it was below the \$1,000 threshold. ISO changed the limit from \$500 to \$1,000 in conjunction with the adoption of the PAP 2005 program. The Company adopted this revision by reference which required no separate filing with the Bureau. Please see Attachment #7 for a copy of the Manual page.

Tier Eligibility Criteria – Section (4)e. indicates that in ten instances the Company “...failed to use the correct tier eligibility criteria.” The Company disagrees with five of the findings as individually outlined below.

RPA030 – The Bureau alleges that this policy was placed in the wrong tier. The Company disagrees with this finding. Credit is rounded to three decimals. When using this methodology the UQI is .756 which results in tier 91. With tier forgiveness the correct tier is 47 which is where the insured was placed. This methodology is not contrary to the Company’s filed tiering rules.

RPA031 – The Bureau alleges that the Company did not obtain sufficient information to rate this policy. The Company applies the variables of Professional and College Educated to occupation and education respectively. Both of these characteristics rate more favorable and in the customer’s benefit.

RPA032 – The Bureau alleges that the Company improperly included two accidents when tiering this policy. The Company properly included certain claims paid by the Company under the policy and the policy was, therefore, correctly tiered.

RPA042 - The Bureau alleges that it could not calculate a rate because it did not have any prior BI limits for the insured. This policy is a 5th vehicle policy. Due to systems limitations the Company can only list up to four vehicles on one declarations page, therefore, a “companion” policy is created to house just the 5th vehicle when the customer has one. The 5th vehicle policy is treated as an extension of the original policy and is rated using the same characteristics. The insured carried 250/500 on her policy. Please see Attachment #8 containing the declarations page for the four-vehicle policy for the prior term. This is the information that would be used to rate the policy.

RPA049 – The Bureau alleges that the Company inappropriately used an at-fault accident in the tiering calculation when no such accident was on the policy record. The accident in question occurred on February 23, 2008 and was properly included in the tiering calculation. Please see Attachment #9 for a copy of the policy screen showing the accident and the Motor Vehicle Report also showing the accident.

Rounding – Section (4)h indicates that “[i]n 48 instances, the company failed to use the filed rounding rule.” The Company disagrees with this finding for the following reasons.

- Virginia Statute 38.2-1906(D) requires that insurers rate policies “...in accordance with the rate and supplementary rate information and filings

that are in effect for the insurer.” Rule 11 states that customers should be charged whole dollar premiums. The Company’s rating system is fully automated to assign rates and automatically round each coverage charge to achieve the whole dollar premium as filed. The process for assigning rates and rounding coverage charges is consistent with the filed rule, is uniformly applied, and is repeatable for each policyholder, in compliance with VA 38.2-1906(D), and the Company’s filed rates, including Rule 11.

- The Bureau suggests that rounding be performed at the point of the final premium calculation, rather than at the point of each coverage calculation, which is systemically applied by the Company in order to achieve a whole dollar premium. Both methodologies produce nearly the same results with only de minimus overcharges. Of the 48 instances in the automobile renewal sample, only one had an overcharge of greater than \$10. Forty-seven (47) of the files came out to nearly the same charge (less than a \$10 difference) when calculated under either methodology.
- The Company was previously examined by the Bureau in 2006. The Bureau raised no issue regarding the Company’s rounding methodology. The Company uses the exact same rounding methodology that it used at the time of the 2006 examination.

For all of the above reasons, the Company requests that the findings related to rounding of policy premium be removed from the Report.

Termination Review

All Other Cancellations – Automobile Policies

Nonpayment of the Premium

Return Premium – Section (1) indicates that in five instances the Company “...failed to calculate the return premium correctly.” The Company disagrees with these findings as individually outlined below.

TPA010 – This policy involved a customer who chose not to pay a renewal premium and should have been considered an expiration, rather than a cancellation for nonpayment of the premium. There was no return premium to calculate, therefore, it is the position of the Company that this finding does not belong in the report.

TPA011 – The Company believes that the return premium was properly calculated. Please see Attachment #10 for a detailed calculation sheet. It appears that the Bureau may not have accounted for an electronic funds transfer that was declined due to non-sufficient funds that resulted in an NSF fee of \$25.

TPA013 - The Company believes that the return premium was properly calculated. Please see Attachment #11 for a detailed calculation sheet. It appears that the Bureau may not have accounted for the fact that this customer was constantly in arrears. Some of

the money that came in during the policy period being examined was actually paying for the prior policy term.

TPA018 (-2140109682) - The Company believes that the return premium was properly calculated. Please see Attachment #12 for a detailed calculation sheet. It appears that the Bureau may have subtracted the late fee rather than adding it in.

TPA018 (1013515603) – The Company disagrees with the Bureau’s finding that the customer should have been charged a \$20.00 late fee. The Company’s filing requesting a \$20.00 late fee was approved for use effective August 1, 2009. The customer’s bill was sent on July 20, 2009 when the late fee was still \$5.00. The Company honored the \$5.00 charge that was incurred at the time of the original mailing. Please see Attachment #13 for a copy of the bill that was sent in July.

For the above reasons, the Company requests that all five violations related to return premium calculation for nonpayment of the premium be removed from the report.

The Company also requests that an additional return premium calculation finding be removed from the report. This one related to an insured request for cancellation, TPA024. The Company believes that the calculation was correct. Please see Attachment #14 for a detailed calculation.

Valid Proof of Mailing – Section (2) indicates that in six instances the Company “...failed to obtain valid proof of mailing the cancellation notice...” The Company disagrees with the four findings related to TPA012, TPA013, TPA015, and TPA016. In all four instances the Bureau criticized the Company because the date on the cancellation notice did not match the date on the proof of mailing.

Virginia Statute § 38.2-2208(A)(1) sets out the requirements for a valid proof of mailing of notice of cancellation. The statute does not require that the date on the notice exactly match the date that the item appears on the mail log for purposes of proof of mailing. The Company has a clear business process relative to the production of its cancellations for non-payment of the premium and the date discrepancy can be explained with a valid reason. It is not random.

Cancellations for non-payment of the premium are generated systematically when a customer has not paid. The Company’s system, however, only processes at night and on business days. The Company, therefore, built in additional time to account for weekends and holidays. This extra cushion of time was created for the benefit of the policyholder to ensure that s/he is given adequate notice of the cancellation notice and is not penalized by weekends, holidays, etc. Given that this is the Company’s standard business practice, to the benefit of the consumer, the Company requests that the violations be removed from the Report.

Notice of Sources of Insurance - Section (4)c. indicates that in “...seven instances, the company failed to advise the insured of the availability of other insurance

through another insurer, his agent or the Virginia Automobile Insurance Plan.” The Company disagrees with these findings. Virginia Statute § 38.2-2212(E)(5) requires that a cancellation “...notice shall...[i]nform the insured of the possible availability of other insurance which may be obtained through his agent, through another insurer, or through the Virginia Automobile Insurance Plan.” The statement on the Company’s cancellation notice for nonpayment of the premium stated as follows: “You may be eligible for automobile insurance through another insurer or under the Virginia Automobile Insurance Plan.” The only element missing from the Company’s notice is the reference to the insured’s agent. The Company is a direct writer. Customers who have an auto policy with the Company in Virginia do not have an agent. It would, therefore, make no sense, and be confusing to the customer, to refer the customer to “his agent” when no agent is involved in the insurance relationship. The Company, therefore, did not include this language on its notice and believes that, since it is a direct writer, it should not be required to include this language on its notice. The Company, therefore, requests that these seven violations be removed from the report.

Claims Review

Documentation – Section (1) indicates that in eight instances the Company “...failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.” The Company disagrees with seven of these findings as individually outlined below.

CPA004 – The Bureau alleged that there was no documentation in the file to support the actual cash value figure of \$14,861.27. Please see Attachment #15 for the following items evidencing that documentation did exist in the file supporting the actual cash value figure: 1. Autobid report dated April 17, 2009 giving an actual cash value of \$14,861.27; 2. April 20, 2009 diary note by the adjuster using the \$14,861.27 figure from the Autobid report; and 3. screen shot showing the entry of the Autobid report into the electronic correspondence section of the claim file on April 23, 2009.

CPA005 – The Bureau alleges that the file documentation was not sufficient to reconstruct the events due to a typographical error in one of the adjuster’s letters. It is the position of the Company that the file is completely documented and it is possible to reconstruct events. The chronology of events on April 23, 2009 is as follows. At 8:13 AM the adjuster reviewed the Autobid valuation and calculated the total loss settlement amount in a diary note, including \$38.75 for a registration fee. At 8:33 AM the adjuster created a letter outlining the total loss settlement where she inadvertently typed in the figure of \$250 for the registration fee. By creating and printing this letter, the system automatically sent it to the electronic correspondence file. The system does not actually send the paperwork out; the adjuster must do this manually. At 8:34 AM the adjuster requested that the team leader review the total loss calculation and paperwork. All total loss calculations and paperwork must be reviewed by a team leader prior to being sent out. At 9:59 AM the team leader reviewed the total loss package and instructed the adjuster to revise the registration figure in the paperwork. At 10:03 AM the adjuster created and printed a new letter with the revised registration figure. The creation and

printing of the new letter automatically sent a copy to the electronic correspondence file. The adjuster then sent out the total loss package using the new letter. Please see Attachment #16 for diary notes, first and second versions of the letter, and a screen shot of the electronic correspondence section showing the input of two letters on April 23, 2009.

CPA019 – The Bureau alleges that the file documentation was insufficient to reconstruct the events due to a letter to the insured that contained an incorrect amount. It is the position of the Company that the file is completely documented and it is possible to reconstruct the events. The chronology of events on August 25 and 26, 2009 is as follows. On August 25th at 9:44 AM the adjuster calculated the total loss settlement amount in a diary note and included a notation: “not approved yet” – a reference to the requirement to have the total loss calculation and paperwork approved by a team leader prior to mailing. At 9:58 AM the adjuster created a letter outlining the total loss settlement and inadvertently included the wrong figures. By creating and printing this letter, the system automatically sent it to the electronic correspondence file. The system does not actually send the paperwork out; the adjuster must do this manually. At 4:31 PM the team leader made a note approving the total loss figure at \$5,564 and noted that the figures needed to be corrected on the paperwork. At 4:49 PM the adjuster spoke with the insured, advised of the figures, and indicated that the paperwork would be sent the following day via Fedex. The following day, August 26th, at 3:08 PM the adjuster created and printed a new letter with the revised figures. The creation and printing of the new letter automatically sent a copy to the electronic correspondence file. The adjuster then sent out the total loss package via Fedex at 3:11 PM using the new letter. Please see Attachment #17 for the diary notes, first and second versions of the letter, and a screen shot of the electronic correspondence section showing the input of two letters on August 25, 2009 and August 26, 2009.

CPA020 – The Bureau alleges that the Company issued payment to the lessee of the vehicle rather than to the owner rental company, Enterprise Fleet Management. In fact, the Company did make payment to Enterprise, not to the lessee. The “Pay To” tab of the payment screen detail shows that the payment was actually issued to Enterprise Fleet Management. Please see Attachment #18 for the screen shot from the payment details.

CPA022 – The Bureau alleges that the file did not contain a copy of a bill to substantiate the payment of a medical bill in the amount of \$120.25. Medical payment claims are maintained in hard copy format. A review of the file shows that the bill is contained in the file as part of a request for subrogation that was faxed to the Company on November 16, 2009. The subrogation request related to a payment of \$120.25 by the claimant’s health insurance for services rendered by John Wandtke, MD. Please see Attachment #19 for copies of the correspondence.

CPA038 – The Bureau alleges that the Company “...failed to document the total loss in [its] salvage log.” Following our audit prep meeting with the Bureau, the Claims Department prepared a Virginia-specific salvage log for purposes of the examination Data Call. The vehicle related to this claim was inadvertently left off the Virginia-

specific log because the vehicle was sold out of state (Maryland). The vehicle did appear on our country-wide salvage log, a copy of which is attached as Attachment #20. Please see Page 4 of the log.

CPA039 - The Bureau alleges that the Company "...failed to document the total loss in [its] salvage log." Following our audit prep meeting with the Bureau, the Claims Department prepared a Virginia-specific salvage log for purposes of the examination Data Call. The vehicle related to this claim was inadvertently left off the Virginia-specific log because the vehicle was sold out of state (Maryland). The vehicle did appear on our country-wide salvage log, a copy of which is attached as Attachment #20. Please see Page 12 of the log.

For the above reasons, the Company requests that the findings related to the seven claims outlined above be removed from the Report. The removal of the seven violations above leaves only one violation in this category thereby eliminating the allegation of a "general business practice."

Medical Expense Benefits Coverage – Section (2)a. indicates that in six instances the Company "...failed to accurately inform an insured of his Medical Expense Benefits coverage." The Bureau alleges that in all six instances the Company sent a letter to the insured or claimant indicating that Medical Expense coverage was applicable only to the named insured and household members. The Company disagrees with all of these findings. The cover letter that was used in all six cases was the same. The letter states as follows: "The Medical Payments benefit on your policy is \$5,000.00 [for example]. However, if more than one vehicle is listed on the policy, the limits of the vehicles with the four highest limits are stacked to determine total coverage (applies only to the named insured and household members)." The letter does not say that Medical Expense benefits are not available to those other than the insured and household members. The parenthetical limiting coverage to the "insured and household members" modifies only the section related to stacking of the benefits. *Stacking* of benefits is available only to the "insured and household members."

This is correct based on the law in Virginia. The Company's position is based on the Virginia Supreme Court case of *Nationwide Mutual Insurance Company v. Shelton*. In that case the Court held that a "...person injured while riding as a passenger in one of four vehicles insured under liability policy, who was neither the named insured nor a relative, was limited in his medical payments claim to the coverage provided for the specific vehicle he was occupying when injured and was not entitled to stack the coverages provided for other vehicles insured in the policy." The Court found that the Nationwide policy which used policy language similar to the policy language used in the Company's endorsement created two classes of insureds. The first class, the named insured and household members, were entitled to stack the coverage. The second class, passengers in the insured's vehicle, were not entitled to stack coverage. Relying on the opinion of the Virginia Supreme Court and the wording of its endorsement, the Company believes that its cover letter accurately describes the coverage available to the two classes of insureds and is not a violation of Virginia Regulation 5-400-40 as no coverage was

obscured or concealed. Please see Attachment #21 for copies of the cover letter, case law, and Company endorsement language.

Reply to Pertinent Communications – Section (3) indicates that in two instances the Company “...failed to make an appropriate reply within 10 working days to pertinent communications...” The Company disagrees with one of these findings as outlined below.

CPA012 – The Bureau alleges that the Company did not respond to letters from the claimant’s attorney within ten working days. The attorney’s letter dated November 3, 2009 requested a response within 30 days. His communication clearly set a standard within which he expected a response and that standard was met by the Company. The Company has no obligation to respond within ten working days when the communication explicitly extends the time to respond.

Fair and Reasonable Offer – Section (5)b. indicates that in three instances the Company “...failed to pay the claim in accordance with the policy provisions under the insured’s Transportation Expense coverage.” The Company disagrees with one of these findings as outlined below.

CPA025 – The Bureau alleges that the Company underpaid the insured \$113.94 in Transportation Expense coverage. The insured submitted a rental invoice in the amount of \$335.15 for a five-day rental at \$39.99 per day. The Company paid for the rental at the full amount, however, the Company deducted \$113.94 which represented the cost of a collision damage waiver and personal accident insurance (plus the associated tax for those items). The Company sent the insured a denial letter on October 6, 2009 explaining that it was denying coverage for that amount. (Please see Attachment #22 for a copy of the rental invoice and the denial letter.)

Misrepresentation of Pertinent Facts – Section (6) indicates that in eighteen instances the Company “...misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.” All of these violations relate to two statements found in the Company’s total loss package. The cover sheet of the package (page 2) contains a statement that “[t]he AutoBid valuation is accepted by your state as a fair method of settlement.” The Frequently Asked Questions section (page 6) contains a statement that “AutoBid is a market valuation each state’s Department of Insurance has recognized as a fair and acceptable way of calculating ACV.” Although the Company has agreed to remove the language, the Company contests the inclusion of these violations in the Report.

Virginia Statute § 38.2-510(A)(1) provides that “[n]o person shall...misrepresent pertinent facts or insurance policy provisions relating to coverages at issue....” The statements contained in the total loss packet certainly cannot be considered as misrepresenting policy provisions as they do not, in any way, reference provisions of the policy. Further it is the position of the Company that these statements do not even represent “pertinent facts.” The statements appear among 11+ pages of information

related to the settlement of the total loss claim. Examples of truly “pertinent facts” from all of the information provided would most likely be the steps necessary to complete the settlement process, the settlement offer, and the actual cash value figure.

Additionally, as part of this examination, the Bureau reviewed eighteen total loss claims. The AutoBid methodology was used to calculate the actual cash value in all eighteen claims. The Bureau issued no criticisms related either to the AutoBid methodology or the actual cash value offered in settlement of the claim. If the Bureau truly did not accept the AutoBid methodology as a fair method of settlement one would certainly have expected to see criticisms to that affect, however, none were issued. Also, AutoBid received a letter from the Bureau of Insurance indicating that the Bureau does not set a method for determining a vehicle's fair market value. It is possible to infer from the lack of an available method that the Bureau does not consider AutoBid an unacceptable method. Certainly if the Bureau considered it to be an unacceptable method, the Bureau could have indicated as such in its letter, which it did not do.

It is the position of the Company that it did not violate Virginia Statute § 38.2-510(A)(1) given that the statements, which appear among the 11+ pages of information related to the settlement of the total loss, are not “pertinent facts” or “insurance policy provisions” and given that the Bureau did not actually criticize the AutoBid methodology as being an unfair or unacceptable method of settling the claim. The Company, therefore, requests that all eighteen violations be removed from the Report.

Prompt Investigation – Section (7) indicates that in four instances the Company “...failed to adopt and implement reasonable standards for the prompt investigation of claims...” The Company disagrees with three of these findings as individually outlined below.

CPA008 – The Bureau alleges that the Company did not investigate the claimant’s prior accident to determine whether her injuries were related to her accident with our insured or the prior accident. In our accident our insured collided with the claimant’s passenger side door. The insured had heavy front-end damage to his vehicle resulting in a total loss to his vehicle worth almost \$5,000. The claimant vehicle suffered in excess of \$8,000 in damage. The claimant vehicle driver as well as both of her passengers were transported to the hospital by EMS. In the prior accident, which occurred earlier that day, the claimant’s driver’s side door was struck when another vehicle hit a motorcycle and pushed the motorcycle into the claimant’s vehicle. The Company received notice of the accident on May 7, 2009. An appraisal of the claimant vehicle was assigned the same day. The appraisal, including photos of the damage related to the accident with our insured as well as photos of the damage related to the accident earlier in the day, was received the following day. The BI adjuster was able to make a determination by reviewing the damage caused by the motorcycle and the facts of the accident caused by our insured, including the extent of physical damage and immediate transport to a hospital, that the claimant’s injuries were the result of the accident with our insured. It is clear that, contrary to the Bureau’s assertion, the claim was investigated reasonably and promptly by the Company in full compliance with the statute.

CPA011 – The Bureau alleges that the Company did not promptly investigate the claim because it did not contact the police officer who responded to the accident. Although the Company did not contact the investigating officer personally, his report, which presumably would document any pertinent facts obtained from conversations with witnesses, was obtained. The Company also made repeated attempts to contact the witnesses to gather loss information. Additionally, the vehicles were appraised and operator's information was obtained. It is the Company's position that a reasonable loss investigation was completed and that the statute does not require that all possible avenues of investigation be exhausted before a reasonable and prompt liability decision can be made.

CPA020 – The Bureau alleges that the Company did not conduct a prompt investigation because it did not require the submission of a receipt for a \$260 Amtrak expense when the claimant alleged she could not drive due to a sore neck resulting from the accident. The Company's investigation determined that our insured struck the claimant vehicle causing over \$2,000 damage to her vehicle as confirmed through an appraisal and photographs. Liability on the part of our insured was not disputed. The medical bills confirm that the claimant sought treatment on the date of loss. The Company also collected information directly from the claimant which was deemed to be credible. In the judgment of the adjuster it was not necessary to request a receipt for the de minimis \$260 out-of-pocket expense in the context of the magnitude of the loss and the undisputed liability. It is the Company's position that a reasonable and prompt investigation was completed and that it is not necessary for the adjuster to require submission of every possible piece of documentation, especially in relation to a de minimis request.

In all three cases it appears that the Bureau is attempting to substitute its own judgment, after the fact, by citing various additional investigative avenues that could have been pursued. It is the position of the Company that in all three cases the adjusters conducted reasonable and prompt claim investigations and that liability decisions and payments were based on relevant facts and professional judgment. The Company, therefore, requests that these three violations be removed from the Report.

Policy Provisions – Section (8)(b) indicates that in one instance the Company "...failed to properly pay a UM claim." The Company disagrees with this finding. The adjuster paid the claim under the incorrect coverage line in error. The error was identified and the payments were re-allocated correctly in our financial system. The insured received the correct dollar amount. The Bureau appears to be unfairly penalizing the Company for making an error, discovering the error, and correcting the error especially in light of the fact that the error did not affect the insured in any way; she received the full amount that was due her within four days of notifying the Company of her accident.

Automobile Policy Forms

Policy Forms Used During the Examination Period

Upon receipt of the Report, the Company is aware that the Accident Forgiveness Endorsement (EIC4534 0208) was inadvertently left off the Index of Forms that was submitted to the Bureau for the examination. This was an oversight rather than an attempt to prevent the Bureau from reviewing the form. Please see Attachment #23 for a copy of the endorsement. The Company requests that the violation be removed.

Review of Statutory Notices

Statutory Vehicle Notices

Accident Point Surcharge Notice – The Bureau stated that the Company “...failed to have available for use the Accident Point Surcharge Notice.” The Company disagrees with this finding. Virginia Statute § 38.2-1905(A) states that “[a]ny insurer increasing a premium or charging points as a result of a motor vehicle accident shall notify the named insured in writing and in the same notification shall inform the named insured that he may appeal the decision of the insurer to the Commissioner...” The Company’s Adverse Underwriting Notice (EIC 4514 1106) serves this purpose. The Notice is sent to any named insured whose premium is increased as a result of an accident. The Notice provides a “Notice of Appeal” section at the bottom advising the insured of the right to appeal the action. The Notice, therefore, meets both requirements of the statute to 1. notify of the increase; and 2. notify of the right to appeal. A copy of an example notice sent to a named insured whose premium was increased due to a motor vehicle accident(s) is included in Attachment #24.

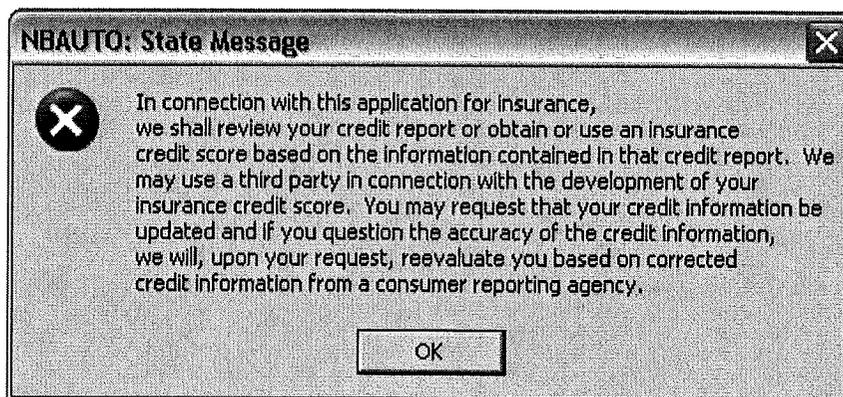
Other Notices

Credit Disclosure Information - The Bureau stated that “[t]he second page of the auto application states that the company ‘may’ review credit information violates the requirements of Section 38.2-2234 A (1)(i) which states that an insurer “shall obtain credit information in connection with such application.” Section I(1)(i), however, must be read in the context of the rest of the statute which specifically addresses the timing and method of communicating the disclosure:

“[a]ny insurer issuing...a policy of motor vehicle insurance...that uses credit information contained in a consumer report for underwriting, tier placement or rating an applicant...shall...disclose, **either on the insurance application or at the time the insurance application is taken** (i) that it shall obtain credit information in connection with such application **Such disclosure shall be either written or provided to an applicant in the same medium as the application for insurance.**” [emphasis added].

The Company does not rely on the written application as the means of communicating the required credit disclosure as it would be too late; the Company would have run the consumer's credit prior to the consumer ever having received the notice and the Company would be out of compliance. Instead, the Company communicates the disclosure during the application process, prior to the consumer receiving the application and prior to running the consumer's credit as follows:

- A consumer choosing to obtain a quote for insurance with the Company must call the Company Contact Center and speak with a New Business Sales Representative ("Representative").
- Before the call is connected to a Representative, Consumers are required to listen to an automated recording regarding credit. The text of the recording is as follows:
"As part of our underwriting process, consumer reports such as motor vehicle records, prior loss histories, or credit-based insurance scores may be ordered for this application, for any amendments or upon renewal. This information may be used to determine your eligibility, premium, or payment plan. Should you wish to dispute any information contained in these reports, you will be given the contact information of the consumer-reporting agency supplying Electric Insurance with the reports."
(This message can be heard and verified by calling our 800 number at 800-227-2757 and pressing 2 to reach New Business Sales Department.)
- After the recorded message, the Consumer is connected to a Representative. The Representative obtains preliminary demographic information from the consumer and enters it into the automated underwriting system.
- If a Representative enters the state of Virginia into the automated underwriting system, the below supplemental text is automatically generated, which is required to be read by the Representative to the Consumer:



- If the consumer is interested in proceeding to obtain a price, a credit report will be run returning a credit score that is a factor in the automated underwriting system to arrive at a final premium quote.

- If the consumer is satisfied with the quote, s/he can select to bind the policy.
- Once the policy has been bound, initial paperwork is generated during an overnight batch cycle and sent to the customer. This paperwork includes the application, policy forms, and other required documents.

In regard to timing, the statute provides that disclosure shall be made “*either* on the insurance application *or* at the time the application is taken... [emphasis added]” The Company has chosen to deliver the disclosure at the time the application is taken which is fully compliant with the statute and delivers the disclosure prior to credit being run.

The Company’s disclosure contains all three of the required elements. In fact, the Company’s disclosure is identical to the safe harbor disclosure language contained in § 38.2-2234(A)(1). Per the statute, use of this language “constitutes compliance....”

In regard to the delivery method, the statute provides that the “...disclosure shall be *either* written *or* provided to an applicant in the *same medium* as the application for insurance [emphasis added].” The Company has chosen to deliver the disclosure in the same medium, i.e. the consumer is making application orally and the disclosure is being concurrently delivered orally. This is fully compliant with the statute.

Given that the Company delivers a credit disclosure notice to all consumers that is fully compliant with all the elements –timing, language, and delivery method – required by § 38.2-2234(A)(1), the Company requests that this violation be removed from the Report.

Licensing and Appointment Review

Agency

The Bureau stated that the Company failed to provide supporting documentation regarding the name of the agent who processed the application for those policies written through the ComparisonMarket (Insurance.com) web site.

The Company disagrees with the finding. The ComparisonMarket platform is designed to allow consumers to come to the web site, enter required demographic information, and, with the click of a mouse, receive a quote and bind a policy without ever speaking with an individual agent. As there is no agent involved in the sale of the policy, there is no agent documentation that can be provided to the Bureau.

The ComparisonMarket platform is essentially a two-step process. A consumer comes to the web site and enters certain demographic information. This demographic information is then fed through the automated underwriting rules of the various carriers participating on the platform. If the consumer meets the underwriting standards of the carrier, the carrier (through an automated rating system) returns a preliminary quotation

for coverage. All quotes are displayed to the consumer. In the second part of the process, the consumer can then select the quote that s/he is most interested in. Once the consumer selects an individual carrier, the carrier then runs any required consumer reports such as credit, MVR, CLUE, etc., and returns a final quote for coverage. All of this activity is done electronically through an automated rating system. If the consumer likes the rate, the consumer then has the option to bind the policy by clicking a button and entering credit card or checking account information to make a down payment on the policy. Once the consumer chooses to bind the policy with the Company, the system is triggered to produce all necessary written application and policy forms and mail them to the consumer as part of the Company's overnight batch cycle (just as it does when a consumer calling our Contact Center binds a policy). The ComparisonMarket process is designed to be fully automated and completed without the intervention of a human other than the consumer. The Company's underwriting and rating rules are completely automated and use the data entered (or returned from consumer reporting agencies) to determine whether to offer a rate to the consumer and how much the rate is.

§ 38.2-1822(A) addresses the requirements for agent licensing in Virginia. It states that "[n]o person shall act...as an agent of an insurer...without first obtaining a license...." The statute is clear that no one may act as an agent without having a license. The statute, however, does not require that an individual agent must be involved in the sale of insurance only that, if one is, that individual must be licensed. The statute does not prohibit the type of automated sale of insurance that is conducted through the ComparisonMarket web site. The Company's process of using the ComparisonMarket web site to sell policies is fully compliant with the licensing statute. The corporate agency entity, Insurance.com Agency, was at all times licensed and appointed by the Company and this is the entity to which the Company paid all commissions related to sales through the ComparisonMarket web site.

Given that the Company was in full compliance with the licensing requirements of § 38.2-1822 by creating a fully automated quote and bind mechanism on a web site and paying commission to a licensed and appointed entity hosting the web site, the Company requests that the associated violations be removed from the report.

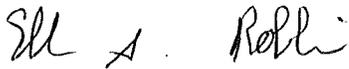
CONCLUSION

The Company strives to fully comply with the laws and regulations of the Commonwealth of Virginia. We believe that this is core to the way we do business and ensures that customers and claimants are treated fairly. The Company was last examined in 2006. At that time the Company committed to sixteen corrective actions. A review of those corrective actions shows that very few of the items identified in the prior examination were identified as continuing to be in error during the 2010 examination. This evidences that the Company is committed to correcting any errors identified and will continue to do so.

This letter identifies several errors where the Company continues to disagree with the Bureau's findings. It is our understanding that the Company's position will be reviewed, we will be advised whether any items will be removed, and a revised Report will be issued, if applicable. The Corrective Action Plan attached to this letter reflects actions that the Company is committed to taking based on items that it is not contesting. Once the Bureau and the Company reach final agreement on the items that will remain in the Report, the Corrective Action Plan will be updated, if needed. Similarly, the Company is contesting the vast majority of the violations alleging an overcharge of premium or underpayment of a claim and will issue any required payments following finalization of the Report.

In the meantime, the Company would appreciate the opportunity to meet with Bureau staff to review the Report findings. Please contact me at ellen.robbins@electricinsurance.com or 978-524-5340 to arrange a time for Company representatives to come to Richmond. Additionally, please do not hesitate to contact me if you have any questions regarding any of the information contained in this letter.

Sincerely,

A handwritten signature in cursive script that reads "Ellen S. Robbins".

Ellen S. Robbins
Manager of Regulatory

CORRECTIVE ACTION PLAN

Electric Insurance Company (the "Company") commits to taking the following actions to correct errors identified during the market conduct examination conducted in 2010 by the Virginia Bureau of Insurance (the "Bureau").

Rating and Underwriting Review

1. The Company will refund to insureds or credit insureds' accounts the amount of any overcharge. This will include 6% simple interest. These payments are detailed on the file entitled "Rating Overcharges Cited during the Examination" which has been sent to the Bureau.
2. The Company will correct its internal processes to require the submission of a Good Student Discount Certification form prior to the application of the discount.
3. The Company will ensure that the declarations page does not display a passive restraint credit message when the credit does not apply.
4. The Company will ensure that the Accident Forgiveness Endorsement (EIC4534 0208) only attaches to those policies where the insured has met all of the conditions for the 1st Accident Forgiveness program found in Rule 22 of the Company's filed manual. **This item was corrected in September 2009.**
5. The Company will update its rating system to properly reflect the correct base rate of \$20 for a Transportation Expense limit of \$600. **This item was corrected in October 2010.**
6. The Company will file an amended rule detailing its methodology for rounding premium.

Termination Review

1. The Company will ensure that it retains a copy of the proof of mailing of a notice of cancellation to the lienholder for at least one year from the date of cancellation.
2. The Company will ensure that it obtains a valid proof of mailing of a notice of cancellation to the insured.

Claims Review

1. The Company will send to insureds or claimants the amount of any underpayment. This will include 6% simple interest. These payments are detailed on the file entitled "Claims Underpayments Cited during the Examination" which has been sent to the Bureau.

2. The Company will amend its cover letter related to Transportation Expense coverage to remove the reference to a daily limit. **This item was corrected in September 2010.**
3. The Company will update its internal reference material to reflect the correct (lower) Virginia registration fee of \$2 to be reimbursed on total loss claims. **This item was corrected in December 2009.**

Joy Morton

From: Robbins, Ellen (Electric Insurance) [Ellen.Robbins@ElectricInsurance.Com]
Sent: Tuesday, April 05, 2011 1:08 PM
To: Joy Morton
Cc: Karen Gerber
Subject: RE: Bureau's Response to the Company's Response
Attachments: 2011-02-08BOIRestitutionChart.xls

Joy and Karen,
Attached please find the restitution spreadsheet for Electric Insurance. Please let me know whether you have any questions.
Thanks.
Ellen

From: Joy Morton [mailto:Joy.Morton@scc.virginia.gov]
Sent: Thursday, March 31, 2011 10:28 AM
To: Robbins, Ellen (Electric Insurance)
Cc: Karen Gerber
Subject: RE: Bureau's Response to the Company's Response

Ellen:

I will have Andrea look at this again on Monday when she is back. I will extend the date for your restitution accounting until Tuesday the 5th.

JOY

From: Robbins, Ellen (Electric Insurance) [mailto:Ellen.Robbins@ElectricInsurance.Com]
Sent: Thursday, March 31, 2011 8:16 AM
To: Joy Morton
Cc: Karen Gerber
Subject: RE: Bureau's Response to the Company's Response

Hi Joy,
I'm not trying to be difficult, but I'm trying to understand RPA032. It is the largest restitution on the list and, therefore, really sticks out as an anomaly. I just went through your spreadsheets. I can find records regarding three of the review sheets: 1689944037 (good student), 47109989 (transportation base rates), and 441506339 (rounding). I know that these three items are not resulting in an overcharge of \$1,083. I have no record of 410566615. I'm guessing this is the violation that must be driving the number. Could you please send me a copy so I can see what it is? Do you show any record of us responding to it?

Thanks.
Ellen

From: Joy Morton [mailto:Joy.Morton@scc.virginia.gov]
Sent: Wednesday, March 30, 2011 4:05 PM
To: Robbins, Ellen (Electric Insurance)
Cc: Karen Gerber
Subject: RE: Bureau's Response to the Company's Response

Ellen:

I have checked and the violations for the policies below are as follows:

RPA 032 there were 5 violations on this policy that involved rates and/or factors (violations of 38.2-1906 D). Only one of these violations was withdrawn and the overcharge changed from \$1092 to \$1083. The company should make this restitution plus 6% interest immediately.

RPA037 has been withdrawn and the overcharge removed from the grid.

RPA049 there were 4 violations on this policy that involved rates and/or factors (violations of 38.2-1906 D). Only one of these violations was withdrawn and the overcharged changed from \$166 to \$170. The company should make this restitution plus 6% interest immediately.

All of the outstanding restitution should be made and reported to the Bureau by Friday April 1, 2011. If you have any questions or need our assistance further please feel free to contact me.

Joy Morton
Supervisor
P & C Market Conduct Section
(804)371-9540

From: Robbins, Ellen (Electric Insurance) [<mailto:Ellen.Robbins@ElectricInsurance.Com>]
Sent: Wednesday, March 30, 2011 1:01 PM
To: Joy Morton
Subject: FW: Bureau's Response to the Company's Response

Hi Joy,
Per the email I just sent...
Thanks.
Ellen

From: Robbins, Ellen (Electric Insurance)
Sent: Tuesday, March 29, 2011 3:13 PM
To: Karen Gerber (Karen.Gerber@scc.virginia.gov)
Subject: FW: Bureau's Response to the Company's Response

Hi Karen,
I'm just going through the restitution lists. I have some questions on a few on the Rating list:

1. There is a large restitution related to **RPA032** (\$1,083). I think the violation that drove this (related to tiering) was removed from the report. The Review Sheet Number is R&URBPPA2081408704.
2. There is a restitution related to **RPA037** (\$151). I think the violation was removed (related to the accident threshold and tiering). I think the Bureau ultimately agreed that the accident threshold was \$1,000 as a result of the adoptions of changes to ISO by reference.
3. There is a restitution related to **RPA049** (\$170). I think the violation was removed (related to an at-fault accident in tier calculation). The Review Sheet Number is R&URBPPA944390530.

Can you confirm whether or not these should remain on the restitution list?
Thanks.
Ellen

From: Joy Morton [<mailto:Joy.Morton@scc.virginia.gov>]
Sent: Tuesday, February 15, 2011 5:16 PM

To: Robbins, Ellen (Electric Insurance)

Subject: FW: Bureau's Response to the Company's Response

-----Original Message-----

From: Joy Morton

Sent: Tuesday, February 15, 2011 5:15 PM

To: 'ellen.robbins@electricInsurance.com.'

Cc: Karen Gerber

Subject: Bureau's Response to the Company's Response

Ellen:

Enclosed is a revised version of the market conduct report, the Bureau's response, the restitution spreadsheet indicating all of the insureds and/or claimants the company must make restitution to and the corresponding technical report any review sheets added or deleted since the company's response.

Please feel free to contact me if you have any questions.

Joy Morton

Supervisor

P & C Market Conduct Section

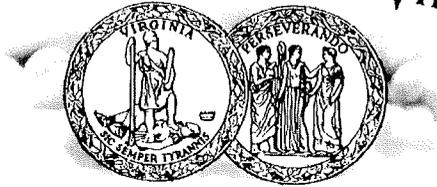
Phone - (804)371-9540

Fax - (804) 371-9396

email - joy.morton@scc.virginia.gov

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/bo>

February 15, 2011

VIA UPS 2ND DAY DELIVERY

Ellen Robbins, Manager of Regulatory
Electric Insurance Company
75 Sam Fonzo Dr.
Beverly, Massachusetts 01915

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009-March 31, 2010

Dear Ms. Robbins:

The Bureau of Insurance (Bureau) has reviewed the January 24, 2011 response to the Preliminary Market Conduct Report (Report) of Electric Insurance Company. The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

Company Profile

Although the Company's profile in the Report was obtained through the A. M. Best Company, the Bureau has no objection to removing the reference to the Massachusetts proposal. The Report has been modified to reflect this change. The Report has been further modified to reflect the Company's method of sales through the direct marketing sales method.

PART ONE – EXAMINERS OBSERVATIONS

Automobile New Business

The overcharges and undercharges have been revised in the Report.

- (5)d After further review, the violation for RPA005 has been withdrawn. The company provided the missing documentation.
- After further review, the violation for RPA007 has been withdrawn. The Company provided the correct credit score for this insured in a revised credit score sheet for all insureds.
- (5)e After further review, the violations for RPA019 and RPA020 have been withdrawn.

- (5)f The violations in this section remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. A \$10 difference in the premium on 23 policies indicates the Company is not following the filed rules and rates. Virginia is a file and use state. If the Company's current practices are not consistent with its filed rules the company should amend its rules to reflect its practices.

The fact that the prior Market Conduct Report did not mention the Company's rounding methodology does not mean that the Bureau agreed with the Company's practices; please refer to page 7 of the 2006 Report. As stated in the Report, "The examiners may not have discovered every unacceptable or non-compliant activity in which the Company engaged. The failure to identify, comment on, or criticize specific Company practices does not constitute an acceptance of the practices by the Bureau."

Automobile Renewal Business

The overcharges and undercharges have been revised in the Report.

- (3) The violation for RPA035 remains in the Report. The Company did not provide copies of the mainframe screens for policy term 11/14/2009 in response to the violation or in the Company's response to the preliminary Report. The Company only provided copies of the prior 11/14/2008 policy term. Upon receipt of the requested mainframe screens applicable to the 11/14/2009-11/14/2010 policy term, this violation may be withdrawn.

The violation for RPA036 has been withdrawn. The insured's policy file did not include any documentation to support how the company rated the policy. The Company stated it was familiar with the Electric (Genworth) Executive for years, knew his information, and therefore did not need supporting documentation. After the examination began, the Company obtained a signed application from this insured on 3/11/2010 and the examiner was able to verify that the policy was rated correctly. Therefore, this violation has been withdrawn.

The violation for RPA045 remains in the Report. The Company was unable to provide the requested documentation that would enable a credible and reliable examination of these files.

After further review, the violation for RPA047 has been withdrawn. The Company provided evidence of the insured's education, occupation, and homeownership.

- (4)a The violation for RPA027 has been withdrawn. The Company provided documentation that the insured was married.

- (4)b The violation for RPA026 remains in the Report. The 6/21/2008 claim was an at-fault accident for which the Company paid \$4,207. In accordance with ISO Rule 5, the Company paid more than \$1,000 and should have surcharged vehicle three for the accident.

After further review, the violations for RPA036 and RPA037 have been withdrawn. The Company should note that its currently filed manual contains

pages that are no longer filed for use due to ISO rules filed on its behalf. All of the Company's ISO exception pages, except Rule 22, have been superseded by the ISO PAP Rules revision filed on the Company's behalf effective January 1, 2010.

- (4)e The violation for RPA030 remains in the Report. This was the only policy where the Company's tier calculation was different due to rounding. If the examiners re-calculated the credit tier for all of the policies reviewed by the examiners, and round the tier calculations to three decimal places, the number of violations in this section would increase tremendously. The Company must follow its filed UQI Tiering Rules.

The violation for RPA031 remains in the Report. Using the undisclosed occupation classification with any education level, the UQI Tier developed by the examiner was 13,. The Company calculated tier 35 for the insured (this is a less favorable tier). Please see the attached spreadsheet showing the examiner's calculations.

After further review the violation for RPA 032 has been withdrawn..

The violation for RPA042 remains in the Report. Based upon the information provided, the Company used an incorrect and less favorable tier for the insured than the tier calculated by the examiner. The Company used tier 33 but the examiner has determined the tier as 13. This is based upon prior limits of 250/500, one at fault accident within 36 months, credit score of 820, college educated, professional occupation, not liability only, homeowner, multi car, and minimum car age of 5 years. The UQI Tier developed by the examiner was 13 based upon the BI limits provided in the company's response. Please see the attached spreadsheet showing the examiner's calculations.

Based upon additional information provided by the Company RPA049 has been withdrawn.

- (4)h The violations in this section remain in the Report. The Company has not provided any additional information that would cause the Bureau to reconsider its initial findings. A \$10 difference in the premium on 47 policies indicates the Company is not following the filed rules and rates. Virginia is a file and use state. If the Company's current practices are not consistent with its filed rules the Company should amend its rules to reflect its practices.

The fact that the prior Market Conduct Report did not mention the Company's rounding methodology does not mean that the Bureau agreed with the Company's practices; please refer to page 7 of the 2006 Report. As stated in the Report, "The examiners may not have discovered every unacceptable or non-compliant activity in which the Company engaged. The failure to identify, comment on, or criticize specific Company practices does not constitute an acceptance of the practices by the Bureau."

TERMINATIONS

The overcharges and undercharges have been revised in the Report.

All Other Cancellations Automobile Policies

Non-Payment of Premium

- (1) The violation for TPA010 remains in the Report. The Company's response did not address the observation in the review sheet. The policy expired but the company sent the insured an Account Bill Notice requesting \$607.42 of the renewal premium. A renewal notice should not be sent on an expired policy.

After further review, the violations for TPA011, TPA013 and TPA018 (TermNPPPA-2140109682 and TermNPPPA-1013515603) have been withdrawn.
- (2) The violations for TPA012 and TPA 013 remain in the Report. The dates on the notices of cancellation to the insureds are one day after the dates on the proof of mailings. Cancellation notices could not be mailed before the notice existed.

The violations for TPA015 and TPA 016 remain in the Report. The dates on the notices of cancellation to the insureds are two days after the dates on the proof of mailings. Cancellation notices could not be mailed before the notice existed.
- (4)c. After further review, the violations for TPA011, TPA012, TPA013, TPA014, TPA015, TPA016 and TPA 018 have been withdrawn. The Company has responded that it is a direct writer and the reference to "agent" is therefore not required.

Requested by the Insured

- (1) The violation for TPA024 remains in the Report. The Company applied the 10% short rate factor to the unearned premium from the date of cancellation to the end of the policy period. This 10% short rate factor should have been applied to the earned premium. The earned premium was \$242.00 and the short rate earned premium was \$266.00. The insured paid \$1,558.00 and deducting the \$266.00 results in an unearned premium of \$1,292.00. However, the company only credited the insured \$1,111.00 and thus, an overcharge of \$181.00 resulted.

CLAIMS

The overcharges and undercharges have been revised in the Report.

Private Passenger Automobile Claims

- (1) After further review, the violations for CPA004, CPA020, CPA038, and CPA039 have been withdrawn. The Company provided the previously omitted documentation.

The violation for CPA005 remains in the Report. The file notes do not provide the detail necessary to reconstruct events. Although the Company has stated

that the initial letter was not sent, notes in the file do not support this and the Company's document system does not indicate that the letter was not sent.

The violation for CPA019 remains in the Report. The file notes do not provide the detail necessary to reconstruct events. Although the Company has stated that the initial letter was not sent, notes in the file do not support this and the Company's document system does not indicate that the letter was not sent.

The violation on CPA022 relating to the omitted check has been removed from the review sheet. The violation relating to the erroneous file material, remains in the Report.

- (2)a The violations in this section remain in the Report. A review of the current statute, § 38.2-2201 C, states that coverage is provided when "...the insured has purchased coverage under subsection A of this section, every insurer providing such coverage arising out of ownership, maintenance or use of no more than four motor vehicles shall be liable to pay up to the maximum policy limits available on every motor vehicle insured under that coverage..."The statute does not limit this coverage as it relates to passengers but instead, limits this coverage as it relates to the number of vehicles.

The Medical Expense And Income Loss Benefits Coverage –Virginia Endorsement, PP 05 96 01 05, defines an insured as "you" or a "family member" and any other person occupying "your covered auto". Therefore, a passenger (any person occupying "your covered auto") would be entitled to stacking of benefits. The Company's letter denying stacking obscured the benefits available under the policy.

- (3) The violation on CPA012 relating to the Company's response to the letter dated 11/3/2009 is removed from the review sheet. The violation for failing to respond within ten days to the letter dated 11/13/2009, remains in the review sheet and subsequently, the Report.

- (5)b After further review, the violation for CPA025 has been withdrawn.

- (6) The violations in this section remain in the Report. By the Company's own admission, pertinent facts would include the "steps necessary to complete the settlement process" and "actual cash value". The company's letter advises customers that the AutoBid valuation is "a fair method of settlement" and the Company includes AutoBid's valuation in the "Total Loss Packet" sent to the customer. The valuation is part of the settlement process and therefore pertinent to the settlement. The Company has further stated that this tool is an "...acceptable way of calculating ACV". ACV is a vital part of the settlement process..

- (7) After further review the violations for CPA008, CPA011 and CPA020 have been withdrawn.

- (8)b The violation on CPA037 remains in the Report. The Company has not provided any documentation to verify the date that the correction was made in their financial system.

Forms

The violation on FPA034 has been withdrawn from the Report. The Company provided a copy of the missing form.

Notices

Statutory Vehicle Notices

The Company has provided a copy of their Point Surcharge Notice. Therefore, the violation for failing to provide the notice (§ 38.2-1905 A) has been withdrawn.

A violation under § 38.2-1905 A of the Code of Virginia has been added to the Report. The Company's Point Surcharge Notice does not provide the date of accident which prompted the notice.

Other Notices

The violation in this section remains in the Report. The Company uses credit and must therefore inform the insured of such. The word "may" suggests that the Company may or may not pull credit when rating their policy. In the 2006 Market Conduct Examination Report, the Company was cited for the same non-compliant verbiage as is in this notice.

Licensing And Appointment Review

Agency

The violations in this section have been removed from the Report. The Company has provided additional information with regard to the agency, agent and, designated licensed producer.

PART TWO – CORRECTIVE ACTION PLAN

Terminations

- (4) Please advise when the Company will remedy the errors causing incorrect earned premium calculation .
- (7) The corrective action previously shown as item seven has been removed and the Report has been renumbered.

Claims

- (4) The corrective actions previously shown as items four and five have been withdrawn and the Report has been renumbered.
- (4) The corrective action currently renumbered (4) was not addressed by the Company in their response. Please advise how the company will address the issue of discussing coverages with the insured.
- (5) The corrective action currently renumbered (5) was not addressed by the Company in their response. Please advise how the Company will address the issue of properly representing facts and insurance provisions.

Notices

- (1) Please advise when the Company will develop a compliant Point surcharge notice.
- (2) Please advise when the Company will amend the Credit Disclosure notice.

Licensing and Appointment

The Corrective Action Pan has been removed from the Report.

The Bureau appreciates the Company's commitment to the Corrective Action Plan resulting from the 2006 Market Conduct Examination.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by March 3, 2011.

Sincerely,

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804)371-9540
joy.morton@scc.virginia.gov



STATE CORP COMMISSION
BUREAU OF INSURANCE
11 MAR 10 PM 1:05

March 9, 2011

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Morton:

Thank you to you and Mary Bannister for taking the time to meet with Dean Murray, Ben Lacey, and me on February 16th. I think we had a productive meeting and it was a pleasure to meet Ms. Bannister.

Electric Insurance Company (“the Company”) has reviewed the response of the Virginia Bureau of Insurance (“the Bureau”) to the Company’s letter dated January 24, 2011 letter. Although the Company had no such expectation, we appreciate the Bureau’s very quick review of our response prior to our meeting. We also appreciate the revisions the Bureau has already agreed to, however, the Company continues to contest the inclusion of the following items as outlined below.

Rating And Underwriting Review

Automobile New Business Policies

Rounding – Section (5)f indicates that “[i]n 25 instances, the company failed to use the filed rounding rule.” The Company disagrees with this finding for the following reasons:

- Virginia Statute 38.2-1906(D) requires that insurers rate policies “...in accordance with the rate and supplementary rate information and filings that are in effect for the insurer.” Rule 11 states that customers should be charged whole dollar premiums. The Company’s rating system is fully automated to assign rates and automatically round each coverage charge to achieve the whole dollar premium as filed. The process for assigning rates and rounding coverage charges is consistent with the filed rule, is uniformly applied, and is repeatable for each policyholder, in compliance

with VA 38.2-1906(D), and the Company's filed rates, including Rule 11. The Company's interpretation of its own rule is consistent with the way Rule 11 is drafted.

- The Bureau suggests that rounding be performed at the point of the final premium calculation, rather than at the point of each coverage calculation. While the Bureau's suggestion would also be compliant with the rule, it does not make the Company's application of its rule non-compliant. Both methodologies produce nearly the same results with only de minimus discrepancies. Of the twenty-five police files in the New Business Sample, only two of them have a difference of \$10 or greater between the Bureau's proffered interpretation of the rule and the Company's consistently applied interpretation of its own rule. Twenty-three of the files came out to nearly the same charge (less than a \$10 difference) when calculated under either methodology.

For all of the above reasons, the Company requests that the findings related to rounding of policy premium be removed from the Report.

Automobile Renewal Business Policies

Books & Records – Section (3) indicates that in two instances the Company "...failed to provide convenient access to the files, documents, and records relating to the examination." § 38.2-1318(C) states that "[e]very company...shall provide...convenient access at all reasonable hours to its...records, files...documents...that are relevant to the examination." The Company provided the Bureau with 24-hour access to its mainframe policy system via VPN access in addition to sending hard copy screen prints and documents at the request of the Bureau. The Company at no time failed to give the Bureau access to any documents or records in its possession and disagrees with one of the findings as individually outlined below.

RPA035 – Please see Attachment #1 for copies of the screen shots for the 2009 policy term.

Rounding – Section (4)h indicates that "[i]n 48 instances, the company failed to use the filed rounding rule." The Company disagrees with this finding for the following reasons.

- Virginia Statute 38.2-1906(D) requires that insurers rate policies "...in accordance with the rate and supplementary rate information and filings that are in effect for the insurer." Rule 11 states that customers should be charged whole dollar premiums. The Company's rating system is fully automated to assign rates and automatically round each coverage charge to achieve the whole dollar premium as filed. The process for assigning rates and rounding coverage charges is consistent with the filed rule, is uniformly applied, and is repeatable for each policyholder, in compliance with VA 38.2-1906(D), and the Company's filed rates, including Rule 11.

The Company's interpretation of its own rule is consistent with the way Rule 11 is drafted.

- The Bureau suggests that rounding be performed at the point of the final premium calculation, rather than at the point of each coverage calculation. While the Bureau's suggestion would also be compliant with the rule, it does not make the Company's application of its rule non-compliant. Both methodologies produce nearly the same results with only de minimus discrepancies. Of the twenty-five police files in the New Business Sample, only two of them have a difference of \$10 or greater between the Bureau's proffered interpretation of the rule and the Company's consistently applied interpretation of its own rule. Twenty-three of the files came out to nearly the same charge (less than a \$10 difference) when calculated under either methodology.

For all of the above reasons, the Company requests that the findings related to rounding of policy premium be removed from the Report.

Claims Review

Medical Expense Benefits Coverage – Section (2)a. indicates that in six instances the Company "...failed to accurately inform an insured of his Medical Expense Benefits coverage." The Bureau alleges that in all six instances the Company sent a letter to the insured or claimant indicating that Medical Expense coverage was applicable only to the named insured and household members. The Company disagrees with all of these findings. The cover letter that was used in all six cases was the same. The letter states as follows: "The Medical Payments benefit on your policy is \$5,000.00 [for example]. However, if more than one vehicle is listed on the policy, the limits of the vehicles with the four highest limits are stacked to determine total coverage (applies only to the named insured and household members)." The letter does not say that Medical Expense benefits are not available to those other than the insured and household members. The parenthetical limiting coverage to the "insured and household members" modifies only the section related to stacking of the benefits. **Stacking** of benefits is available only to the "insured and household members."

This is correct based on the law in Virginia. The Company's position is based on the Virginia Supreme Court case of *Nationwide Mutual Insurance Company v. Shelton*, 302 S.E.2d 36. In that case the Court held that a "...person injured while riding as a passenger in one of four vehicles insured under liability policy, who was neither the named insured nor a relative, was limited in his medical payments claim to the coverage provided for the specific vehicle he was occupying when injured and was not entitled to stack the coverages provided for other vehicles insured in the policy." The Court found that the Nationwide policy which used policy language similar to the policy language used in the Company's endorsement created two classes of insureds. The first class, the named insured and household members, were entitled to stack the coverage. The second class, passengers in the insured's vehicle, were not entitled to stack coverage.

The policy language used in *Nationwide* is essentially the same as the policy language used in the Company's policy. Nationwide was obligated to make medical payments coverage available to "Division 1...the Named Insured and each relative who sustains bodily injury...(a) while occupying the owned automobile, (b) while occupying a non-owned automobile..., or (c) through being struck by an automobile...*or* [emphasis added] for any other person...while occupying the owned automobile...." The *Nationwide* Court reasoned that the language created two classes of insureds: (1) the Named Insured and relatives, were entitled to broader coverage that extended regardless of whether the injured person was riding in the insured vehicle or not and regardless of whether the injured person was occupying a vehicle or struck by a vehicle; and (2) all other individuals but only as long as that individual is injured while riding in the insured vehicle. The Company's policy language is identical in all meaningful respects and obligates the Company to make medical payments coverage available to "You [Named Insured] or any 'family member'...while 'occupying'; or while not 'occupying' but when struck by; a 'motor vehicle'" or to "Any other person while 'occupying' 'your covered auto'...." The Company's policy language, therefore, also creates two classes of insureds as existed in *Nationwide*.

Despite a recodification, the statutory language is also essentially the same as it was when *Nationwide* was decided. The old § 38.1-380.1 required that medical payments coverage be provided "(1) to the named insured and, while resident of the same household, the spouse and relatives of the named insured while occupying or through being struck by a motor vehicle; and (2) to persons occupying the insured motor vehicle...." The current § 38.2-2201 sets out essentially the identical requirement with the exception that the classes of insured are listed in the reverse order.

Given that the policy and statutory language are identical in all relevant respects, there is no reason to assume that *Nationwide* does not continue to be good law and that the Company is correct in relying on it when describing two classes of insureds in its cover letter. Please see Attachment #2 for copies of the cover letter, case law, and Company endorsement language.

Misrepresentation of Pertinent Facts – Section (6) indicates that in eighteen instances the Company "...misrepresented pertinent facts or insurance policy provisions relating to coverages at issue." All of these violations relate to two statements found in the Company's total loss package. The cover sheet of the package (page 2) contains a statement that "[t]he AutoBid valuation is accepted by your state as a fair method of settlement." The Frequently Asked Questions section (page 6) contains a statement that "AutoBid is a market valuation each state's Department of Insurance has recognized as a fair and acceptable way of calculating ACV." Although the Company has agreed to remove the language, the Company contests the inclusion of these violations in the Report.

Virginia Statute § 38.2-510(A)(1) provides that "[n]o person shall...misrepresent pertinent facts or insurance policy provisions relating to coverages at issue...." The statements contained in the total loss packet certainly cannot be considered as

misrepresenting policy provisions as they do not, in any way, reference provisions of the policy. Further it is the position of the Company that these statements do not even represent “pertinent facts.” The statements appear among 11+ pages of information related to the settlement of the total loss claim. Examples of truly “pertinent facts” from all of the information provided would most likely be the steps necessary to complete the settlement process, the settlement offer, and the actual cash value figure.

Additionally, as part of this examination, the Bureau reviewed eighteen total loss claims. The AutoBid methodology was used to calculate the actual cash value in all eighteen claims. The Bureau issued no criticisms related either to the AutoBid methodology or the actual cash value offered in settlement of the claim. If the Bureau truly did not accept the AutoBid methodology as a fair method of settlement one would certainly have expected to see criticisms to that affect, however, none were issued. Also, AutoBid received a letter from the Bureau of Insurance indicating that the Bureau does not set a method for determining a vehicle's fair market value. It is possible to infer from the lack of an available method that the Bureau does not consider AutoBid an unacceptable method. Certainly if the Bureau considered it to be an unacceptable method, the Bureau could have indicated as such in its letter, which it did not do.

It is the position of the Company that it did not violate Virginia Statute § 38.2-510(A)(1) given that the statements, which appear among the 11+ pages of information related to the settlement of the total loss, are not “pertinent facts” or “insurance policy provisions” and given that the Bureau did not actually criticize the AutoBid methodology as being an unfair or unacceptable method of settling the claim. The Company, therefore, requests that all eighteen violations be removed from the Report.

Review of Statutory Notices

Statutory Vehicle Notices

Accident Point Surcharge Notice – The Bureau has withdrawn the original criticism related to the absence of an Accident Point Surcharge Notice and replaced it with a criticism that the Accident Point Surcharge Notice is non-compliant because it does not state the date(s) of accident(s). The Company respectfully disagrees with this new finding and requests that it be removed from the Report. § 38.2-1905(A) does not require that the date(s) of the accident(s) be included on the notice, therefore, the Company's notice meets all the requirements of the statute.

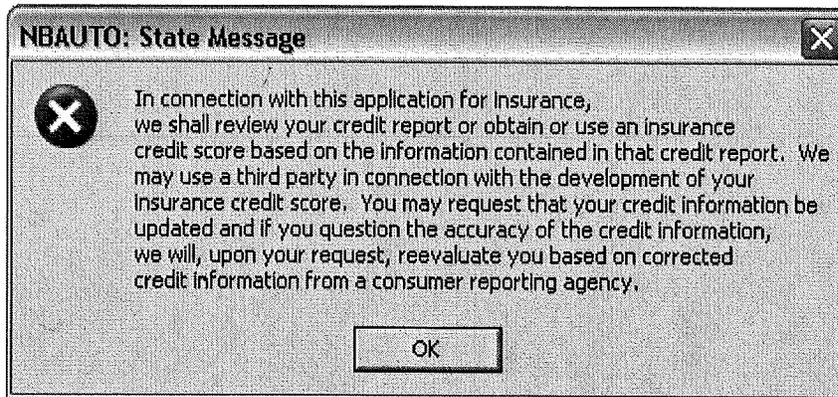
Other Notices

Credit Disclosure Information - The Bureau stated that “[t]he second page of the auto application states that the company ‘may’ review credit information violates the requirements of Section 38.2-2234 A (1)(i) which states that an insurer “shall obtain credit information in connection with such application.” Section I(1)(i), however, must be read in the context of the rest of the statute which specifically addresses the timing and method of communicating the disclosure:

“[a]ny insurer issuing...a policy of motor vehicle insurance...that uses credit information contained in a consumer report for underwriting, tier placement or rating an applicant...shall...disclose, **either on the insurance application or at the time the insurance application is taken** (i) that it shall obtain credit information in connection with such application **Such disclosure shall be either written or provided to an applicant in the same medium as the application for insurance.**” [emphasis added].

The Company does not rely on the written application as the means of communicating the required credit disclosure as it would be too late; the Company would have run the consumer’s credit prior to the consumer ever having received the notice and the Company would be out of compliance. Instead, the Company communicates the disclosure during the application process, prior to the consumer receiving the application and prior to running the consumer’s credit as follows:

- A consumer choosing to obtain a quote for insurance with the Company must call the Company Contact Center and speak with a New Business Sales Representative (“Representative”).
- Before the call is connected to a Representative, Consumers are required to listen to an automated recording regarding credit. The text of the recording is as follows:
"As part of our underwriting process, consumer reports such as motor vehicle records, prior loss histories, or credit-based insurance scores may be ordered for this application, for any amendments or upon renewal. This information may be used to determine your eligibility, premium, or payment plan. Should you wish to dispute any information contained in these reports, you will be given the contact information of the consumer-reporting agency supplying Electric Insurance with the reports."
(This message can be heard and verified by calling our 800 number at 800-227-2757 and pressing 2 to reach New Business Sales Department.)
- After the recorded message, the Consumer is connected to a Representative. The Representative obtains preliminary demographic information from the consumer and enters it into the automated underwriting system.
- If a Representative enters the state of Virginia into the automated underwriting system, the below supplemental text is automatically generated, which is required to be read by the Representative to the Consumer:



- If the consumer is interested in proceeding to obtain a price, a credit report will be run returning a credit score that is a factor in the automated underwriting system to arrive at a final premium quote.
- If the consumer is satisfied with the quote, s/he can select to bind the policy.
- Once the policy has been bound, initial paperwork is generated during an overnight batch cycle and sent to the customer. This paperwork includes the application, policy forms, and other required documents.

In regard to timing, the statute provides that disclosure shall be made “*either* on the insurance application *or* at the time the application is taken... [emphasis added]” The Company has chosen to deliver the disclosure at the time the application is taken which is fully compliant with the statute and delivers the disclosure prior to credit being run.

The Company’s disclosure contains all three of the required elements. In fact, the Company’s disclosure is identical to the safe harbor disclosure language contained in § 38.2-2234(A)(1). Per the statute, use of this language “constitutes compliance...”

In regard to the delivery method, the statute provides that the “...disclosure shall be *either* written *or* provided to an applicant in the *same medium* as the application for insurance [emphasis added].” The Company has chosen to deliver the disclosure in the same medium, i.e. the consumer is making application orally and the disclosure is being concurrently delivered orally. This is fully compliant with the statute.

The Bureau appears to be focused on the language that appears on the back of the paper auto application. The Consumer Notice that appears there is meant to be a generic notice to all customers that consumer reports, which may include credit (among others), may be run during initial underwriting or at renewal. This notice is not used as the means to comply with § 38.2-2234(A)(1). As indicated above, a paper application is not generated until after a policy is bound. Credit has already been run before the customer is bound and before a paper application is ever generated. Use of the paper application as a means to deliver the required credit disclosure would be non-compliant as it would occur after credit has already been run and a consumer who did not bind a policy with the

Company would never even receive it. The Company provides a compliant credit score disclosure notice to all consumers as outlined above.

Given that the Company delivers a credit disclosure notice to all consumers that is fully compliant with all the elements –timing, language, and delivery method – required by § 38.2-2234(A)(1), the Company requests that this violation be removed from the Report.

CONCLUSION

The Corrective Action Plan attached to this letter reflects actions that the Company is committed to taking based on items that it is not contesting. Once the Bureau and the Company reach final agreement on the items that will remain in the Report, the Corrective Action Plan will be updated, if needed. Similarly, the Company is contesting the vast majority of the violations alleging an overcharge of premium or underpayment of a claim and will issue any required payments following finalization of the Report. The Company specifically notes the Bureau's comments in its February 15, 2011 letter regarding addressing (1) calculation of unearned premium; (2) discussion of coverages; (3) properly representing facts and insurance provisions; (4) the development of a compliant point surcharge notice; and (5) the amendment of the credit disclosure notice. In regard to the first item, the Company does not see any criticisms in the Report indicating a pattern or practice of errors related to the calculation of unearned premium, therefore, the Company seeks additional clarification of what the Bureau specifically wishes the Company to correct. The Company is continuing to contest the inclusion of findings related to the other four items, therefore, it has not included any corrective action related to those findings.

In the meantime, the Company would appreciate the opportunity to meet with you (and other members of your team) to review the items that the Company is continuing to contest. We believe that this will give both sides the opportunity to fully explain their position so that we can come to a resolution of the examination. Please contact me at ellen.robbs@electricinsurance.com or 978-524-5340 to arrange a time for Company representatives to come to Richmond. Additionally, please do not hesitate to contact me if you have any questions regarding any of the information contained in this letter.

Sincerely,



Ellen S. Robbins
Manager of Regulatory

cc: Ben Lacey, Esq.

CORRECTIVE ACTION PLAN

Electric Insurance Company (the "Company") commits to taking the following actions to correct errors identified during the market conduct examination conducted in 2010 by the Virginia Bureau of Insurance (the "Bureau").

Rating and Underwriting Review

1. The Company will refund to insureds or credit insureds' accounts the amount of any overcharge. This will include 6% simple interest. These payments are detailed on the file entitled "Rating Overcharges Cited during the Examination" which has been sent to the Bureau.
2. The Company will correct its internal processes to require the submission of a Good Student Discount Certification form prior to the application of the discount.
3. The Company will ensure that the declarations page does not display a passive restraint credit message when the credit does not apply.
4. The Company will ensure that the Accident Forgiveness Endorsement (EIC4534 0208) only attaches to those policies where the insured has met all of the conditions for the 1st Accident Forgiveness program found in Rule 22 of the Company's filed manual. **This item was corrected in September 2009.**
5. The Company will update its rating system to properly reflect the correct base rate of \$20 for a Transportation Expense limit of \$600. **This item was corrected in October 2010.**
6. The Company will file an amended rule detailing its methodology for rounding premium.

Termination Review

1. The Company will ensure that it retains a copy of the proof of mailing of a notice of cancellation to the lienholder for at least one year from the date of cancellation.
2. The Company will ensure that it obtains a valid proof of mailing of a notice of cancellation to the insured.

Claims Review

1. The Company will send to insureds or claimants the amount of any underpayment. This will include 6% simple interest. These payments are detailed on the file entitled "Claims Underpayments Cited during the Examination" which has been sent to the Bureau.

2. The Company will amend its cover letter related to Transportation Expense coverage to remove the reference to a daily limit. **This item was corrected in September 2010.**
3. The Company will update its internal reference material to reflect the correct (lower) Virginia registration fee of \$2 to be reimbursed on total loss claims. **This item was corrected in December 2009.**



March 28, 2011

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Morton:

Thank you to you, Karen Gerber, and Andrea Baytop for taking the time to meet with Dean Murray and me on March 17th. I am glad we were able to reach agreement on a few items and further understand the position of the Virginia Bureau of Insurance (“the Bureau”) relative to the other items. It was also very informative to understand how the Bureau is using MCAS and other data to perform trend analysis for carriers in the state. In summary, I believe the outcome of the meeting was as follows:

Rounding

This item will stay in the Report. As indicated at the meeting, Electric Insurance Company (“the Company”) has invested considerable resources in developing and implementing a new rating engine. This was implemented for Virginia on March 7, 2011 for new business written as of that date and for renewals with effective dates of May 22, 2011 and later. Rounding now fully follows the rounding rules on file with the Bureau and the Company will, additionally, file a simplified rate order of calculation. During this discussion, the Bureau also requested that the Company simultaneously re-file a complete paper manual that reflects ISO adoptions by reference which were made by the Company.

Medical Expense Stacking

This item will stay in the Report. The Company will amend its medical expense benefits cover letter to properly reflect the application of stacking to guest passengers as well as the named insured and family members.

AutoBid Letter

This item will stay in the Report. The Bureau previously reduced the number of violations related to this item by 50%. The Company has already amended its total loss package to remove any references to the “state department of insurance.”

Accident Point Surcharge Disclosure

The Bureau has agreed to remove this item from the Report.

Credit Disclosure Notice

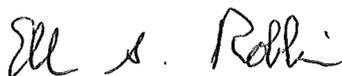
The Bureau has agreed to remove this item from the Report.

CONCLUSION

Please find attached an updated Corrective Action Plan addressing the additional items that will remain in the Report. In addition, based on the outcome of the meeting (especially in relation to the rounding issue), the Company is beginning the process of issuing restitution to policyholders who were overcharged. Completed spreadsheets will be forwarded to your attention indicating dates of payment and check numbers.

It is my understanding that the Bureau will now issue a final Report and that the Company will have the opportunity to write a final response to the Report. In the meantime, please do not hesitate to contact me at ellen.robbins@electricinsurance.com or 978-524-5340 if you have any questions or require any additional information.

Sincerely,



Ellen S. Robbins
Manager of Regulatory

cc: Ben Lacy, Esq.

CORRECTIVE ACTION PLAN

Electric Insurance Company (the "Company") commits to taking the following actions to correct errors identified during the market conduct examination conducted in 2010 by the Virginia Bureau of Insurance (the "Bureau").

Rating and Underwriting Review

1. The Company will refund to insureds or credit insureds' accounts the amount of any overcharge. This will include 6% simple interest. These payments are detailed on the file entitled "Rating Overcharges Cited during the Examination" which has been sent to the Bureau.
2. The Company will correct its internal processes to require the submission of a Good Student Discount Certification form prior to the application of the discount.
3. The Company will ensure that the declarations page does not display a passive restraint credit message when the credit does not apply.
4. The Company will ensure that the Accident Forgiveness Endorsement (EIC4534 0208) only attaches to those policies where the insured has met all of the conditions for the 1st Accident Forgiveness program found in Rule 22 of the Company's filed manual. **This item was corrected in September 2009.**
5. The Company will update its rating system to properly reflect the correct base rate of \$20 for a Transportation Expense limit of \$600. **This item was corrected in October 2010.**
6. The Company has implemented a new rating engine that should eliminate all violations related to rounding. In addition, the Company will file a detailed rate order of calculation.

Termination Review

1. The Company will ensure that it retains a copy of the proof of mailing of a notice of cancellation to the lienholder for at least one year from the date of cancellation.
2. The Company will ensure that it obtains a valid proof of mailing of a notice of cancellation to the insured.

Claims Review

1. The Company will send to insureds or claimants the amount of any underpayment. This will include 6% simple interest. These payments are detailed on the file entitled "Claims Underpayments Cited during the Examination" which has been sent to the Bureau.

2. The Company will amend its cover letter related to Transportation Expense coverage to remove the reference to a daily limit. **This item was corrected in September 2010.**
3. The Company will update its internal reference material to reflect the correct (lower) Virginia registration fee of \$2 to be reimbursed on total loss claims. **This item was corrected in December 2009.**
4. The Company will amend its medical expense benefits cover letter to properly reflect the application of stacking to guest passengers as well as the named insured and family members.
5. The Company will amend its total loss package to remove any references to the “state department of insurance” in relation to the use of AutoBid as an actual cash value valuation methodology. **This item was corrected September 2, 2010.**

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

April 8, 2011

VIA UPS 2nd DAY DELIVERY

Ellen Robbins
Manager of Regulatory
Electric Insurance Company
75 Sam Fonzo Drive
Beverly, MA 01915

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Robbins:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of March 28, 2011. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination.

Enclosed is the revised Report, technical reports, the revised Restitution spreadsheet and withdrawn review sheets in accordance with the March 17, 2011 meeting.

Based on the Bureau's review of the Report and the company's responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A; 38.2-502; 38.2-510 A 1; 38.2-610 A; 38.2-1318; 38.2-1905 A; 38.2-1906 D; 38.2-2208 A; 38.2-2208 B; 38.2-2212 E; and 14 VAC 5-400-30, of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the business of insurance in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9740
joy.morton@scc.virginia.gov

JMM/sb



STATE CORP COMMISSION
BUREAU OF INSURANCE
11 MAY 18 AM 9:59

May 16, 2011

Mary M. Bannister
Deputy Commissioner
Property and Casualty Division
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination
Electric Insurance Company (NAIC# 21261)
Examination Period: April 1, 2009 – March 31, 2010

Dear Ms. Bannister:

Pursuant to your April 14, 2011 letter, enclosed please find the following items:

- A check in the amount of \$18,800.
- A written statement agreeing to comply with the corrective action plan set forth in our letters and waiving our right to hearing.

I would appreciate it if you would forward a draft of the proposed order for our review prior to submission to the Commission.

I would like to take this opportunity to thank Joy Morton and her team for their professionalism and courtesy throughout the examination and their time in working through the various issues.

Please do not hesitate to contact me at ellen.robbs@electricinsurance.com or 978-524-5340 if you have any questions or require any additional information.

Sincerely,

A handwritten signature in cursive script that reads "Ellen S. Robbins".

Ellen S. Robbins
Manager of Regulatory

cc: Ben R. Lacy, IV, Esq.



400042

Mary M. Bannister
Deputy Commissioner
Property and Casualty Division
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Market Conduct Examination Settlement Offer

Dear Ms. Bannister:

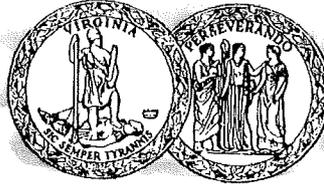
This will acknowledge receipt of the Bureau of Insurance's letter dated April 14, 2011, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ Sections 38.2-305 A; 38.2-510 A 1; 38.2-610 A; 38.2-1318; 38.2-1905 A; 38.2-1906 D; 38.2-2208 A; 38.2-2208 B; 38.2-2212 E; and 14 VAC 5-400-30, of the Virginia Administrative Code.

1. We enclose with this letter a check made payable to the Treasurer of Virginia in the amount of \$18,800.
2. We agree to comply with the corrective action plan set forth in the company's letters of January 24, 2011, March 9, 2011, and March 28, 2011.
3. We confirm that restitution was made in accordance with the company's email of April 5, 2011.
4. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive the right if this offer of settlement is accepted by the State Corporation Commission.

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

Electric Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$18,800 by their check numbered 1086516 dated May 19, 2011, copies of which are located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

110620069

AT RICHMOND, JUNE 13, 2011

CLERK'S OFFICE
2011 JUN 13 PM 4:16
DOCUMENT CONTROL

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2011-00106

ELECTRIC INSURANCE COMPANY,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendant, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated §§ 38.2-305 A and 38.2-610 A of the Code of Virginia by failing to accurately provide the required notices to insureds; violated § 38.2-502 by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated § 38.2-510 A 1, as well as 14 VAC 5-400-30, by failing to properly handle claims with such frequency as to indicate a general business practice; violated § 38.2-1318 by failing to properly terminate insurance policies; violated § 38.2-1905 A by increasing its insureds' premiums or charging points under safe driver plans as a result of motor vehicle accidents that were not caused either wholly or partially by the named insureds, residents of the same household, or other customary operator; violated § 38.2-1906 D by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendant; and violated §§ 38.2-2208 A, 38.2-2208 B, and 38.2-2212 E by failing to provide convenient access to files, documents, and records.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code of Virginia to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke the Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the Defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter, whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth of Virginia the sum of Eighteen Thousand Eight Hundred Dollars (\$18,800), waived its right to a hearing, agreed to comply with the Corrective Action Plan set forth in its letters to the Bureau of Insurance dated January 24, 2011, March 9, 2011, and March 28, 2011, and confirmed that restitution was made to 36 consumers in the amount of Two Thousand Four Hundred Sixty-five Dollars and Fifty Cents (\$2,465.50).

The Bureau of Insurance has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code of Virginia.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau of Insurance, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

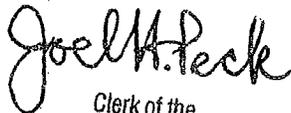
(1) The offer of the Defendant in settlement of the matter set forth herein be, and it is hereby, accepted; and

(2) The papers herein be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to Ellen Robbins, Manager of Regulatory, Electric Insurance Company, 75 Sam Fonzo Drive, Beverly, Massachusetts 01915; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M.

Bannister.

A True Copy
Teste:



Clerk of the
State Corporation Commission