MARKET CONDUCT EXAMINATION REPORT

OF

LITITZ MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 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

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STATE CORPORATION COMMISSION

BUREAU OF INSURANCE

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of this the Bureau at the City of Richmond, Virginia, this 26 day of July, 2012.

JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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TABLE OF CONTENTS

INTRODUCTION 1

COMPANY PROFILE 1

SCOPE OF THE EXAMINATION 4

STATISTICAL SUMMARY 5

PART ONE - THE EXAMINERS' OBSERVATIONS 7

RATING AND UNDERWRITING REVIEW 7

Homeowners New Business Policies 7

Homeowners Renewal Business Policies 8

TERMINATION REVIEW 8

Company-Initiated Cancellations – Homeowners Policies 8

Notice Mailed Prior to the 90th Day of Coverage 8

Notice Mailed After the 89th Day of Coverage 9

All Other Cancellations – Homeowners Policies 9

Nonpayment of the Premium 9

Requested by the Insured 10

Company-Initiated Non-renewals – Homeowners Policies 10

Tenant Policies 10

CLAIMS REVIEW 11

Homeowners and Tenant Claims 11

REVIEW OF FORMS 13

Homeowners Policy Forms 14

Policy Forms Used During the Examination Period 14

Other Forms Used During the Examination Period 14

REVIEW OF THE POLICY ISSUANCE PROCESS 14

Homeowners Policies 14

New Business Policies 15

Renewal Business Policies 15

REVIEW OF STATUTORY NOTICES 15
General Statutory Notices 15
Statutory Property Notices 16
LICENSING AND APPOINTMENT REVIEW 16
Agent 17
Agency 17
REVIEW OF THE COMPLAINT-HANDLING PROCESS 17
REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES 17
PART TWO – CORRECTIVE ACTION PLAN 18
General 18
Rating and Underwriting Review 18
Termination Review 19
Claims Review 19
Forms Review 20
Review of Policy Issuance Process 20
Review of Statutory Notices 20
PART THREE – RECOMMENDATIONS 22
RECOMMENDATIONS 22
Rating and Underwriting 22
Termination 22
Claims 23
Policy Issuance Process 23
Statutory Notices 23
SUMMARY OF PREVIOUS EXAMINATION FINDINGS 23
ACKNOWLEDGEMENT 24

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the homeowner and tenants lines of business written by Lititz Mutual Insurance Company at its office in Lititz, Pennsylvania.

The examination commenced July 11, 2011 and concluded July 28, 2011. Ju'Coby D. Hendrick, Karen S. Gerber, and Gloria V. Warriner, Market Conduct Examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on September 17, 2010 and was assigned the examination number of VA199-M21. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE*

Lititz Mutual Insurance Company was incorporated on September 17, 1888 as the Agricultural Mutual Fire Insurance Company of Lancaster County under the laws of Pennsylvania and began business the same year. The title was changed to the Lititz Agricultural Mutual Fire Insurance Company on January 5, 1901 and to its present form in January 1941. The Southern Mutual Insurance Company, Quarryville, Pennsylvania was merged with and into the company on December 31, 1963.*

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

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

GROUP CODE:	**LITITZ**
NAIC Company Number	14400
LICENSED IN VIRGINIA	10/20/1941
LINES OF INSURANCE	
Accident and Sickness	9/2/1988
Aircraft Liability	X
Aircraft Physical Damage	x
Animal	9/2/1988
Automobile Liability	X
Automobile Physical Damage	
Boiler and Machinery	9/2/1988
Burglary and Theft	X
Commercial Multi-Peril	X
Credit	9/2/1988
Farmowners Multi-Peril	X
Fidelity	9/2/1988
Fire	X
General Liability	X
Glass	X
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	9/2/1988
Surety	
Water Damage	X
Workers' Compensation	9/2/1988

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

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Lititz Mutual Insurance Company		
Homeowner	$1,209,398	.08%

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

SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's homeowner and tenant lines of business written in Virginia for the period beginning January 1, 2010 and ending December 31, 2010. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance[1], statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with 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 – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the Report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice. These violations are the basis for any settlement offer that is made by the Bureau of Insurance (Bureau) as a result of this Report.

In Part Three, the examiners cite any violations that are not considered a business practice. Also included in this section are recommendations regarding the company's practices that require some action by the company.

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

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

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, policy terminations, 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.

AREA	Lititz	Population / Sample Requested TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
Homeowners						
New Business	151 / 20	151 / 20	20	0	6	30%
Renewal Business	2391 / 34	2391 / 34	34	0	6	18%
Co Initiated Cancellations[1,2]	63 / 27	63 / 27	10	0	3	30%
All Other Cancellations [3]	57 / 12	57 / 12	24	0	0	0%
Nonrenewals [4]	4 / 4	4 / 4	3	0	0	0%
Tenants	20 / 7	20 / 7	7	0	2	29%
Claims						
Property	171 / 31	171 / 31	31	0	12	39%

Footnote [1] One file was moved to Insured Requested and one file was moved to Cancellations After the 90th Day
Footnote [2] Ten files were moved to Insured Requested and one file was moved to Cancellations Prior to the 89th day.
Footnote [3] Ten files were moved from Cancellations Prior to the 90th day and one file was moved from Nonrenewals.
Footnote [4] One file was moved to Insured Requested Cancellations

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

The Bureau requested 20 new business policy files for review. The examiners reviewed all of these files. During this review, the examiners found overcharges totaling $156.00 and undercharges totaling $37.00. The net amount that should be refunded to insureds is $156.00 plus six percent (6%) simple interest.

(1) 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. The company failed to file rates for higher liability limits.

(2) The examiners found five 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 three instances, the company failed to use the correct discounts and/or surcharges.

b. In one instance, the company failed to use the correct base and/or final rates.

c. In one instance, the company failed to use the filed rounding rule.

(3) The examiners found four violations of § 38.2-2126 A of the Code of Virginia. The company failed to provide the insured the credit disclosure notice at the time of application.

Homeowners Renewal Business Policies

The Bureau requested 34 renewal business policy files for review. The examiners reviewed all of these files. During this review, the examiners found overcharges totaling $280.00 and undercharges totaling $75.00. The net amount that should be refunded to insureds is $280.00 plus six percent (6%) simple interest.

(1) 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. The company failed to file the $15.00 credit for secondary residence.

(2) The examiners found seven 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 one instance, the company failed to use the correct territory.

b. In three instances, the company failed to use the correct base and/or final rates.

c. In one instance, the company failed to use the correct construction type.

d. In one instance, the company failed to use the correct public protection class.

e. In one instance, the company failed to use the filed rounding rule.

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 – Homeowners Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau requested three homeowner cancellations that were initiated by the

company where the company mailed the notices prior to the 90th day of coverage in the initial policy period. The examiners reviewed three files in this category. One file was reviewed under the insured requested category. The examiners reviewed one additional file that the company incorrectly provided as a company initiated cancellation on or after the 90th day of coverage. The examiners found no overcharges and $26.00 in undercharges during the review of these files.

The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The Bureau requested 18 homeowner cancellations that were initiated by the company where the company mailed notices on or after the 90th day of coverage in the initial policy period, or at any time during the term of a subsequent renewal policy. The examiners reviewed seven files in this category. Ten files were reviewed under the insured requested category. One file was reviewed under the company initiated cancellation on or before the 90th day of coverage category. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found two violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 90th day of coverage for a reason not permitted by the statute.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested five homeowner cancellations that were initiated by the companies for nonpayment of the policy premium. The examiners reviewed all of these

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

The examiners found no violations in this area.

REQUESTED BY THE INSURED

The Bureau requested seven homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed all of these files. The examiners reviewed ten additional files that the company incorrectly provided as company initiated cancellations after the 90th day of coverage. The examiners reviewed one additional file the company incorrectly provided as a company initiated cancellation before the 90th day of coverage and one file incorrectly provided as a non-renewal. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals – Homeowners Policies

The Bureau requested four homeowner non-renewals that were initiated by the company. The examiners reviewed three of these files. One file was reviewed under the insured requested category.

The examiners found no violations in this area.

Tenant Policies

The Bureau requested seven tenant cancellations that were initiated by the company. The examiners reviewed all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling $9.00 during review of these files.

(1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The

company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

(2) The examiners found two occurrences where the company failed to comply with the provisions of the insurance contract.

a. In one instance, the company failed to obtain valid proof of mailing the notice of cancellation or refusal to renew to the insured.

b. In one instance, the company failed to mail the notice of cancellation to the insured within the minimum number of days in advance of the cancellation effective date.

CLAIMS REVIEW

Homeowners and Tenant Claims

The examiners reviewed 31 homeowner claims for the period of January 1, 2010 through December 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 $699.00 and underpayments totaling $7323.00 during the review of these files. The net amount that should be paid to claimants is $7254.00 plus six percent (6%) simple interest.

(1) The examiners found one violation 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. The company failed to inform the insured of the replacement cost benefits under the personal property replacement cost coverage of the policy.

(2) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the

written denial in the claim file.

(3) The examiners found three 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.

a. In one instance, the company failed to pay the entire claim under the insured's personal property actual cash value coverage.

b. In two instances, the company failed to pay the entire claim under the insured's personal property replacement cost coverage.

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

(4) The examiners found three violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or policy provisions relating to coverages at issue. The company gave the insured 180 days from the last actual cash payment rather than six months from the last actual cash payment to assert a claim for replacement cost of the damaged property.

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

(5) The examiners found three violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for prompt investigation of claims arising under insurance policies.

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

(6) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make prompt, fair and equitable

settlement of a claim in which liability was reasonably clear.

(7) The examiners found three occurrences where the company failed to comply with the provisions of the insurance contract. The company paid an insured more than he/she was entitled to receive under the terms of his/her policy.

Other Law Violations

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

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

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

Homeowners Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 61 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found three violations of § 38.2-317 A of the Code of Virginia.

a. In one instance, the company used a superseded version of a form.

b. In two instances the company used forms that were not filed with the Bureau at least 30 days prior to their use.

OTHER FORMS USED DURING THE EXAMINATION PERIOD

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

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

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

Homeowners Policies

The company provided five new business policies mailed on the following dates: May 2, 4, 11 and 20, 2011. In addition, the company provided five renewal business policies mailed on the following dates: July 10, 11, 20, 21 and 27, 2011.

NEW BUSINESS POLICIES

The examiners found one violation 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. In one instance, the company failed to attach form L0455 3-03, Identity Fraud Expense Coverage Endorsement.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

REVIEW OF STATUTORY NOTICES

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

General Statutory Notices

(1) The examiners found one violation of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by the statute.

(2) The examiners found one violation of § 38.2-604.1 B of the Code of Virginia. The company's long form Notice of Financial Information Collection and Disclosure Practices did not contain all of the information required by the statute.

(3) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The

company's Adverse Underwriting Decision (AUD) notice did not include language substantially similar as that of the prototype set forth in Administrative Letter 1981-16.

Statutory Property Notices

(1) The examiners found one violation of § 38.2-2118 of the Code of Virginia. The company failed to have available for use a statement summarizing the replacement cost provisions.

(2) The examiners found one violation of § 38.2-2125 of the Code of Virginia. The company's notice advising the insured that Flood Coverage is excluded does not comply with this statute.

(3) The examiners found one violation of § 38.2-2126 A of the Code of Virginia. The credit disclosure notice did not include all of the information required by the statute.

LICENSING AND APPOINTMENT REVIEW

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

Agent

The examiners found no violations in this area.

Agency

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

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

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information.

The company submitted its security information as required by § 38.2-613.2 of the Code of Virginia.

PART TWO – CORRECTIVE ACTION PLAN

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

General

Lititz Insurance Company shall:

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

Rating and Underwriting Review

Lititz Insurance Company shall:

(1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.

(2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.

(3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the

company acknowledges that it has refunded or credited the overcharges listed in the file.

(4) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, base and/or final rates, construction type, public protection class, and rounding rule.

(5) Provide the credit score disclosure notice as required by the Code of Virginia.

Termination Review

Lititz Insurance Company shall:

(1) Correct the errors that caused the undercharges.

(2) Calculate earned premium in accordance with the filed rules and rates.

(3) Cancel an owner-occupied dwelling after the 89th day of coverage only for reasons permitted by the statute.

(4) Comply with the company's filed manual rules and policy provisions by requiring written notice of insured requested cancellations.

(5) Obtain valid proof of mailing the notice of cancellation or refusal to renew to the insured and mail the notice within the minimum number of days as required by the statute.

Claims Review

Lititz Insurance Company shall:

(1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to the insureds and claimants.

(2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.

(3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.

(4) Properly represent pertinent facts or insurance policy provisions relating to the coverage at issue.

(5) Adopt and implement standards for prompt investigation of claims.

(6) Offer the insured an amount that is fair and reasonable as shown by the investigation.

Forms Review

Lititz Insurance Company shall:

(1) File all homeowner forms with the Bureau at least 30 days prior to use in Virginia.

(2) Replace the superseded forms with current forms when applicable.

Review of Policy Issuance Process

Lititz Insurance Company shall:

Specify the required information in the policy by providing the applicable forms with new and renewal policies.

Review of Statutory Notices

Lititz Insurance Company shall:

(1) Amend the Information Collection and Disclosure Practices notice to comply with the Code of Virginia.

(2) Amend the Notice of Financial Information Collection and Disclosure Practices notice to comply with the Code of Virginia.

(3) Amend the Adverse Underwriting Decision notice to comply with of the Code of Virginia.

(4) Develop a replacement cost notice that complies with the Code of Virginia.

(5) Amend the flood exclusion notice to comply with the Code of Virginia.

(6) Amend the credit disclosure notice to comply with the Code of Virginia.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices.

RECOMMENDATIONS

We recommend that the company take the following actions:

Rating and Underwriting

- The company should provide the insured written notice of an AUD when required by the statute.
- The company should amend its filed rules to show the deductible factor will be applied to the adjusted base premium.
- The company should file all rates and supplementary rate information with the Bureau prior to use.
- The company should file a copy of its current rating manual and include a cover letter specifying any pages that are being replaced or withdrawn.
- The company should update the VIP endorsement eligibility requirements to include "No new Homeowners VIP business with an incurred loss in the previous 3 years will be accepted."

Termination

- The company should list only those reasons that are applicable to the cancellation on the cancellation notice.
- The company should send the insured the Adverse Action Credit Notice along with terminations in the first 90 days due to misrepresentation of credit information.

Claims

- The company should negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- The company should comply with the provisions of the insurance contract.

Policy Issuance Process

- The company should list only the applicable forms and endorsements on the declarations page

Statutory Notices

- The company should correct the contact information for the Virginia Property Insurance Association.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.

ACKNOWLEDGEMENT

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

Sincerely,

Karen S. Gerber
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA

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November 18, 2011

Henry R. Gibbel
President & COO
Lititz Mutual Insurance Company
2 North Broad Street
Lititz, PA 17543-7007

RE: Market Conduct Examination
Lititz Mutual Insurance Company (NAIC# 14400)
Examination Period: January 1, 2010–December 31, 2010

Dear Mr. Gibbel:

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

Enclosed with this letter is a copy of the Preliminary Market Conduct Examination Report (Report) and copies of review sheets that have been withdrawn or revised since September 30, 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 company, I would urge you to closely review the Report. Please provide a written response. If the company disagrees with an item(s) or wishes to further comment on an item(s), please respond to the item(s) in Part I of the Report using the format of the Report. The company does not need to respond to any particular item in Part I if it agrees with the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support its position. If the company uses the same format (headings and numbering) as found in the Report, it is much easier to follow the company's points.

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

Thirdly, if the company has comments it wishes to make regarding the Recommendations in Part III of the Report, please use the same headings and numbering for the comments.

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

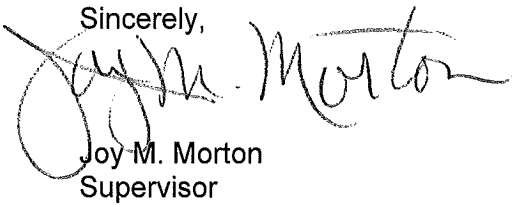
Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified overcharges (terminations) and underpayments (claims).

The company's response(s) and the spreadsheet mentioned above must be returned to the Bureau by December 28, 2011.

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

We look forward to your reply by December 28, 2011.

Sincerely,



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

JMM
Enclosure

COMPANY RESPONSE TO
VIRGINIA MARKET CONDUCT EXAMINATION

Lititz Mutual Insurance Company (NAIC # 14400)
Examination period: January 1, 2010 to December 31, 2010

STATE CORP. COMMISSION
BUREAU OF INSURANCE
12 JAN 17 A 10:39

January 13th, 2012
Submitted by Henry R. Gibbel, President and COO

Lititz Mutual has been licensed and has operated in the Commonwealth of Virginia since 1941 with a commitment to thrift, integrity, caring, reliability, quality, fairness and above all, with a sense of responsibility to the hundreds of individuals insured under our banner. We appreciate the partnership we have with the Virginia Bureau of Insurance in our endeavor to meet that responsibility and to be in full compliance. We appreciate and thank the Bureau examiners for their professionalism.

The Company response includes several references to a 'new computer system.' Over the past four years, we have been developing and testing an entirely new vendor based software platform which was implemented on January 1st, 2012. Many issues found in this examination will be eliminated or have been included in the processes and workflows of the new platform. Our policy production no longer includes manual rating, the manual attachment of forms and certain past billing procedures, thus greatly reducing human oversight and error.

PART ONE – THE EXAMINERS' OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Homeowners New Business Policies

(1) The Company agrees. The Company has filed the questioned rates with the Virginia Bureau of Insurance in August. We are awaiting approval.
(2) The Company agrees with A, B and C.
(3) The Company agrees and has instituted a credit disclosure notice at the time of application. See Exhibit #1.

Homeowners Renewal Business Policies

(1) The Company agrees. The Company has filed the secondary residence credit with the Virginia Bureau of Insurance in August. We are awaiting approval.
(2) a. The Company agrees. The correct territory has been endorsed onto the policy.
b. The Company agrees with the business pursuits criticism. The Company disagrees with the 2 violations regarding eligibility for our preferred program. See Exhibit #2.
c. The Company agrees. The construction type has been correctly endorsed.
d. The Company agrees. The correct public protection class has been endorsed onto the policy.
e. The Company agrees. The new computer system is now rating all endorsements using the correct rounding rules.

TERMINATION REVIEW

Company-Initiated Cancellations – Homeowners Policies

Notice mailed prior to the 90th day of coverage

The Company agrees. The policy was cancelled flat, as no money was received from the insured. No invoice was sent to the insured for the coverage period required by the notice of cancellation.

Notice mailed after the 89th day of coverage

The Company will agree to these violations with prejudice. It is the Company's observation that there is a material change in the risk when a property is vacant. A qualification for a homeowners policy requires owner occupancy.

Requested by Insured

Tenant policies

(1) The Company agrees. The policy was cancelled flat, as no money was received from the insured. No invoice was sent to the insured for the coverage period required by the notice of cancellation.
(2) The Company agrees with both a and b. This was an unusual situation created by an employee mishandling error. The new computer system eliminates the repeat of the situation.

CLAIMS REVIEW

Homeowners and Tenant Claims

(1) The Company disputes the violations contending that we did adequately inform the claimant of the replacement cost provisions. See Exhibit #3.
(2) The Company disputes this violation, as we disagree that we are required to decline a claim when one is not made. In this case, the injured party was only asking for reimbursement for actual medical bills. We made the requested reimbursement. There was no other claim to deny.
(3) The Company accepts this violation.
(4) a. The Company disputes this violation in part. Please see Exhibit #4.
b. The Company accepts these two violations.
(5) The Company accepts the violations. In the future we will use the term 6-months in lieu of 180-days.
(6) The Company disputes 2 of the 4 violations and requests a review that a general business practice criticism exists. See Exhibit #5.
(7) We agree with the violations, but take exception to the use of the term "in good faith." In one violation we were 4 days past the required time period, the other 5 days. The Company endeavors to make prompt claim responses. During the summer of 2010, the Company did experience higher than normal claim counts.
(8) The Company accepts 1 of the 3 violations, as we favor the insured when discrepancies exist. On our first disputed violation, we strongly feel it was a

covered claim. See Exhibit #6. On our second disputed violation, we do not feel a receipt is required for temporary housing negotiated and paid for by our Adjuster.

Other Law Violations

The Company accepts the violations. We were unaware that forms requesting the release of information required the fraud statement.

REVIEW OF FORMS

Homeowner Policy Forms

Policy Forms used during the Examination Period

a and b – The Company accepts these violations. The new computer system fully automates the attachment of forms eliminating an individual from pulling superseded or incorrect forms.

REVIEW OF POLICY ISSUANCE PROCEDURES:

Homeowner Policies

New Business Policies

Company agrees with this violation. The new computer system will eliminate the oversight of manually attaching a form.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

(1) The Company has revised its Privacy notice adding additional required information. See Exhibit #7.
(2) The Company has revised its Privacy notice adding additional required information. See Exhibit #7.
(3) The Company has revised its AUD notice to replicate the prototype. See Exhibit #8

Statutory property notices

(1) The Company has revised its notice adding the additional replacement cost information included in the policy. See Exhibit #9.
(2) The Company has revised its notice adding our insurance company as a reference for the National Flood Program. See Exhibit #9.
(3) The Company has included a credit disclosure notice in the application process See Exhibit #1.

PART TWO - CORRECTIVE ACTION PLAN

In addition to the corrections noted in Part 1, the Company will:

Rating and Underwriting Review

The Company has undergone an extensive update to its computer system including a complete review of the I.S.O. Manual, its forms and rates. We have completed an exhaustive testing of the system and feel our rates are being promulgated as filed. Additionally, we have re-filed our manual with the Department, addressing previous discrepancies and oversights. The Company has refunded undisputed premium over charges, including simple interest and is submitting the Department's Requested Worksheet. See Exhibit #10. Although we do not currently credit score, we are providing a credit disclosure notice, as requested. See Exhibit #1.

Termination Review

All items listed have been addressed by the new company computer system, which greatly eliminates human error from the processes. Additionally, underwriters and coders have been re-educated through specific training on the proper coding of cancellations and proper verbiage to be used on cancellation notices.

Claims Review

The claim department is correcting the errors that caused underpayments and overpayments. Most significantly, through our new computer system, the underwriting file will contain all applicable policy forms, allowing instant access by the claim department. The claim examiner will be required to make a notation in the file on each new claim for verification that the forms have been reviewed as they relate to the claim at hand. Checks have been processed and mailed for the underpayments that the Company has accepted. The reimbursement of undisputed underpayments included simple interest. The completed "Claims Underpayments Cited during the Examination" is attached in Exhibit #11. The company has and will continue to properly represent facts or insurance provisions. The company has adopted and does implement standards for prompt investigations of claims and we continually strive to improve upon them. In 2011 we implemented a 24/7 claims reporting service and formed three "Regional Claims Offices" in our operating territory. When a claim is reported to the call center, a notice of loss is emailed simultaneously to the Lititz Home Office as well as the Regional Claims Office that oversees the territory where the loss occurred. We also have written an Independent Adjuster Guideline which we are continually updating. See Exhibit #9.

Forms Review

We will continue to audit our forms library. Forms are now automatically attached through our new computer system which will eliminate an incorrect form being attached or a form from being erroneously omitted. We have and will continue to file forms thirty days prior to use.

Review of Policy Issuance Process

The automation provided by the company's new computer system along with our revised forms will enhance the proficiency of policy issuance processes.

Review of Statutory Notices

The Company has modified form GLB 401 to include the required statutory language. This form will be filed with the Department. Exhibit #10 is attached with new wording. The Company has revised the Adverse Underwriting Decision Notice. Exhibit # 11 is attached with new wording. The Company has modified the L45 form to include the required replacement cost language as required under § 38.2-2118 of the Code of Virginia. Exhibit # 12 is attached with the new wording. The Company has modified the L45 endorsement to include the required replacement cost language as required under § 38.2-2125 of the Code of Virginia. Exhibit #13 is attached with new wording. The Company has adopted the credit disclosure notice. Exhibit # 14 is attached with new wording.

PART THREE – RECOMMENDATIONS

Rating and Underwriting, Terminations, & Claims

Lititz Mutual appreciates the recommendations and has already implemented some and is acting on others. All have been reviewed and considered.

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
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March 9, 2011

Henry R. Gibbel
President & COO
Lititz Mutual Insurance Company
2 North Broad Street
Lititz, PA 17543-7007

RE: Market Conduct Examination
Lititz Mutual Insurance Company (NAIC# 14400)
Examination Period: January 1, 2010–December 31, 2010

Dear Mr. Gibbel:

The Bureau of Insurance (Bureau) has reviewed the Lititz Mutual Insurance Company's January 13, 2012 response to the Market Conduct Report (Report) of the above referenced Company. The Bureau has referenced only those items in which the Company has disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report

PART ONE – EXAMINERS' OBSERVATIONS

Homeowners Renewal Business Rating

(2b) The violations for HO031 and HO042 remain in the Report. Specific criteria used in determining the placement of a risk must be filed in the Rating Manual. The Underwriting Bulletin is not filed and therefore not a part of the Rating Manual.

Homeowner Claims

(1) The violation for CHO010 remains in the Report. The insured was not informed of the replacement cost requirements until after the items were replaced.

(2) The violation for CHO009 has been removed from the Report. The Report has been renumbered to reflect this change.

(4b) The review sheet identified in the company's response as 4.a in the Report is 4 b in the Report. The violation is number CHO010. This violation remains in the Report. The company should contact the insured and determine the replacement cost of the items that were reimbursed at ACV. The Bureau also requests that the company provide the Bureau with the review sheet the company referenced as a sheet that "has been altered since the time we reviewed it in July". The Bureau records show that the company did not receive this review sheet until January 2012.

(6) The violation for CHO013 remains in the Report. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

After further review the violation for CHO019 has been withdrawn.

(8) The violation for CHO023 remains in the Report. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

The violation for CHO029 remains in the Report. The insured said they stayed in a hotel. Obtaining a receipt verifying the ALE expense could have been accomplished via a phone call to the hotel.

PART TWO- CORRECTIVE ACTION PLAN

General Statutory Notices

(1) The company's revised notice (Exhibit 7) does not address § 38.2-604 B 4 of the Code of Virginia. The company should further modify their revised notice to include the requirements of § 38.2-604 B 4 and § 38.2-604 B 5 of the Code of Virginia.

(2) The company's revised notice (Exhibit 7) does not address § 38.2-604.1 B of the Code of Virginia. The company should further modify their revised notice to include the requirements of § 38.2-604.1 B 4 and § 38.2-604.1 B 5 of the Code of Virginia.

(3) The company's revised notice (Exhibit 8) does not comply with § 38.2-610 of the Code of Virginia. The company should review Administrative Letter 1981-15 for a prototype of the requirements of the AUD notice.

Statutory Property Notices

(1) The company's revised notice (Exhibit 9) complies with § 38.2-2118 of the Code of Virginia. However, there appears to be a typographical error in the first paragraph of this provision. The sentence in part reads, "...on the same premises o; or (c) ".The company should remove the letter "o".

Exhibits 11, 12, 13, and 14 referenced in the company's response under Part Two "Review of Statutory Notices" were not attached. Exhibits 10 and 11were incorrectly referenced.

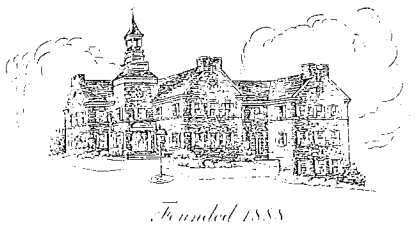
Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheet and any review sheets withdrawn, added or altered as a result of this review. The company's response to this letter is due in the Bureau's office by March 27, 2012.

Sincerely,

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

JMM
Enclosure

PHONE (717) 626-4751
FAX (717) 626-0970



Lititz Mutual Insurance Company

2 North Broad Street, P.O. Box 900, Lititz, PA 17543-7007

Founded 1855

HENRY R. GIBBEL
President & COO

March 30, 2012

STATE CORP COMMISSION
BUREAU OF INSURANCE
12 APR -2 AM 9:33

Ms Joy M. Morton
Supervisor, Market Conduct Section
Property & Casualty Division
Commonwealth of Virginia
Bureau of Insurance
1300 East Main Street
Richmond, Virginia 23219

Dear Ms Morton:

Re: Market Conduct Examination
Lititz Mutual Insurance Co. (NAIC #14400)
Exam: 1/1/2010 – 12/31/2010

Responding to your letter of March 9, 2011 (2012), we submit the following responses.

Homeowners Renewal Business Rating

(2b) We will again refile our Underwriting manual to include our Underwriting Guidelines regarding losses on a VIP to comply. Although we will not take further issues, we remain steadfast that our loss provision is a guideline and not definitive qualifications which cannot be overwritten by an Underwriter's decision. We will refund the two return premiums as originally requested.

Homeowner Claims

(1) & (4b) We will reimburse the insured $6,323. We do not feel it's appropriate to require the insured to provide documentation at this late date. We do feel the timing of correspondence provided him with the policy replacement settlement provisions appropriately, as the advisement was made when we presented our check for ACV. This was sent 10-days after he provided the inventory to the adjuster. We also question why you would take this stance reflecting on the Department's position on Item #8.

(6) Here again, we felt that a hand-written receipt of a "very reasonable" claim qualified as adequate documentation, such as requested in the above.

General Statutory Notices

(1) & (2) We will update our Privacy Notice to fully comply with the Department's requirements. However our in-house legal and compliance department has not made the necessary contact with your Department to provide a corrected form. We will do this and submit it in the upcoming month.

(3) We will use the required notice as provided in your Administrative Letter 1981-16 (you referenced 1981-15, which we believe is for Life and Health companies).

Statutory Property Notices

(1) Thank you for your observations. We have revised our form.

With the exception of an approval from you on a revised Privacy Notice, we trust all items are closed. We will send the three outstanding (disputed) checks as originally requested. I am also enclosing all five review sheets regarding Claim #[redacted] (BOI Reference Number CHO010). The word altered in our original report probably was not appropriate as a different sub-section was referenced in the citation.

Thank you again for your assistance and professionalism during this Exam. Lititz Mutual appreciates and values the opportunity to provide our products in the Commonwealth of Virginia. As a mutual company we operate solely for our policyholders and appreciate your direction.

Sincerely,

Henry R. Gibbel

HRG/dsh

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

COMMONWEALTH OF VIRGINIA

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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April 16, 2012

VIA UPS 2nd DAY DELIVERY

Henry R. Gibbel
President & COO
Lititz Mutual Insurance Company
2 North Broad Street
Lititz, PA 17543-7007

RE: Market Conduct Examination
Lititz Mutual Insurance Company (NAIC# 14400)
Examination Period: January 1, 2010–December 31, 2010

Dear Mr. Gibbel:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of March 30, 2012. Based upon the Bureau's review of the company's March 30, 2012 letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of Lititz Insurance Company0 (Report).

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

Sections §§ 38.2-305 A; 38.2-317 A, 38.2-510 A 1; 38.2-510 A 3; 38.2-604 B; 38.2-604.1 B; 38.2-610 A; 38.2-1906 A; 38.2-1906 D; 38.2-2114 A, 38.2-2118; 38.2-2125; 38.2-2126 A of the Code of Virginia and 14 VAC 5-400-70 D of the Virginia Administrative Code.

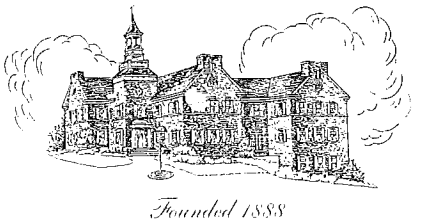
Violations of the laws mentioned above provide for monetary penalties of up to $5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

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

PHONE (717) 626-4751
FAX (717) 626-0970



Founded 1888

Lititz Mutual Insurance Company

2 North Broad Street, P.O. Box 990, Lititz, PA 17543-7007

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE
12 MAY 18 AM 9:43

HENRY R. GIBBEL
President & COO

May 17, 2012

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

RE: Market Conduct Examination Settlement Offer

Dear Ms Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated April 20, 2012, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-305 A; 38.2-317 A, 38.2-510 A 1; 38.2-510 A 3; 38.2-604 B; 38.2-604.1B; 38.2-610 A; 38.2-1906 A; 38.2-1906 D; 38.2-2114 A; 38.2-2118; 38.2-2125; 38.2-2126 A of the Code of Virginia and 14 VAC 5-400-70 D of the Virginia Administrative Code

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of $15,200.00.
2. We agree to comply with the corrective action plan set forth in the Company's letter of January 13, 2012.
3. We confirm that restitution was made to 15 consumers for $8,151.40 in accordance with the Company's letters of January 13, 2012 and March 30, 2012.
4. We further acknowledge the Company's 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,

Lititz Mutual Insurance Company

Henry R. Gibbel
President and Chief Operating Officer
May 17, 2012

Enclosure

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

COMMONWEALTH OF VIRGINIA

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Lititz Mutual insurance Company has tendered to the Bureau of Insurance the settlement amount of $15,200.00 by its check numbered 21465 and dated May 9, 2012 a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MAY 29, 2012

120550004

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

2012 MAY 29 P 1: 14

v.

CASE NO. INS-2012-00073

LITITZ MUTUAL INSURANCE COMPANY,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Lititz Mutual Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated § 38.2-305 A of the Code of Virginia ("Code") by failing to accurately provide the required notices to insureds; violated § 38.2-317 A of the Code by delivering or issuing for delivery insurance policies or endorsements without having filed such policy forms or endorsements with the Commission at least thirty (30) days prior to their effective date; violated §§ 38.2-604 B, 38.2-604.1 B, 38.2-610 A, 38.2-2118, 38.2-2125, and 38.2-2126 A of the Code by failing to accurately provide the required notices to insureds; 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 Defendant; violated § 38.2-2114 A of the Code by failing to properly terminate insurance policies; and violated §§ 38.2-510 A 1 and 38.2-510 A 3 of the Code, as well as subsection D of 14 VAC 5-400-70, *Standards for prompt, fair and equitable settlement of claims applicable to all insurers*, of the Commission's Rules Governing Unfair Claim Settlement Practices,

120550004

14 VAC 5-400-10 *et seq.*, 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 Defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that the Defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter, whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Fifteen Thousand Two Hundred Dollars ($15,200); waived its right to a hearing; agreed to comply with the Corrective Action Plan set forth in its letter to the Bureau dated January 13, 2012; and confirmed that restitution was made to fifteen consumers in the amount of Eight Thousand One Hundred Fifty-one Dollars and Forty Cents ($8,151.40).

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

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

Accordingly, IT IS ORDERED THAT:

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

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

1205500004

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Henry R. Gibbel, President and Chief Operating Officer, Lititz Mutual Insurance Company, 2 North Broad Street, Lititz, Pennsylvania 17543-7007; 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.