

MARKET CONDUCT EXAMINATION REPORT

OF

**PERMANENT GENERAL ASSURANCE
CORPORATION**

**PERMANENT GENERAL ASSURANCE
CORPORATION OF OHIO**

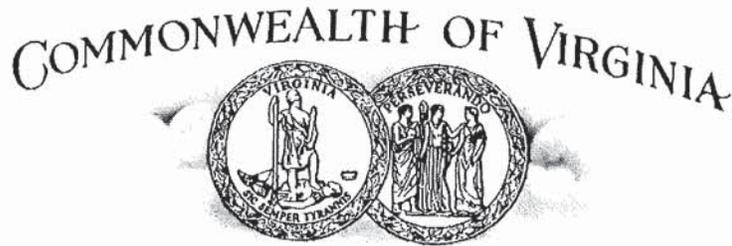
AS OF

AUGUST 31, 2010

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

**Property and Casualty Division
Market Conduct Section**

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

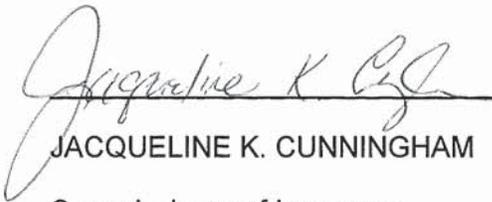


P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

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 **Permanent General Assurance Corporation** and **Permanent General Assurance Corporation of Ohio** as of August 31, 2010, which took place at the companies' office in Nashville, Tennessee is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' 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 28th day of March, 2012.


JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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**Property and Casualty Division
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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile lines of business written by Permanent General Assurance Corporation and Permanent General Assurance Corporation of Ohio at their offices in Nashville, Tennessee.

The examination commenced March 21, 2011, and concluded June 24, 2011. Andrea D. Baytop, Karen S. Gerber, Richard L. Howell, Gloria V. Warriner and William T. Felvey, 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 September 7, 2010, and was assigned the examination number of VA199-M20. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES

Permanent General Assurance Corporation (PGAC) was formerly known as Nordic Union Reinsurance Corporation (Nordic). Nordic was originally a Delaware corporation and was a subsidiary of Constitution Reinsurance Corporation. On September 28, 1994, Nordic was redomesticated in Tennessee. On September 30, 1994, Permanent General Companies, Inc. (PGC) acquired Nordic. All business written in Nordic prior to the sale was ceded at that time to its former parent. At the time of purchase PGC owned Permanent General Assurance Corporation (Old PGAC). Under an acquisition and merger agreement, Old PGAC was merged with and into Nordic, and Nordic's name was changed to PGAC. PGAC is a wholly owned subsidiary of PGC, which was acquired by Ingram Industries, Inc. on June 30, 1989.

Permanent General Assurance Corporation of Ohio was formed as a wholly owned subsidiary of Ingram Industries Inc. (Ingram) on December 18, 1991. At present, Permanent General Assurance Corporation of Ohio is a wholly owned subsidiary of PGC Holdings.

PGC and its subsidiaries, including PGAC, were acquired by Capital Z Financial Services Fund II, L.P. and Capital Z Financial Services Private Fund II, L.P., Bermuda limited partnerships, and Capital Z Partners, Ltd., a Bermuda corporation, by and through PGC Holdings Corp., a Delaware corporation from Ingram Industries Inc. on December 2, 2004. *

* Source: Best's Insurance Reports, Property & Casualty, 2010 Edition.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the license date except as noted in the table below.

GROUP CODE: 3638	PGAC	PGAC OF OHIO
NAIC Company Number	37648	22906
LICENSED IN VIRGINIA	7/30/1992	12/1/2006
LINES OF INSURANCE		
Accident and Sickness		
Aircraft Liability		
Aircraft Physical Damage		
Animal		
Automobile Liability	3/30/2007	X
Automobile Physical Damage	3/30/2007	X
Boiler and Machinery		
Burglary and Theft		
Commercial Multi-Peril		
Credit		
Farmowners Multi-Peril		
Fidelity		
Fire		
General Liability		
Glass		
Homeowners Multi-Peril		
Inland Marine		
Miscellaneous Property		
Ocean Marine		
Surety		
Water Damage		
Workers' Compensation		

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2009 for those lines of insurance included in this examination.* This business was developed through captive agents as well as independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Permanent General Assurance Corporation		
Private Automobile Liability	\$6,339,818	.27%
Private Automobile Physical Damage	\$2,302,658	.14%
Permanent General Assurance Corporation of Ohio		
Private Automobile Liability	\$3,431,204	.15%
Private Automobile Physical Damage	\$1,783,286	.10%

* 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 companies' private passenger automobile line of business written in Virginia for the period beginning September 1, 2009, and ending August 31, 2010. This review included rating and 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 companies' operations were consistent with 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 companies 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 general business practice and violations in other areas that are subject to a monetary penalty.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the companies' practices that are not violations of Virginia insurance laws but require some

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

action by the companies. This section does not form the basis of any settlement offer made by the Bureau of Insurance (Bureau).

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 companies. 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.

**Population
Sample Requested**

AREA	PGAC	PGAC OH	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
Private Passenger Auto							
New Business ¹	<u>14593</u>	<u>5449</u>	<u>20042</u>	44	0	34	77%
	25	20	45				
Renewal Business ¹	<u>4822</u>	<u>2301</u>	<u>7123</u>	36	0	30	83%
	20	15	35				
Co-Initiated Cancellations ²	<u>1785</u>	<u>233</u>	<u>2018</u>	46	0	46	100%
	23	15	38				
All Other Cancellations ²	<u>43080</u>	<u>30217</u>	<u>73297</u>	28	0	28	100%
	21	15	36				
Nonrenewals	<u>125</u>	<u>35</u>	<u>160</u>	10	0	10	100%
	5	5	10				
Rejected Applications	<u>29</u>	<u>1</u>	<u>30</u>	6	0	6	100%
	5	1	6				
Claims							
PPA	<u>2234</u>	<u>1304</u>	<u>3538</u>	89	0	57	64%
	49	40	89				

Footnote ¹

The companies did not provide accurate population files for the policies issued during the examination period.

Footnote ²

The companies did not provide accurate population files for mid-term cancellations initiated by the companies.

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau requested 45 new business policy files for review. The examiners reviewed 44 of these files. One file was moved to the Renewal Business category. During this review, the examiners found overcharges totaling \$330.00 and undercharges totaling \$906.00. The net amount that should be refunded to insureds is \$330.00 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 contract or policy all of the information required by the statute. The company failed to show the effective time of coverage in the declarations.
- (2) The examiners found ten violations of § 38.2-310 of the Code of Virginia. The company failed to state in the policy all fees, charges, premiums or other consideration charged for insurance or for the procurement of insurance. The company failed to indicate there was a \$5.00 endorsement fee when the insured requested a change to his policy.
- (3) The examiners found nine violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of an insurance policy. The company misrepresented the Transportation Expenses coverage by improperly showing a daily limit on the declarations page.

- (4) The examiners found two violations 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).
- (5) The examiners found three violations of § 38.2-1905 A of the Code of Virginia.
 - a. In one instance, the company charged points under a safe driver insurance plan without first ascertaining that the insured, a resident relative, or other customary operator was wholly or partially at fault.
 - b. In two instances, the company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident.
- (6) The examiners found one violation of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information.
- (7) The examiners found 31 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 six instances, the company failed to use the correct discounts and/or surcharges.
 - b. In six instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In 18 instances, the company failed to use the correct symbols.
 - d. In one instance, the company failed to use the correct increased limits factor.
- (8) The examiners found five violations of § 38.2-2204 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle as required by statute.

Automobile Renewal Business Policies

The Bureau requested 35 renewal business policy files for review. The examiners reviewed 36 files. One file was moved from the new business category. During this review, the examiners found overcharges totaling \$234.00 and undercharges totaling \$2,499.00. The net amount that should be refunded to insureds is \$234.00 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 contract or policy all of the information required by the statute.
 - a. In nine instances, the company failed to show the effective time of coverage in the policy.
 - b. In one instance, the company failed to include all applicable information on the declarations page.
- (2) The examiners found 11 violations of § 38.2-310 of the Code of Virginia. The company failed to state in the policy all fees, charges, premiums or other consideration charged for insurance or for the procurement of insurance. The company failed to indicate there was a \$5.00 endorsement fee when the insured requested a change to his policy.
- (3) The examiners found eight violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of an insurance policy. The company misrepresented the Transportation Expenses coverage by improperly showing a daily limit on the declarations page.
- (4) The examiners found two violations 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).

- (5) The examiners found two violations 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.
- (6) The examiners found 38 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 18 instances, the company failed to use the correct discounts and/or surcharges.
 - b. In three instances, the company failed to apply the correct surcharge points for accidents and/or convictions.
 - c. In 11 instances, the company failed to use the correct symbols.
 - d. In five instances, the company failed to use the correct base and/or final rates.
 - e. In one instance, the company failed to use the correct increased limits factor.

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 18 automobile cancellations that were initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed all of these files. The examiners reviewed seven additional files moved from the Nonpayment of Premium category.

As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found 25 violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured written notice of an AUD.
- (2) The examiners found 25 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 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.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested 20 automobile cancellations that were initiated by the companies where the companies 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 all of these files. The examiners reviewed one additional file moved from the Requested by the Premium Finance Company category.

As a result of this review, the examiners found overcharges totaling \$70.00 and no undercharges. The net amount that should be refunded to insureds is \$70.00 plus six percent (6%) simple interest.

- (1) The examiners found 21 violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) 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.
- (3) The examiners found 21 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.
- (4) The examiners found five violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In four instances, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (5) The examiners found 15 violations of § 38.2-2212 D of the Code of Virginia.
 - a. In 12 instances, the company cancelled the insured's motor vehicle policy for a reason not permitted by the Code of Virginia.
 - b. In three instances, the company failed to obtain sufficient documentation from the insured verifying relocation to another state permitting the company to cancel the policy.
- (6) The examiners found 20 violations of § 38.2-2212 E of the Code of Virginia.
 - a. In three instances, the company failed to send the cancellation notice to the insured's address listed on the policy.
 - b. In 13 instances, the company failed to mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.
 - c. In four instances, the company failed to state the specific reason for cancellation of the policy.

- (7) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company failed to provide advance notice of cancellation to the lienholder.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

All Other Cancellations - Automobile Policies

NONPAYMENT OF PREMIUM

The Bureau requested 25 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. The examiners reviewed 18 of these files. Seven files were moved to the Notice Mailed Prior to the 60th Day of Coverage category.

As a result of this review, the examiners found overcharges totaling \$58.00 and undercharges totaling \$23.00. The net amount that should be refunded to insureds is \$58.00 plus six percent (6%) simple interest.

- (1) The examiners found four 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 18 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 seven violations of § 38.2-2208 B of the Code of Virginia.
 - a. In three instances, the company failed to provide proper notice of cancellation to the lienholder.
 - b. In four instances, the company failed to obtain valid proof of mailing the cancellation notice to the lienholder.
- (4) The examiners found 11 violations of § 38.2-2212 E of the Code of Virginia. The company failed to mail the notice of cancellation to the insured at least 15 days prior to the effective date of cancellation.
- (5) The examiners found six occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to provide advance notice of cancellation to the lienholder.

REQUESTED BY THE INSURED

In addition, 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.

As a result of this review, the examiners found no overcharges and undercharges totaling \$296.00.

- (1) The examiners found eight 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 one violation of § 38.2-2212 F of the Code of Virginia. The company failed to obtain a written request from the insured to cancel his policy.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found three violations of § 46.2-482 of the Code of Virginia. The

company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

REQUESTED BY THE PREMIUM FINANCE COMPANY

The Bureau requested the one automobile cancellation that was initiated by a premium finance company under a power of attorney. This file was moved to the Notice Mailed After the 59th Day of Coverage category.

Company-Initiated Nonrenewals - Automobile Policies

The Bureau requested ten automobile nonrenewals that were initiated by the companies. The examiners reviewed all of these files.

- (1) The examiners found ten violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (2) The examiners found ten 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 two violations of § 38.2-2208 B of the Code of Virginia. The company failed to send a notice of cancellation 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 mail the notice of cancellation to the insured at least 45 days prior to the effective date of cancellation.
 - b. In one instance, the company failed to send the cancellation notice to the insured's address listed on the policy.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 46.2-482 of the Code of Virginia. The

company failed to file an SR-26 within 15 days of cancelling the policy as required by the Virginia Motor Vehicle Code.

Rejected Applications - Automobile Policies

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

The examiners found six violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 89 automobile claims for the period of September 1, 2009 through August 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 \$866.18 and underpayments totaling \$6,706.54 during the review of these files. The net amount that should be paid to claimants is \$6,582.25 plus six percent (6%) simple interest.

- (1) The examiners found five 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 28 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 one instance, the company failed to inform an insured of his physical damage deductible when the file indicated that the coverage was applicable to the loss.

- b. In five instances, the company failed to inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
- c. In 14 instances, the company failed to properly inform an insured of his Transportation Expense coverage when the file indicated the coverage was applicable to the loss.
- d. In eight 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 one violation of 14 VAC 5-400-40 D. The company requested the insured to sign a release that extended beyond the subject matter that gave rise to the claim payment.
- (4) The examiners found two violations of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (5) The examiners found eight violations 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.

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

- (6) The examiners found three violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.
- (7) The examiners found one violation of 14 VAC 5-400-70 C. The company failed to settle a first party claim on the basis that responsibility for payment should have been assumed by others.
- (8) The examiners found 15 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 insured's UMPD claim properly when Collision and UMPD coverages applied to the claim.
 - b. In five instances, the company failed to properly pay the insured's UMPD claim.
 - c. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense coverage.
 - d. In six instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expense coverage.
 - e. In two instances, the company failed to properly pay the total loss valuation on first party total loss settlements.

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

- (9) The examiners found 32 violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs

prepared by or on behalf of the company.

- a. In 16 instances, the company failed to provide a copy of the estimate to the insured.
- b. In 16 instances, the company failed to provide a copy of the estimate to the claimant.

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

- (10) The examiners found one violation of 14 VAC 5-400-80 E. The company failed to document all information relating to the application of betterment or depreciation in the claim.
- (11) The examiners found 11 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.
 - a. In two instances, the company failed to properly convey to the insured and/or the claimant the company's obligation concerning payment of the rental or loss of use claim.
 - b. In nine instances, the company through the issuance of a reservation of rights letter to the insured misrepresented pertinent facts or insurance policy provisions.

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

- (12) The examiners found one violation of § 38.2-510 A 2 of the Code of Virginia. The company failed to act reasonably promptly upon communications with respect to claims arising under the insurance policy.

- (13) The examiners found 16 violations 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.

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

- (14) The examiners found three violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

- (15) The examiners found nine violations of § 38.2-510 C of the Code of Virginia. The company failed to accurately disclose to the vehicle owner, either on the estimate of repairs or in a separate document, the required aftermarket parts notice.

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

- (16) The examiners found 17 occurrences where the company failed to comply with the provisions of the insurance policy.

- a. In one instance, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
- b. In four instances, the company issued payments under an incorrect coverage.
- c. In 12 instances, the company overpaid the sales tax, title, and/or tag transfer fees on total loss claims.

Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 46 violations of § 52-40 of the Code of Virginia. The

company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

REVIEW OF FORMS

The examiners reviewed the companies' 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 companies' 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 companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were 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 companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 27 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found 14 violations of § 38.2-2220 of the Code of Virginia. The company used a version of the standard automobile forms that were not in the precise language filed and adopted for use by the Bureau.

POLICY FORMS CURRENTLY USED BY THE COMPANIES

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were 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 companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all of the 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 companies provided ten new business policies mailed on the following dates: November 16, 17, 18, 20, 22, 23, and 24, 2010. In addition, the companies provided ten renewal business policies mailed on the following dates: January 4, 2011.

NEW BUSINESS POLICIES

- (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 required by this statute. The company failed to include the effective time of coverage in the policy.
- (2) The examiners found three violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of an insurance policy. The company misrepresented the Transportation Expenses coverage by improperly showing a daily limit on the declarations page.

RENEWAL BUSINESS POLICIES

- (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 required by this statute. The company failed to include the effective time of coverage in the policy.
- (2) The examiners found one violation of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of an insurance policy. The company misrepresented the Transportation Expenses coverage by improperly showing a daily limit on the declarations page.
- (3) The examiners found one violation of § 38.2-2230 of the Code of Virginia. The company failed to offer in writing to the insured the option of purchasing rental reimbursement coverage at the time the company issued a motor vehicle policy that provided Other than Collision and/or Collision coverage.

REVIEW OF STATUTORY NOTICES

To obtain sample policies to review the content of the statutory notices that the companies are required to provide to insureds and used by the companies 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 companies on all applications, on all policies, and those special notices used for vehicle policies issued on risks located in Virginia complied with the Code of Virginia.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604 B of the Code of Virginia. The companies' long form Notice of Information Collection and Disclosure Practices

did not contain all of the information required by this statute.

- (2) The examiners found four violations of § 38.2-604 C of the Code of Virginia.
 - a. In two instances, the companies' short form Notice of Information Collection and Disclosure Practices did not contain all the information required by this statute.
 - b. In two instances, the companies failed to have a short form Notice of Information Collection and Disclosure Practices available for verbal applications over the phone.
- (3) The examiners found four violations of § 38.2-604.1 B of the Code of Virginia. The companies' Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (4) The examiners found two violations of § 38.2-610 A of the Code of Virginia. The companies failed to have an Adverse Underwriting Decision notice available for use.

Statutory Vehicle Notices

- (1) The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The companies' Accident Point Surcharge notice did not contain all the information required by this statute.
- (2) The examiners found seven violations of § 38.2-2234 A of the Code of Virginia.
 - a. In three instances, the companies' Credit Score Disclosure notice did not contain all the information required by this statute.
 - b. In four instances, the companies' Credit Score Adverse Action notice did not contain all the information required by this statute.

Other Notices

The companies provided copies of three other notices including applications that were used during the examination period.

- (1) The examiners found two 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 attempted to exclude coverage for custom equipment not made by the original equipment manufacturer.
- (2) The examiners found two violations of § 38.2-2204 of the Code of Virginia. The companies attempted to exclude coverage for a named driver on their application.

LICENSING AND APPOINTMENT REVIEW

A review was made of new business private passenger automobile policies to verify that the agent of record for those policies reviewed was licensed and appointed to write business for the companies as required by Virginia insurance statutes. In addition, the agent or agency to which each 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 Review

The examiners found 16 violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of the date of application.

Agency Review

- (1) The examiners found two violations of § 38.2-1812 of the Code of Virginia. The company failed to appoint an agency within 30 days of the date of application.
- (2) The examiners found one violation of § 38.2-1822 A of the Code of Virginia. The company permitted an entity to act as an agency without first obtaining a license from the Commonwealth of Virginia.

REVIEW OF THE COMPLAINT-HANDLING PROCEDURES

A review was made of the companies' 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 companies' information security procedures used to protect the privacy of policyholder information as required by § 38.2-613.2 of the Code of Virginia.

The companies provided their information security procedures.

PART TWO – CORRECTIVE ACTION PLAN

As stated in the Scope of the Examination, only those violations identified by the examiners as business practices of the companies will be considered in the settlement offer. 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 companies, 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

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio shall:

Provide a Corrective Action Plan (CAP) with their response to this report.

Rating and Underwriting Review

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio 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' accounts.

- (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 companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Include accurate information in the policy by listing the beginning time of the policy.
- (5) Specify the required information in the policy by listing all applicable fees on the declarations page.
- (6) State the correct limit of coverages on the declarations page.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, points for accidents and convictions, symbols, tier eligibility, correct base and/or final rates, and increased limits factor.
- (8) Provide coverage under the policy to any insured and all operators with permissive use in accordance with § 38.2-2204 of the Code of Virginia.

Termination Review

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio 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' accounts.
- (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 companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Provide a written AUD notice to the insured.
- (5) Calculate return premium according to the filed rules and policy provisions.
- (6) Obtain valid proof of mailing the notice of cancellation or nonrenewal to the insured and lienholder.
- (7) Provide a proper notice of cancellation to the lienholder.
- (8) Send a notice of nonrenewal to the lienholder.
- (9) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 of the Code of Virginia.
- (10) Send the cancellation notice at least 45 days before the effective date of cancellation when the notice is mailed after the 59th day of coverage.
- (11) Send the cancellation notice at least 15 days before the effective date of cancellation when it is cancelled for nonpayment of premium.
- (12) Advise the insured of the specific reason for cancelling the policy.
- (13) Send the cancellation notice to the address shown in the policy.

Claims Review

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio 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 companies acknowledge that they have paid the underpayments listed in the file.

- (4) Document the claim file that all applicable coverages have been discussed with the insured.
- (5) Make all claim denials in writing and keep a copy in the claim file.
- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claims in accordance with the insured's policy provisions.
- (7) Provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants.
- (8) Implement reasonable standards to avoid misrepresentation of pertinent facts or insurance policy provisions relating to coverages at issue.
- (9) Implement reasonable standards to make a prompt investigation of claims.
- (10) Disclose to vehicle owners either on the estimate of repairs, or in a separate document, the required aftermarket parts notice.

Forms Review

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio shall:

Use the precise language of the standard automobile forms as adopted by the Bureau.

Review of Policy Issuance Process

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio shall:

- (1) Include accurate information in the policy by listing the effective time of coverage.
- (2) State the correct limit of coverages on the declarations page.

Review of Statutory Notices

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio shall:

- (1) Amend the application to remove the statement excluding customizing equipment coverage.
- (2) Amend the application to remove the statement that it becomes a part of the policy.
- (3) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (4) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (5) Develop a verbal script that complies with § 38.2-604 C of the Code of Virginia.
- (6) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (7) Develop an Adverse Underwriting Decision notice that complies with § 38.2-610 of the Code of Virginia.
- (8) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (9) Amend the application to remove any mention of excluding coverage for drivers that have permissive use of the insured vehicle.

- (10) Amend the Credit Score Disclosure notice to comply with § 38.2-2234 A 1 of the Code of Virginia.
- (11) Amend the Credit Score Adverse Action notice to comply with § 38.2-2234 A 2 of the Code of Virginia.

Licensing and Appointment Review

Permanent General Assurance Corporation and
Permanent General Assurance Corporation of Ohio shall:

- (1) Appoint agents within 30 days of the application.
- (2) Pay commissions only to agencies that are appointed by the company.
- (3) Accept business only from agencies that have a current license from the Commonwealth 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 companies. The companies 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 the insured with written notice of an AUD.
- Failure to assign points under a SDIP to the vehicle customarily driven by the operator responsible for incurring the points.
- Failure to notify the insured in writing that his policy had been surcharged for an at-fault accident.

Terminations

- Failure to file an SR-26 within 15 days of cancelling the policy.

Claims

- Failure to properly document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- Failure to provide a reasonable explanation of the basis for the denial in the company's written denial of the claim.
- Failure to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability is reasonably clear.
- Failure to comply with the provisions of the policy contract.

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- The companies should revise Rule 17, the company cannot cancel a policy mid-term if a driver joins the military or enrolls in school, unless the state of residency changes and the vehicle is registered in that new state.
- The companies should revise Rule 20, the company cannot refuse to file an SR-22/FR-44 if the company does not insure all the vehicles. The company must file the financial responsibility filing and may choose to non-renew the policy or cancel a new policy within the first 59 days of coverage.
- The companies should change Comprehensive to state Other than Collision throughout the manual.
- The companies should change "Medical Payments" to state "Medical Expense" in Rule 38.
- The companies should file a rounding rule to follow the company's current practices.
- The companies should file to add UMBI symbols to the rate pages.
- The companies should remove the Primary Discount Matrix header on the Coverage Limit Factors rate page.
- The companies should revise Rule 25 to add that when a driver has two or more incidents on the same date to only count the highest surchargeable incident.
- The companies should revise Rule 49 to change the title from E-Sign to Online Application since the company only applies this discount for online applications, regardless of whether the applicant provided an electronic signature for an Internet or retail agent application.
- The companies should revise Rule 49 to indicate how the Rate Cap is calculated and/or add a Rate Cap calculation to the Rate Calculation Logic.
- The companies should add a rate and rule for the ADDE coverage or remove its reference from the Rate Calculation Logic page.

- The companies should remove the comparative negligence references from its at-fault accident letter. Virginia is a contributory negligence state where any fault bars the insured from recovery. The company is allowed to surcharge for an accident in which the operator was wholly or partially at fault.
- The companies should revise its amended declarations page to state the effective date of the change.
- The companies should show the revised total policy premium on the amended declarations page.
- The companies should revise the time on the application to the time of the insured's locality.
- The companies should remove the Expense Constant and Final Expense (e-sign) steps from Rate Calculation Logic since no rules or rates are filed to apply.

Claims

- The companies should use the term "Medical Expense Benefits" coverage on the check instead of the term "Medical Payments" coverage.
- The companies should use the term "Other than Collision" coverage on the check instead of the term "Comprehensive" coverage.
- The companies should use a form entitled "Medical Expense Affidavit" instead of "Medical Payments Affidavit" when processing a medical expense claim.
- The companies should show the correct deductibles next to the corresponding physical damage coverages shown on the declarations page.
- The companies should pay all claim payments under the coverage applicable to the loss.
- The companies should properly reference the correct policy conditions when issuing a reservation of rights letter to the insured.
- The companies should notify individuals who are not represented by an attorney when signing a release (within 30 days of the incident), of their right to rescission within 3 business days after the execution of release.

ACKNOWLEDGEMENT

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

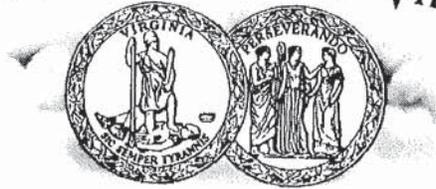
Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive, flowing style.

Andrea Baytop
Senior Insurance Market Examiner

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

August 26, 2011

VIA UPS 2nd DAY DELIVERY

David L. Hettinger
Sr. Vice President & Chief
Administrative Officer
Permanent General Assurance
2636 Elm Hill Pike
Nashville, TN 37214

Re: Market Conduct Examination
Permanent General Assurance Corporation (NAIC# 37648)
Permanent General Assurance Corporation of Ohio (NAIC# 22906)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Hettinger:

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

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since June 24, 2011. 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 companies, I would urge you to closely review the Report. Please provide a written response. If the companies disagree with an item 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 companies must refrain from including personal or privileged information in their response. The companies do 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 companies provide written documentation to support their position. If the companies use the same format (headings and numbering) as found in the Report, it is much easier to follow the companies' points.

Secondly, the companies 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 errors that were numerous

but did not rise to the level of a business practice, the companies should outline the action(s) they are taking to prevent those errors from becoming a business practice.

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

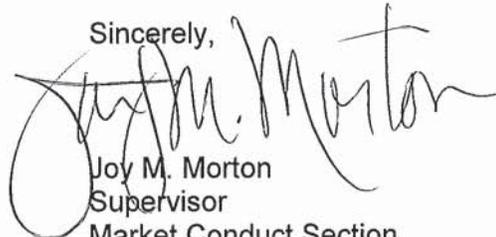
Finally, we have enclosed a CD containing an Excel spreadsheet that the companies must complete and return to the Bureau with the companies' response. This spreadsheet lists the files in which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response along with the spreadsheet mentioned above must be returned to the Bureau by October 3, 2011.

After the Bureau has received and reviewed the companies' 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 October 3, 2011.

Sincerely,



Joy M. Morton
Supervisor

Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

JMM
Enclosure

Andrea Baytop

From: Andrea Baytop
Sent: Friday, September 30, 2011 9:41 AM
To: 'Sondra Cavanaugh'; 'Karen Davis-Clare'
Cc: Joy Morton
Subject: PGAC Conference Call 9/29/11

Hello Sondra,

I am pleased that we were able to discuss your concerns regarding Permanent General's Preliminary Report. I have provided a synopsis below of the items we discussed in our conference call yesterday.

1. The companies may add a statement on the new business declarations page that coverage is effective at the later of 12:01 AM or the time of application. The time must show as 12:01 AM for the expiration date on the new business declarations, as well as for both effective and expiration dates for any subsequent renewals.
2. The AUD language placed in the cancellation notice you provided on 9/19/11 is substantially similar to the language in the AUD Prototype. The language is acceptable per Administrative Letter 1981-16. Please provide a copy of this revised cancellation notice in the companies' response to the Corrective Action Plan of the Preliminary Report.
3. We clarified that the loss payee proof of mailing violations concerned the documentation for notices mailed via USPS. The documentation is maintained electronically by LexisNexis, but the actual notices were not sent to loss payees electronically. We will review any additional documentation provided in the companies' response to the Preliminary Report.
4. The companies will provide a copy of any documentation, including "F6 Notes," that indicate the insured initiated/confirmed the changed address to which the company mailed the cancellation notices. This documentation should be provided in response to the Preliminary Report. We do not require the companies to automatically re-print a declarations page when the insured initiates a small change that does not affect coverage on the policy and is non-premium bearing. The companies should adequately document any address changes in its underwriting/policy notes, especially when the insured confirms/initiates an address change over the phone. The companies should maintain documentation of any address changes performed by the insured via the companies' website.
5. The deadline for the companies' response to the Preliminary Report has been extended to October 14, 2011.

Please let us know if you have follow-up questions regarding the loss payee proof of mailing. I will be quicker in my response to any additional questions you may have.

Sincerely,

Andrea Baytop

Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
804.371.9547
andrea.baytop@scc.virginia.gov



Permanent General

2636 ELM HILL PIKE
NASHVILLE, TN 37214
Mailing Address
P.O. BOX 305054
NASHVILLE, TN 37230-5054

615/242-1961
1-800/280-1466
FAX 615/366-1718
www.pgac.com

October 13, 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
Permanent General Assurance Corporation (NAIC# 37648)
Permanent General Assurance Corporation of Ohio (NAIC# 22906)
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Morton:

We are in receipt of your market conduct report. The Company's response to each issue is included below. We appreciate the courtesy and professionalism of your examination staff, and found their willingness to discuss criticisms and concerns very useful. We believe a mutual understanding was achieved as to each concern and we took prompt and appropriate action where our practices or processes were out of step. We also implemented other changes to improve our practices and processes where the Bureau of Insurance indicated there was a preferred process.

During the course of this exam the Company appointed, for the first time, a Director of Compliance to ensure heightened and focused attention on compliance matters, and we also retained experienced compliance counsel to bring on an appropriate level of expertise. We are in the process of increasing our internal audit processes to preserve the improvements implemented during the course of this exam and thank the Virginia Bureau of Insurance for their role in bringing about these improvements in our management of compliance. We look forward to continuing our good working relationship with the Virginia Bureau of Insurance. Thank you.

Sincerely,

A handwritten signature in black ink that reads "David L. Hettinger". The signature is written in a cursive style with a large initial 'D' and 'H'.

David L. Hettinger
Sr. Vice President and
Chief Administrative Officer

Virginia Market Conduct
Part 2 Corrective Action Plan
Confidential - Internal Action Items Only

Rating and Underwriting Review

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 overcharges as of the date the error first occurred. **Completed. Refunds sent to the 11 insureds.**
2. Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account – **Completed.**
3. Complete and submit to the Bureau, the enclosed file titles "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file. **Completed. See Attached.**
4. Include accurate information in the policy by listing the beginning time on the declarations page. **As agreed, we have modified the declarations page to use "effective 12:01 am local time or the time of application, whichever is later."**
5. Specify the required information in the policy listing all applicable fees on the declarations page. **Fees are listed on the application and also on the rating info page, which Examiner Andrea Baytop advises is acceptable.**
6. State the correct limit of coverage on the declarations page. **Corrected the Transportation Expense Coverage on the declarations page.**
7. Use the rules and rates on file with the Bureau. Particular attentions should be focused on the use of filed discounts, surcharges, points, convictions, symbols, tier eligibility, correct base and/or filed rates and increased limits factors. **Symbols are filed regularly. Manuals are updated to specify discounts. Programmed rates are updated.**
8. Provide coverage under the policy to any insured and all operators with permissive use in accordance with 38.2-2204 of the Code of Virginia. **Removed verbiage from notes section and applicants section of the application referring to non-rated operators.**

Terminations

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 overcharges as of the date the error first occurred. – **Completed. Refunds to 4 insureds.**
2. Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account – **Completed.**
3. Complete and submit to the Bureau, the enclosed file titles "Terminations Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file. **Completed. See Attached.**
4. Provide a written AUD notice to the insured. **Completed and Implemented.**

5. Calculate return premium according to the filed rules and policy provision. Insured request is short rate in VA, table fixed to ensure short rate for Insured request.
6. Obtain valid proof of mailing the notice of cancellation or refusal to renew to the insured and lienholder. Copies of the 3 valid USPS - stamped proofs of mailing provided to LexisNexis by USPS are attached. The 4th was an invalid lienholder address given to PGC by the insured. PGC requested correct information from the insured, however, insured never responded.
7. Provide a proper notice of cancellation to the lienholder. Completed table change to reflect proper number of notice days.
8. Send a notice of refusal to renew to the lienholder. Completed table change to reflect proper number of notice days.
9. Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by 38.2-2212 of the Code of Virginia. Cancellation table changed and will not permit improper cancellation.
10. Send the cancellation notice at least 45 days before the effective date of cancellation when the notice is mailed after the 5^{9th} day of coverage. Cancellation table changed and will not permit improper cancellation.
11. Send the cancellation notice at least 15 days before the effective date of cancellation when it is cancelled for nonpayment of premium. Cancellation table changed and will not permit improper cancellation.
12. Advise the insured of the specific reason for cancelling the policy. Cancel logic changed to prevent any notice from going out without a specific reason for cancel.
13. Send the cancellation notice to the address shown in the policy. Attached are the Underwriting Review Sheets with proof that 2 were address change requests from the insured and one was an address change notification from the insured in the course of a claims investigation.

Claims Review

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 overcharges as of the date the error first occurred. – Completed. Refunds sent to the 13 insureds.
2. Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account – Completed.
3. Complete and submit to the Bureau, the enclosed file titles "Claims Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file. Completed. See Attached.
4. Document the claim file that all applicable coverage have been discussed with the insured. Documentation and training has been completed.
5. Make all claim denials in writing and keep a copy of in the claims file. Documentation and training has been completed.
6. Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claims in accordance with the insured's policy provisions. Documentation and training has been completed.

7. Provide copies of repair estimates prepared by or on behalf of the companies to insureds and claimants. **Documentation and training has been completed.**
8. Implement reasonable standards to avoid misrepresentation of pertinent facts or insurance policies provisions relating to coverage at issue. **Documentation and training has been completed.**
9. Implement reasonable standards to make a prompt investigation of claims. **Documentation and training has been completed.**
10. Disclose to vehicle owners either on the statement or repairs or in a separate document, the required aftermarket parts notice. **Documentation and training has been completed.**

Forms Review

1. Use the precise language of the standard automobile forms as adopted by the bureau. **Implemented the policy jacket and separate endorsements instead of incorporating endorsements into the back of the policy jacket. Completed.**

Review of Policy Issuance Process

1. Include accurate information in the policy by listing the beginning time of the policy. See memo dated September 30, 2011 from Examiner Andrea Baytop authorizing company to use "effective 12:01 am local time or the time of application, whichever is later." [Same as rating item #4.]
2. State the correct limit of coverages on the declarations page. **Corrected the Transportation Expense Coverage on the declarations page. [Same as rating item #6.]**
3. Provide the replacement cost coverage notice with all new and renewal policies of fire and fire in combination with other insurance coverages. **Completed.**

Review of Statutory Notices

1. Amend the application to remove the statement excluding customizing equipment coverage. **Amended.**
2. Amend the application to review the statement that it becomes a part of the policy. **Completed. Current statement approved as-is by Deputy Commissioner Bannister per Oct 5 conference call.**
3. Amend the long form Notice of Information Collection and Disclosure Practices to comply with 38.2-604B of the code of Virginia. **Amended and implemented.**
4. Amend the short form Notice of Information Collection and Disclosure Practices to comply with 38.2-604B. **Amended and implemented.**
5. Develop a verbal script that complies with 38.2-604 C of the Code of Virginia. **Completed and will go into all production eff. 10/25/11.**
6. Amend the Notice of Financial Information Collection and Disclosure Practices to comply with 38.2-604.1B of the Code of Virginia. **Amended and implemented.**
7. Develop an Adverse Underwriting Decision Notice that complies with 38.2-610 of the code of Virginia. **Completed.**

8. Amend the Accident Point Surcharge notice to comply with 38.2-1905A of the code of Virginia. **Amended and implemented.**
9. Amend the application to remove any mention of excluding coverage for drivers that have permissive use of the insured vehicle. **Removed verbiage from notes section and applicants section of the application referring to non-rated operators. [Same as Rating #8.]**
10. Amend the credit score disclosure notice to comply with 38.2-2223 A1 of the code of Virginia. **Amended and implemented.**
11. Amend the Credit Score Adverse Action notice to comply with 38.2-2234A2 of the Code of Virginia. **Amended and implemented.**

Licensing and Appointment Review

1. Appoint agents within 30 days of the application. **New process and procedures implemented.**
2. Pay commissions only to agencies appointed by the company. **New process and procedures implemented.**
3. Accept business only from agencies that have a current license from the Commonwealth of Virginia. **New process and procedures implemented.**

Part 3 Examiners' Notes

Confidential - Internal Action Items Only

Rating and Underwriting

1. Failure to provide the insured with written notice of an AUD. **Completed and implemented. [Same as Termination issue #4.]**
2. Failure to assign points under a SDIP to the vehicle customarily driven by the operator responsible for incurring the points. **Plan of action under review.**
3. Failure to notify the insured in writing that his policy had been surcharged for an at-fault accident. **Notice implemented. [Same as statutory notices issue #8.]**

Terminations

1. Failure to file and SR-26 within 15 days of cancelling the policy. **Completed. Table change.**

Claims

1. Failure to properly document the claim file so that all events and dates pertinent to the claim can be reconstructed. **Documentation and training has been completed.**
2. Failure to provide a reasonable explanation of the basis for the denial in the company's written denial of the claim. **Documentation and training has been completed.**

3. Failure to attempt, in good faith, to make a prompt, fair and equitable settlement of a claim in which liability is reasonably clear. **Documentation and training has been completed.**
4. Failure to comply with the provisions of the contract. **Documentation and training has been completed.**

Recommendations

Confidential - Internal Action Items Only

Rating and Underwriting

1. The companies should revise rule 17, the company cannot cancel a policy mid-term if a driver joins the military or enrolls in school, unless the state of residency changes and the vehicle is registered in that new state. **Amended UW guidelines. Filed and approved.**
2. The companies should revise rule 20, the company cannot refuse to file and SR-22/Fr-44 if the company does not insured all the vehicles. The company must file the FR filing and may choose to non-renew the policy or cancel a new policy with the first 59 days of coverage. **Amended UW guidelines. Filed and approved.**
3. The companies should change Comprehensive to state Other than Collision throughout the manual. **Amended UW guidelines. Filed and approved.**
4. The Companies should change "Medical Payments" to state "Medical Expense" in rule 38. **Amended UW guidelines. Filed and approved.**
5. The Companies should file a rounding rule to follow the company's current practices. **Rounding rule, filed and approved.**
6. The companies should file to add UMBI symbols to rate pages. **Added to symbol rate pages. Filed and approved.**
7. The companies should remove the Primary Discount matrix header on the coverage limit factors rate page. **Filed and approved.**
8. The companies should revise rule 25 to add that when a driver has two or more incidents on the same date to only count the higher surchargeable incident. **Filed and approved.**
9. The companies should revise rule 49 to change the title from E-sign to online application since the company only applies this discount for online applications, regardless of whether the applicant provided an electronic signature for an internet or retail agent application. **Not applicable: discount was removed and filed.**
10. The companies should revise rule 49 to indicate how the rate cap is calculated and/or add rate cap calculation to the rate calculation logic. **Not applicable: there is no rate cap currently.**
11. The companies should add a rate and rule for the ADDE coverage or remove its reference from the rate calculation logic. **ADDE is not available in our program in Virginia, so the reference was removed.**

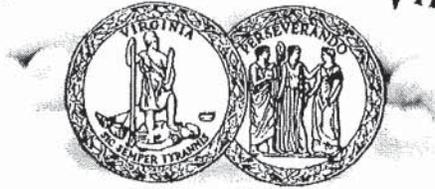
12. The companies should remove the comparative negligence references from its at-fault accident letter. Virginia is a contributory negligence state where any fault bars the insured from recovery. The company is allowed to surcharge for an accident in which the operator was wholly or partially at fault. **Amended and implemented.**
13. The companies should revise its amended declarations page to state the effective date of the change. **This is the current design. No change needed.**
14. The companies should show the revised total policy premium on the amended declarations page. **Amended.**
15. The companies should revise the time on the application to reflect the time of the insured's locality. **Plan of action under review.**
16. The companies should remove the expense constant and final expense (e-sign) steps from the rate calculation logic since no rules or rates are filed to apply. **Filed and approved.**

Claims

1. The companies should use the term "Medical Expense Benefits" **Forms review completed.**
2. The companies should use the term "Other than Collision" coverage on the check instead of the term "Comprehensive" coverage. **Completed.**
3. The companies should use a form entitled "Medical Expense Affidavit" instead of "Medical Payments Affidavit" when processing a medical expense claim. **Completed.**
4. The companies should show the correct deductibles next to the corresponding physical damage coverages shown on the declarations page. **Completed.**
5. The companies should pay all claim payments under the coverage applicable to the loss. **Documentation and training has been completed.**
6. The companies should properly reference the correct policy conditions when issuing a reservation of rights letter to the insured. **Documentation and training has been completed.**
7. The companies should notify individuals who are not represented by an attorney when signing a release (within 30 days of the incident), of their right to rescission within 3 business days after the execution of the release. **Documentation and training has been completed.**

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>

November 29, 2011

VIA UPS 2nd DAY DELIVERY

David L. Hettinger
Sr. Vice President & Chief
Administrative Officer
Permanent General
2636 Elm Hill Pike
Nashville, TN 37214

Re: Market Conduct Examination
Permanent General Assurance Corporation (NAIC# 37648)
Permanent General Assurance Corporation of Ohio (NAIC# 22906)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Hettinger:

The Bureau of Insurance (Bureau) has reviewed the companies' (Companies) October 13, 2011 response to the Preliminary Market Conduct Report (Report) of the above referenced companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

We are unable to agree to the Companies' request that their response to the Report remain confidential. This Report and all of the correspondence addressing the findings in the Report will become a public document once the Order is issued for the Final Report.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1) Please explain the entry "prev w/o" shown in the Restitution spreadsheet. If the policy cancelled, we will pro-rate the amount of the overcharge. However, the company should not use the unearned premium that was correctly provided to the insured to offset the restitution amount.
- (5) How is the fee presented to insureds when an endorsement change occurs? How do the Companies bill insureds for the endorsement fee? Please provide examples, if available.

Termination

- (1) Please explain the entry "prev w/o" shown in the Restitution spreadsheet. If the policy cancelled, we will pro-rate the amount of the overcharge. However, the Companies should not use the unearned premium that was correctly provided to the insured to offset the restitution amount.
- (4) Please provide the date the Companies implemented the AUD notice.
- (5) Please provide the date the Companies fixed the table to ensure short rate calculations on Insured Requested cancellations.
- (6) The violations for TPA021, TPA028 and TPA030 remain in the Report. The proofs of mailing for these cancellation notices to the lienholder are not valid. The mailing lists do not include the required signed statement for the Bulk Mailings as required by subsection 1c of § 38.2-2208 A of the Code of Virginia.
- (7-12) Please provide the dates the Companies completed the changes to the cancellation table for these items.
- (13) Please explain the origin of the address change requests for TPA019 and TPA021. These do not appear to have been generated by the insureds and the Companies did not provide any corresponding underwriting notes that the insureds called to change their garaging address and vehicle registration.

The violation for TPA020 remains in the Report. Please provide a copy of the claim notes wherein the insured informed the company of his/her new address.

Claims

- (4-9) Please provide the dates the Companies completed the documentation and training for these items.
- (10) Please provide a copy of the aftermarket parts notice currently used by the Companies and the date it was implemented.

Policy Issuance

- (2) Please provide a copy of a revised declarations page showing the Transportation Expenses coverage limit.
- (3) This item has been removed from the Report.

Statutory Notices

- (3-7) Please provide a copy of the revised notices for these items.
- (8) Please provide the date the Companies implemented the Accident Point Surcharge notice. Please provide a copy of this notice for review.
- (10) Please provide a copy of the revised Credit Disclosure notice.
- (11) Please provide a copy of the revised Adverse Action Credit notice.

Licensing and Appointment

- (1-3) Please provide the implementation dates for these items.

PART THREE – EXAMINERS’ NOTES

Rating and Underwriting

- (2) Please provide the estimated implementation date.

Termination

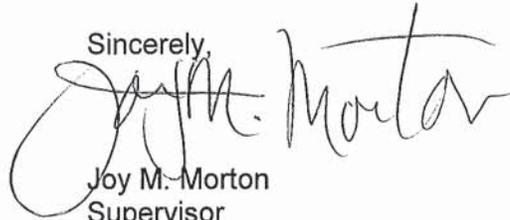
- (1) Please provide the date the Companies completed the changes to the cancellation table for this item.

Claims

- (1-4) Please provide the dates the Companies completed the documentation and training for these items.

We have made the change noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet. The Companies' response to this letter is due in the Bureau's office by December 16, 2011.

Sincerely,

A handwritten signature in black ink that reads "Joy M. Morton". The signature is fluid and cursive, with the first name "Joy" being particularly prominent.

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

Enclosures



Permanent General

2636 Elm Hill Pike, Suite 510
Nashville, TN 37214
Mailing Address:
P.O. Box 305054
Nashville, TN 37230-5054

615-242-1961
1-800-280-1466
www.pgac.com

December 16, 2011

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

Re: Market Conduct Examination
Permanent General Assurance Corporation (NAIC# 37648)
Permanent General Assurance Corporation of Ohio (NAIC# 22906)
Examination Period: September 1, 2009 – August 31, 2010

Dear Ms. Morton:

We are in receipt of your request for additional information for your market conduct report. The Company's response to each issue and a revised restitution spreadsheet is attached. We hope that you find the attached information sufficient for your review. If you need additional clarification, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink that reads "David L. Hettinger". The signature is written in a cursive style with a large, sweeping 'D' and 'H'.

David L. Hettinger
Senior Vice President and
Chief Administrative Officer

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting

1. Please explain the entry "prev w/o" shown in the restitution spreadsheet. If the policy cancelled, we will pro-rate the amount of the overcharge. However, the company should not use the unearned premium that was correctly provided to the insured to offset the restitution amount.
We agree that we should not have deducted the premium amount that was previously written off from the restitution refunds. We have issued refund checks on those amounts. The updated spreadsheet is attached.
2. How is the fee presented to insureds when an endorsement change occurs? How do the companies bill insureds for the endorsement fee? Please provide examples, if available.
The fee is only charged if the insured calls in to request the change. The customer service representative will direct the insured to the online policy processing in order to not be charged the fee. If the insured does not want to create the endorsement themselves, the customer service representative will process the endorsement and the fee will be charged. The fee is listed on the rating info page that is sent with each new business and renewal policy. See Exhibit 1 – Endorsement Premium Summary, and Rating Info Sheet.

Termination

1. Please explain the entry "prev w/o" shown in the restitution spreadsheet. If the policy cancelled, we will pro-rate the amount of the overcharge. However, the company should not use the unearned premium that was correctly provided to the insured to offset the restitution amount.
We agree that we should not have deducted the premium amount that was previously written off from the restitution refunds. We have issued refund checks on those amounts. The updated spreadsheet is attached.
4. Please provide the date the Companies implemented the AUD notice.
The AUD notice was implemented on 12/22/10 for NOI's, 11/30/10 for Non-Renewals and 9/15/11 for internal Underwriting Letters.
5. Please provide the date the Companies fixed the table to ensure short rate calculations on Insured Requested cancellations.
The short rate calculation on insured request was implemented in June 2011.
6. The violations for TPA021, TPA028 and TPA030 remain in the Report. The proofs of mailing for these cancellations notices to the lienholder are not valid. The mailing lists do not include the required signed statement for the Bulk mailings as required by subsection 1c of 38.2-2208 A of the Code of Virginia.
We currently use Lexis Nexis for outsourcing of our lienholder notification. We understand that Lexis Nexis has a meeting scheduled in Feb with the BOI to resolve the question of compliance around this matter. We request that the BOI table this issue until the BOI and LN have had an opportunity to meet and determine the outcome.

- 7-12 Please provide the dates the Companies completed the changes to the cancellation table for these items.

The implementation for our automated cancellation table was 9/22/11.

13. Please explain the origin of the address change requests for TPA019 and TPA021. These do not appear to have been generated by the insureds and the Companies did not provide any corresponding underwriting notes that the insureds called to change their garaging address and vehicle registration.

TPA019 [REDACTED] and TPA020 [REDACTED] – The customer's logged into the PGAC online servicing site using a unique id and password and requested the address changes. A phone conversation was not noted in the underwriting notes as the insured's made the request via our online servicing site. Attached is the online policy documentation. See Exhibit 2.

The violation for TPA020 remains in the Report. Please provide a copy of the claim notes wherein the insured informed the Company of his/her new address.

TPA020 – Attached is a copy of the claims notes with LA address. In addition, attached is a copy of the policy notes for when the insured called in for a quote for a LA policy. See Exhibit 3.

Claims

- 4-9. Please provide the dates the Companies completed the documentation and training for these items.

The training documentation was completed and provided to all supervisors on 9/8/11. Training was completed for all associates on 9/23/11.

10. Please provide a copy of the aftermarket parts notice currently being used by the Companies and the date it was implemented.

Attached is the aftermarket parts notice. See Exhibit 4.

Policy Issuance

2. Please provide a copy of a revised declaration page showing the Transportation Expense coverage limit.

Attached is the revised declarations page. See Exhibit 5.

Statutory Notices

- 3-7. Please provide a copy of the revised notices for these items.

See the attached Exhibit 6 containing:

- 1. Page 5 of the application.*
- 2. Privacy notice*
- 3. Fair credit reporting*
- 4. Retail agent script*
- 5. AUD on the notice of cancellation form*

7. Please provide the date the Companies implemented the Accident Point Surcharge notice.
Please provide a copy of the notice for review.
The revised accident point surcharge notice was implemented 8/31/11. See the attached Exhibit 7.
10. Please provide a copy of the revised Credit Disclosure notice.
The revised Credit Disclosure notice is attached. See Exhibit 6 page 2 of 5.
11. Please provide a copy of the revised Adverse Action Credit notice.
The revised Adverse Action Credit notice is attached. See Exhibit 6 page 3 of 5.

Licensing and Appointment

- 1-3. Please provide the implementation dates for these items.
The implementation dates for these items are all February 2011.

PART THREE – EXAMINERS’ NOTES

Rating and Underwriting

3. Please provide the estimated implementation date.
This project is currently being documented by our IT group and is in process. Due to the complexity and the number of systems affected we expect final implementation in May 2012.

Termination

1. Please provide the date the Companies completed the changes to the cancellation table for this item.
The implementation for our automated cancellation table was 9/22/11.

Claims

- 1-4. Please provide the dates the Companies completed the documentation and training materials for these items.
*The training documentation was completed and provided to all supervisors on 9/8/11.
Training was completed for all associates on 9/23/11.*

Andrea Baytop

From: Andrea Baytop
Sent: Monday, January 09, 2012 6:22 PM
To: 'David Hettinger'; 'Sondra Cavanaugh'
Cc: Joy Morton
Subject: PGAC Conference Call 1/09/12

Good Evening,

This e-mail is a summary of our conversation today regarding the companies' December 16, 2011 response to the Revised Report.

1. Item 6 of Terminations: We will wait until we have a subsequent conference call regarding the Lexis Nexis documentation for proof of mailing. As of today, we have not received sufficient information to consider the proof of mailing valid per the statute.
2. Item 13 of Terminations: We will withdraw the violation for TPA019 and TPA021. The company explained the documentation of the online address changes initiated by the insureds.
3. Item 13 of Terminations: The violation for TPA020 will remain in the Report unless the company can provide additional information from the claim notes that indicate the insured actively informed the company of a new state of residence.
4. Item 10 of Claims: The companies will provide the date when it implemented the correct aftermarket parts notice.
5. Exhibit 6, Page 1, Statutory Notices: The companies should add privileged information to the sentence regarding personal information may be disclosed to third parties without prior authorization to comply with Section 38.2-604 C2 of the Code of Virginia. This addition should be made to the short form 604 notice in the "Application Statement and Certification" section.
6. Exhibit 6, Page 2 Statutory Notices: The Privacy Policy notice does not comply with subsections B3 and B5 of Section 38.2-604 of the Code of Virginia. The notice does not indicate disclosures are made: to detect fraud and misrepresentation, to a government authority and for actuarial studies. The notice also omits that an insurance support organization may disclose the information found in a report created for the companies to other persons. The Privacy Policy notice does not comply with subsection B8 of 38.2-604.1 of the Code of Virginia. The notice does not indicate how the companies' privacy policy affects former policyholders.

We look forward to resolving the outstanding issues above. Please let me know if you have any questions.

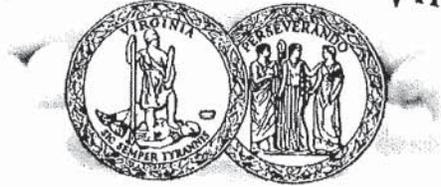
Thank you,

Andrea Baytop

Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
andrea.baytop@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
www.scc.virginia.gov/boi

January 23, 2012

VIA UPS 2nd DAY DELIVERY

David L. Hettinger
Sr. Vice President & Chief
Administrative Officer
Permanent General Assurance
2636 Elm Hill Pike
Nashville, TN 37214

Re: Market Conduct Examination
Permanent General Assurance Corporation (NAIC# 37648)
Permanent General Assurance Corporation of Ohio (NAIC# 22906)
Examination Period: September 1, 2009 – August 31, 2010

Dear Mr. Hettinger:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of December 16, 2011 and email correspondences of January 13, 2012 and January 16, 2012. Based upon the Bureau's review of the companies' response, we are now in a position to conclude this examination. Enclosed are the final Market Conduct Examination Report of Permanent General Assurance Corporation and Permanent General Assurance Corporation of Ohio (Report) any review sheets added, withdrawn or amended and the technical reports.

Cancellation Notice Mailed After the 59th Day of Coverage

- (5) The violations for TPA019 and TPA021 have been withdrawn from the Report. The company explained how the documentation reflected an insured-initiated online address change. For clarity, the Company's documentation should state the insured initiated the change and it was performed online.
- (6) The violations for TPA019 and TPA021 have been withdrawn from the Report. The company explained how the documentation reflected an insured-initiated online address change. For clarity, the Company's documentation should state the insured initiated the change and it was performed online.

The violation for TPA020 remains in the Report. The Company had knowledge that the insured's mailing address was at an Air Force Base in Louisiana at the time of application for the Virginia policy. The insured stated the vehicle was garaged at the Virginia address in the recorded statement from the claim file. The company had not provided evidence that the insured informed the company that the vehicle was garaged and registered in Louisiana. The Company should have either cancelled the

policy within the first 59 days of coverage or non-renewed this policy effective 10/08/09, instead of cancelling the policy as of 10/05/09.

Other Notices

- (1) The violation for NON001 has been amended to delete the violation for making the application a part of the policy. This reduces the number of violations of § 38.2-502 for the application from four to two.

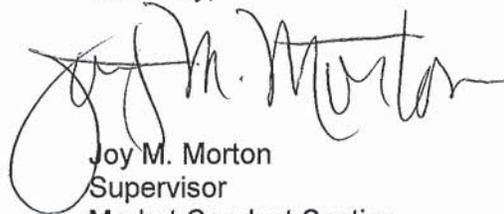
Based on the Bureau's review of the Report and the Companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A; 38.2-310; 38.2-502; 38.2-510 A 1; 38.2-510 A 3; 38.2-510 C; 38.2-604 B; 38.2-604 C; 38.2-604.1 B; 38.2-610 A; 38.2-1812; 38.2-1822 A; 38.2-1833; 38.2-1905 A; 38.2-1906 A; 38.2-1906 D; 38.2-2204; 38.2-2208 A; 38.2-2208 B; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2230 and 38.2-2234 of the Code of Virginia; and 14 VAC 5-400-40 A; 14 VAC 5-400-70 A; 14 VAC 5-400-70 D and 14 VAC 5-400-80 D 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 insurance business 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) 371-9540
joy.morton@scc.virginia.gov

JMM/



Permanent General

2636 ELM HILL PIKE
NASHVILLE, TN 37214
Mailing Address
P.O. BOX 305054
NASHVILLE, TN 37230-5054

STATE CORP COMMISSION
12 FEB 15 PM 1:00

615/242-1961
1-800/280-1466
FAX 615/366-1718
www.pgac.com

February 9, 2012

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

400060

RE: Market Conduct Examination Settlement Offer

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter February 8, 2012, concerning the above referenced matter.

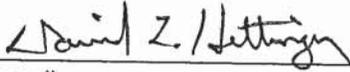
We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A; 38.2-310; 38.2-502; 38.2-510 A 1; 38.2-510 A 3; 38.2-510 C; 38.2-604 B; 38.2-604 C; 38.2-604.1 B; 38.2-610 A; 38.2-1812; 38.2-1822 A; 38.2-1833; 38.2-1905 A; 38.2-1906 A; 38.2-1906 D; 38.2-2204; 38.2-2208 A; 38.2-2208 B; 38.2-2212 D; 38.2-2212 E; 38.2-2212 F; 38.2-2220; 38.2-2230 and 38.2-2234 of the Code of Virginia; and 14 VAC 5-400-40 A; 14 VAC 5-400-70 A; 14 VAC 5-400-70 D and 14 VAC 5-400-80 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$45,000.
2. We agree to comply with the corrective action plan set forth in the companies' letters of October 13, 2011 and December 16, 2011.
3. We confirm that restitution was made to 35 consumers for \$7710.70 in accordance with the companies' letters of October 13, 2011 and December 16, 2011.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Permanent General Assurance Corporation
Permanent General Assurance Corporation
of Ohio



(Signed)

David L. Hettinger

(Type or Print Name)

Sr. Vice President & Chief Administrative Officer

(Title)

2-9-2012

(Date)

Enclosure

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

Permanent General Assurance Corporation and Permanent General Assurance Corporation of Ohio have tendered to the Bureau of Insurance the settlement amount of \$45,000.00 by their check numbered 86583 and dated February 8, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, MARCH 20, 2012

GENERAL OFFICE

2012 MAR 20 P 2:30

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COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

COMMITMENT CENTER

v.

CASE NO. INS-2012-00026

PERMANENT GENERAL ASSURANCE
CORPORATION,
and
PERMANENT GENERAL ASSURANCE
CORPORATION OF OHIO,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance, it is alleged that the Defendants, duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, violated § 38.2-305 A of the Code of Virginia ("Code") by failing to include accurate information in policies; violated § 38.2-310 of the Code by charging or collecting fees for the procurement of insurance that were not included in the premium or stated in the policies; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of policies; violated §§ 38.2-604 B, 38.2-604 C, 38.2-604.1 B, 38.2-610 A, 38.2-1905 A, 38.2-2230, and 38.2-2234 of the Code by failing to provide proper notice to insureds; violated §§ 38.2-1812, 38.2-1822 A, and 38.2-1833 of the Code by paying commissions for services as an agent to persons who were not properly licensed and appointed; violated §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; violated § 38.2-2204 of the Code by failing to allow permissive use of insured vehicles; violated §§ 38.2-2208 A, 38.2-2208 B, 38.2-2212 D,

38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; violated § 38.2-2220 of the Code by using forms that did not contain the precise language of the standard forms filed and adopted by the Commission; and violated §§ 38.2-510 A 1, 38.2-510 A 3, and 38.2-510 C of the Code, as well as Rules 14 VAC 5-400-40 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D, *Rules Governing Unfair Claim Settlement Practices*, by failing to properly handle claims with such frequency as to indicate a general business practice.

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

The Defendants have been advised of their right to a hearing in this matter, whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth of Virginia the sum of Forty-five Thousand Dollars (\$45,000), waived their right to a hearing, confirmed that restitution was made to thirty-five (35) consumers in the amount of Seven Thousand Seven Hundred Ten Dollars and Seventy Cents (\$7,710.70), and agreed to comply with the Corrective Action Plan set forth in their letters to the Bureau of Insurance dated October 13, 2011, and December 16, 2011.

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

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

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted; and
- (2) The papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
David L. Hettinger, Senior Vice President & Chief Administrative Officer, Permanent General Assurance Corporation, 2636 Elm Hill Pike, Nashville, Tennessee 37214; 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.