

MARKET CONDUCT EXAMINATION REPORT

OF

AIU INSURANCE COMPANY

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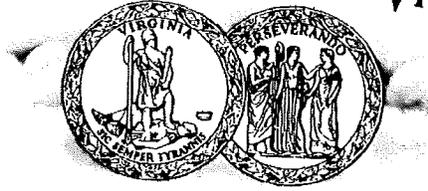
AUGUST 31, 2010

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

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



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of **AIU Insurance Company** as of **August 31, 2010** which took place at the company's offices in **New York City, NY** 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 **11th** day of **January, 2013**.

A handwritten signature in cursive script, appearing to read 'Jacqueline K. Cunningham', written over a horizontal line.

JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a target examination has been made of the homeowner line of business written by AIU Insurance Company in New York, New York.

The examination commenced May 9, 2011 and concluded July 8, 2011. Karen S. Gerber, Richard L. Howell and Gloria V. Warriner examiners of the Bureau of Insurance participated in the work of the examination. The examination was called in the Examination Tracking System on August 5, 2010 and was assigned the examination number of VA199-M30. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILE

AIU Insurance Company (AIUI) was formed as Pacific Fire Insurance Company on December 1, 1913. The title was changed to Pacific Insurance Company of New York on May 23, 1957, then to American International Insurance Group on July 23, 1969 and to the present form on November 4, 1976.

The company is a wholly-owned subsidiary of Chartis International, LLC ("Chartis International"), formerly AIU Holdings, LLC, whose present name was adopted in 2009. Ownership of AIUI was transferred to Chartis International during 2008; AIUI was previously owned by several other affiliates. AIUI is the parent of Chartis Insurance Company China Limited and Chartis Taiwan Insurance Co., Ltd.*

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

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

GROUP CODE: 012	AIU
NAIC Company Number	19399
LICENSED IN VIRGINIA	5/27/1922
LINES OF INSURANCE	
Accident and Sickness	X
Aircraft Liability	X
Aircraft Physical Damage	X
Animal	
Automobile Liability	X
Automobile Physical Damage	X
Boiler and Machinery	
Burglary and Theft	X
Commercial Multi-Peril	X
Credit	10/26/2000
Farmowners Multi-Peril	X
Fidelity	X
Fire	X
General Liability	X
Glass	X
Homeowner Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	X
Surety	X
Water Damage	X
Workers' Compensation	X

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 captive as well as independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
AIU Insurance Company		
Homeowner	\$6,799,948	.44%

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

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

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a business practice. 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 are not violations of Virginia insurance laws but require some action by the company. This section does not form the basis of any settlement offer made by the Bureau.

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

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

STATISTICAL SUMMARY

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

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

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

**Population
Sample Requested**

AREA	AIU	TOTAL	<u>FILES</u> REVIEWED	<u>FILES NOT</u> FOUND	<u>FILES WITH</u> ERRORS	<u>ERROR</u> RATIO
<u>Homeowner</u>						
New Business ¹	<u>251</u> 25	<u>251</u> 25	27	0	17	63%
Renewal Business ¹	<u>1560</u> 50	<u>1560</u> 50	48	0	33	69%
Co-Initiated Cancellations	<u>11</u> 8	<u>11</u> 8	10	0	7	70%
All Other Cancellations ²	<u>184</u> 22	<u>184</u> 22	21	0	19	90%
Nonrenewals	<u>23</u> 5	<u>23</u> 5	5	0	5	100%
<u>Claims</u>						
HO	<u>232</u> 53	<u>232</u> 53	53	0	27	51%

Footnote¹ Two moved from Renewal Business to New Business.

Footnote² One file was an expiration and not reviewed.

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Homeowner New Business Policies

The Bureau requested 25 new business policy files for review. The examiners reviewed 27 new policy files. Two files were moved from the renewal business category and reviewed under the new business category. During this review, the examiners found overcharges totaling \$22,265.00 and undercharges totaling \$2,624.00. The net amount that should be refunded to insureds is \$22,265.00 plus six percent (6%) simple interest.

- (1) The examiners found four violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide a copy of the new business application.
- (2) The examiners found five violations of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Bureau all rates and supplementary rate information. The company used a default credit score factor that was not on file with the Bureau.
- (3) The examiners found 17 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 five instances, the company failed to use the correct discounts and/or surcharges.

- b. In one instance, the company failed to use the correct territory.
 - c. In three instances, the company failed to use the correct tier eligibility criteria.
 - d. In seven instances, the company failed to use the correct base and/or final rates.
 - e. In one instance, the company failed to use the correct construction type.
- (4) The examiners found six violations of § 38.2-2126 A of the Code of Virginia. The company failed to provide the Credit Score Disclosure Notice at the time of application.

Homeowner Renewal Business Policies

The Bureau requested 50 renewal business policy files for review. The examiners reviewed 48 of these files. Two of the files included in the renewal business population were new business policies and reviewed under the new business category. During this review, the examiners found overcharges totaling \$33,401.00 and undercharges totaling \$23,788.00. The net amount that should be refunded to insureds is \$33,401.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to include the contents coverage limit on the declarations page.
- (2) The examiners found eight violations of § 38.2-1906 A of the Code of Virginia. The company failed to file with the Bureau all rates and supplementary rate information. The company used a default credit score that was not on file with the Bureau.
- (3) The examiners found 48 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 eight instances, the company failed to use the correct discounts and/or surcharges.
- b. In five instances, the company failed to use the correct territory.
- c. In 12 instances, the company failed to use the correct tier eligibility criteria.
- d. In 11 instances, the company failed to use the correct base and/or final rates.
- e. In ten instances, the company failed to use the correct construction type.
- f. In two instances, the company failed to use the correct public protection class.

TERMINATION REVIEW

Homeowner Policies

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 – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The Bureau requested two 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 both of these files. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the

insured of a policy insuring an owner-occupied dwelling.

- (2) The examiners found one violation of § 38.2-2113 C of the Code of Virginia. The company failed to retain proof of mailing the notice of cancellation to the lienholder.
- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company's cancellation notice is contrary to policy provisions regarding the return of excess premium.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The Bureau requested six homeowner cancellations that were initiated by the company where the company mailed the 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 all of these files. As a result of this review, the examiners found no overcharges and undercharges totaling \$5.81.

- (1) The examiners found one violation of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.
- (2) The examiners found six violations of § 38.2-2113 C of the Code of Virginia.
 - a. In three instances, the company failed to retain proof of mailing the notice of cancellation to the insured.
 - b. In three instances, the company failed to retain proof of mailing the notice of cancellation to the lienholder.
- (3) The examiners found five violations of § 38.2-2114 A of the Code of Virginia. The company cancelled a policy insuring an owner-occupied dwelling after the 89th day of coverage for a reason not permitted by the statute.
- (4) The examiners found two violation of § 38.2-2114 C of the Code of Virginia.
 - a. In one instance, the company failed to advise the insured of his right to

request a review by the Commissioner of Insurance.

- b. In one instance, the company failed to advise the insured of the possible availability of coverage through the Virginia Property Insurance Association.
- (5) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company's cancellation notice was contrary to policy provisions regarding the return of excess premium.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested 12 homeowner cancellations that were initiated by the company for nonpayment of the policy premium. The examiners reviewed 11 of these files. One file was an expired policy and not reviewed. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-2113 A of the Code of Virginia. The company failed to obtain valid proof of mailing the notice of cancellation to the insured of a policy insuring an owner-occupied dwelling.
- (2) The examiners found 11 violations of § 38.2-2113 C of the Code of Virginia.
 - a. In two instances, the company failed to retain a copy of the notice of cancellation to the lienholder.
 - b. In nine instances, the company failed to retain proof of mailing the notice of cancellation to the lienholder.
- (3) The examiners found two violations of § 38.2-2114 C of the Code of Virginia.
 - a. In one instance, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - b. In one instance the company failed to advise the insured of the availability

of coverage through the Virginia Property Insurance Association.

- (3) The examiners found one occurrence where the company failed to comply with the provisions of the insurance contract. The company's cancellation notice was contrary to policy provisions regarding the return of excess premium.

REQUESTED BY THE INSURED

The Bureau requested ten 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. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found eight occurrences where the company failed to comply with the provisions of the insurance contract. The company failed to obtain a written request from the insured to cancel his policy.

Company-Initiated Non-renewals – Homeowner Policies

The Bureau requested five homeowner nonrenewals that were initiated by the company. The examiners reviewed all of these files.

- (1) The examiners found nine violations of § 38.2-2113 C of the Code of Virginia.
- a. In one instance, the company failed to retain a copy of the nonrenewal notice sent to the lienholder.
 - b. In three instances, the company failed to retain proof of mailing the nonrenewal notice to the insured.
 - c. In five instances, the company failed to retain proof of mailing the nonrenewal notice to the lienholder.
- (2) The examiners found two violations of § 38.2-2114 of the Code of Virginia. The company non-renewed a policy written on an owner-occupied dwelling solely because of a claim resulting from natural causes.

CLAIMS REVIEW**Homeowner Claims**

The examiners reviewed 53 homeowner 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 no overpayments and no underpayments.

- (1) The examiners found nine 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.

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

- (2) 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 benefits available under the Fair Rental Value coverage of the policy.

- (3) The examiners found four violations of 14 VAC 5-400-70 A. The company failed to deny a claim or a 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.

- (4) The examiners found two 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.

- (5) The examiners found 23 occurrences where the company failed to comply with the provisions of the insurance contract. The company failed to include the lienholder on the check.

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.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 34 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found three additional forms to review in the new business policy mailings.

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

The company used superseded forms.

REVIEW OF POLICY ISSUANCE PROCESS

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

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

The company provided five new business policies mailed on November 3, 5, and 17, 2010 and December 3 and 6, 2010.

In addition, the company provided five renewal business policies mailed on September 1, 3, 15, and 20, 2010 and October 4, 2010.

NEW BUSINESS POLICIES

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide an adverse underwriting decision (AUD) notice to the insured.
- (2) The examiners found three violations of § 38.2-2126 A 2 of the Code of Virginia. The company failed to provide the Credit Adverse Action notice as required by this statute.

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 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 include all of the information required by this statute.
- (2) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not include language substantially similar to 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 a statement summarizing the replacement cost provisions.
- (2) The examiners found one violation of § 38.2-2126 A of the Code of Virginia. The company failed to include all of the information required by this statute in its Credit Score Disclosure notice.

LICENSING AND APPOINTMENT REVIEW

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

Agent Review

- (1) The examiners found six violations of § 38.2-1318 of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company was unable to correctly identify the agent who signed the application for the original policy.
- (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 agent without first obtaining a license from the Commonwealth of Virginia.
- (3) The examiners found eight violations of § 38.2-1833 of the Code of Virginia. The company failed to appoint an agent within 30 days of binding coverage.

Agency Review

The examiners found three violations of § 38.2-1812 of the Code of Virginia. The company directly or indirectly paid commissions to an agency that was not appointed by the company within 30 days of binding coverage.

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.

The company provided a summary of its information security program.

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 company 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 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

AIU Insurance Company shall:

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

Rating and Underwriting Review

AIU 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' accounts.
- (3) Complete and submit to the Bureau, the enclosed spreadsheet 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) Maintain a copy of all new business applications.
- (5) File all rates and supplementary rates prior to use.
- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, territories, tier eligibility criteria, base or final rates, construction type, and public protection classification.
- (7) Provide the Credit Score Disclosure notice as required by the Code of Virginia.

Termination Review

AIU Insurance Company shall:

- (1) Correct the errors that caused the undercharge.
- (2) Obtain and retain valid proof of mailing the notice of cancellation or nonrenewal to the insured and lienholder.
- (3) Calculate earned premium according to filed rules and policy provisions.
- (4) Cancel an owner-occupied dwelling policy after the 89th day of coverage only for reasons permitted by the statute.
- (5) Retain a copy of the cancellation notice sent to the lienholder.
- (6) Non-renew an owner-occupied dwelling policy in accordance with the provisions of the statute.

Claims Review

AIU Insurance Company shall:

- (1) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
- (2) Make all claim denials in writing and keep a copy in the claim file.

Review of Forms

AIU Insurance Company shall:

File all homeowner forms with the Bureau at least 30 days prior to use.

Review of Policy Issuance Process

AIU Insurance Company shall:

- (1) Provide the insured with written notice of an adverse underwriting decision when applicable.
- (2) Provide the Replacement Cost coverage notice with all policies.
- (3) Provide the Credit Adverse Action Notice as required by the Code of Virginia.

Review of Statutory Notices

AIU Insurance Company shall:

- (1) Amend the long form Information Collection and Disclosure Practices notice to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the Adverse Underwriting Decision notice to comply with § 38.2-610 A of the Code of Virginia and Administrative Letter 1981-16.
- (3) Develop a Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.
- (4) Amend the Credit Score Disclosure notice to comply with § 38.2-2126 A of the Code of Virginia.

Licensing and Appointment Review

AIU Insurance Company shall:

- (1) Maintain a record of the agent who signed the application for insurance.
- (2) Accept business only from agents who are licensed in the Commonwealth of Virginia.

- (3) Appoint agents within 30 days of the application.
- (4) Pay commissions only to agencies that are appointed by the company.

PART THREE – EXAMINERS’ NOTES

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

Termination

- Failure to file a revision to its forms to reflect the company's termination practices.
- Failure to advise the insured of his right to review by the Commissioner of Insurance and availability of insurance through the Virginia Property Insured Association.
- Failure to obtain a written request from the insured to cancel his policy.

Claims

- Failure to adopt and implement standards for a prompt investigation.
- Failure to comply with the provisions of the insurance contract by including the lienholder on the check and pay the insured only what he is entitled to receive.

RECOMMENDATIONS

We recommend that the company take the following actions:

Rating and Underwriting

AIU Insurance Company should:

- File a rule pertaining to the use of a 780 default credit score when the insured's credit is a "no-hit."
- Amend its manual by either submitting factors for tier nine or removing any reference to tier nine in the Multiple Tiers-Base Rates Rule on page VA-RT-1.
- Review the dwelling inspection report to determine if the correct

construction type and/or correct territory was used in rating the policy.

- Amend its manual to clearly define the application of Course of Construction factors impacting premium calculation.
- Amend its manual to clearly define the windstorm rate factors for individual tiers in territories 301 – 304 and 501 – 504.

Policy Issuance

AIU Insurance Company should:

- Include only forms and endorsements on the declaration page. Specifically, the Flood Exclusion Notice, Fraud Warning Notice, and Privacy Notice should not be listed on the declaration page.
- Include a number for hearing impaired in its Important Information to Policyholder notice.

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.

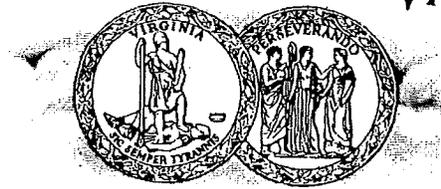
Sincerely,

A handwritten signature in cursive script that reads "Karen S Gerber".

Karen S. Gerber
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

September 16, 2011

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced company for the period of September 1, 2009 – August 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 July 8, 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 items in Part I of the Report using the format of the Report. The company must refrain from including personal or privileged information in its response. 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 action(s) it is taking to prevent those issues from becoming a business practice.

Thirdly, if the company has comments it wishes 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 company wish to comment on any other part of the Report, please reference the heading of the section where the item is found.

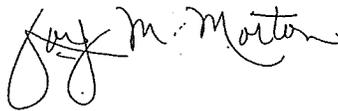
Finally, we have enclosed a CD containing an Excel spreadsheet that the company must complete and return to the Bureau with the company's response. This spreadsheet lists the files in which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by October 21, 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 October 21, 2011.

Sincerely,



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

JMM
Enclosure

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

STATE CORP COMMISSION
MARKET CONDUCT SECTION
11 OCT 27 AM 9:38

CHARTIS 

October 26, 2011

Via UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

Re: **AIU Insurance Company (NAIC # 19399)**
Homeowners Market Conduct Examination
September 1, 2009 – August 31, 2010
Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated September 16, 2011 and the AIU Insurance Company Homeowners preliminary examination report. We appreciate the additional time granted to review the materials to provide a response on behalf of the Company.

The Company's response is focused on Part I (pages 7-19) of the report following the violations summary included in the materials from the Bureau. It would seem from reading the preliminary report that there are a number of violations listed, however, please note that the Company has disputed multiple violations and continues to do so as supported by the attached detailed response. We support our response with the enclosed factual documentation in the form of an Appendix by topic labeled A through F.

Also included as part of the response is an action plan which outlines corrective actions for this line of insurance.

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

Page 2
October 26, 2011
Ms. Joy M. Morton
Virginia Bureau of Insurance

Lastly, please see the attached spreadsheet with the three (3) rating overcharges cited during the examination that the Company agrees with. We will be processing these shortly and will forward an updated spreadsheet with check information when it is available.

Thank you for your cooperation in this matter.

Sincerely,



Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – Appendix A-F w/ summary page
Report response document – 24 pages
Restitution spreadsheet -1 page

Cc: Michael Neuwirth, PCG, Chartis
Richard Dunlevy, Chartis
Scott Miller, PCG, Chartis
Kimberlie Pezzuto, PCG, Chartis

Jmorton VA HO AIU response 102611

AIU Insurance Company
Response to Virginia Homeowners Preliminary Market Conduct Exam Report
(Underwritten through Private Client Group, A Division of Chartis U.S.)
October 25, 2011

PART ONE – RATING & UNDERWRITING REVIEW

Please refer to our responses to the examiner's observations.

38.2-1318/1 Access to company records-part of the file missing

We were cited with 13 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We disagree with 9 of the 13 violations identified. We were unable to initially locate the 13 applications. They were not uploaded into our system via broker self-serve or sent to the company. We subsequently located 9 of the 13 applications. Refer to appendix A for a copy of the applications. Today brokers have the ability to upload documents into our system via broker self-serve. We will ask our IT Dep't to program a message in broker self-serve reminding brokers to upload the application.

We were unable to locate an application for
RHO001
RHO011
RNO012
RHO018

38.2-1906 A/01 Rates and supporting rating information must be filed

We were cited with 13 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: We disagree with the violations. Our system assigns a "neutral" score of 780 when we receive a no hit on the credit score. This does not negatively impact the insured and is equivalent to a system being programmed to bypass the credit score component of the rating algorithm when the credit score cannot be obtained. We respectfully request that these violations be withdrawn from the report or noted as a recommendation. Please note that as a result of the examiner's observation, we filed a rule noting 780 is a default score when we are unable to obtain a credit score. This rule was filed on 10/12/11.

38.2-1906 D/01 Rates/rules on file-discounts/surcharges

We were cited for the following 16 violations:

RHO001 – Failure to apply a 10% renovation credit. The company instead applied a new house credit of 4%. Total overcharge is \$166.

COMPANY RESPONSE: We disagree with the violation. A renovation credit applies when the plumbing, heating and electrical systems are completely upgraded. See below definition from the rate filing. The renovations completed to these systems were partial. In addition, a new house credit was not provided as had been previously communicated. Refer to Appendix B for the Risk Management Underwriting Report and the Credit Screen.

II. DEFINITIONS

Burglar Alarm – A central station or direct reporting theft or burglar alarm that is maintained and in use.

Fire Alarm – A central station or direct reporting fire alarm that is maintained and in use.

Renovated House – A house that has had the plumbing and heating systems and the electrical system including wiring, receptacles, circuit boxes and conduits in exposed areas completely upgraded. The renovations must have been completed by a licensed contractor in compliance with the local building codes.

RHO008 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. The underwriting file does not contain documentation of a caretaker. The underwriter was advised to apply the surcharge on renewal.

RHO018 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

RHO019 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We disagree with the violation. The broker advised that the house is occupied by the insured's son. Refer to the below rule from our filed rating plan regarding caretaker. In addition, refer to Appendix E for documentation regarding the broker's request.

Seasonal/Secondary House Surcharge

There is a 10% surcharge on any house maintained as a secondary house, if and only if there is a primary residence also insured through any underwriting company utilized by Private Client Group. The surcharge is 30% if the seasonal or secondary house is 'unsupported', or if there is no primary residence through any underwriting company utilized by Private Client Group. The 10% surcharge does not apply if a full-time caretaker is present at the seasonal or secondary house during the owner's absence, and the 'unsupported' is reduced to 20%.

RHO025 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We disagree with the violation. As previously advised, the house is occupied by the insured's daughter. Refer to the below rule from our filed rating plan regarding caretaker. In addition, refer to Appendix E for documentation regarding the broker's request.

Seasonal/Secondary House Surcharge

There is a 10% surcharge on any house maintained as a secondary house, if and only if there is a primary residence also insured through any underwriting company utilized by Private Client Group. The surcharge is 30% if the seasonal or secondary house is 'unsupported', or if there is no primary residence through any underwriting company utilized by Private Client Group. The 10% surcharge does not apply if a full-time caretaker is present at the seasonal or secondary house during the owner's absence, and the 'unsupported' is reduced to 20%.

RHO028 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We disagree with the violation. This violation is a repeat of 38.2-1906 D/01 review sheet RHO025. Please refer to RHO025 for our response.

RHO041 – Failure to apply a 10% claims surcharge.

COMPANY ACTION: We disagree with the violation. The insured had a \$500 loss on 1/26/08. The insured elected a \$1,000 deductible for the 2009 term, which is higher than the \$500 claim. Refer to appendix E for the policy dec and the below rule from our filed rating plan. A higher deductible negates the surcharge.

Number of Qualified Paid Claims in the Last 3 Years – the number of claims is determined by the number of qualified paid claims the policyholder has had in the last 3 years (ending 3 months prior to the current renewal effective date). A qualified claim is considered to be any non-catastrophe or non-weather related claim that results in a net paid loss during this 3-year period. Losses that only have payments under Medical Payments coverage are also NOT considered to be qualified claims.

The number of qualified Property claims may be reduced or eliminated with the selection of a higher deductible. All claims that would not have applied if this higher deductible option had been in force at the time of the claim are removed from the total qualified claim count.

RHO043 – Incorrectly applying a no contents discount.

COMPANY RESPONSE: We agree with the violation. In most states, we apply a credit when contents coverage is 0%. In Virginia, contents cannot be lower than 5% thus there is no credit. Today our ePCG system has an edit to prevent the credit from being selected. This policy was issued prior to that edit.

RHO044 – Incorrectly applying a rate cap.

COMPANY RESPONSE: We agree with the violation. In 2009, we filed a rule to cap rate increases at 20% for policies that renew into tiers 1-4. The rate cap was to be in effect for one year and removed at the next renewal. This policy should not have received a rate cap on its 2010 renewal. This was a system's error that was caught and fixed in 2011.

RHO048 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. A review of the file indicates a secondary house without a full-time caretaker. The underwriter was notified to add the surcharge on renewal.

RHO049 – Incorrect liability premium

COMPANY ACTION: We disagree with the violation. One of the locations with liability extended is covered for contents under a separate policy. The charge for that location is correctly rated. Refer to appendix E. for the policy covering the property portion of that location.

RHO051 – Policy received a companion credits, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility

notes to our ePCG system for those credits. The underwriter was advised to remove the credit on renewal.

RHO057 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

RHO069 – Policy incorrectly received a 25% vacancy surcharge.

COMPANY RESPONSE: We agree with the violation. Although the inspection report indicates that the owner is away from the home for part of summer, this is a primary home and does not fit the definition of vacant home. The underwriter was advised to remove the surcharge and refund the surcharge amount.

RHO072 – Failure to apply a 10% renovation credit resulting in overcharge.

COMPANY RESPONSE: We disagree with the violation. A renovation credit applies when the plumbing, heating and electrical systems are completely upgraded. See below definition from the rate filing. The renovations completed to these systems were partial. Refer to Appendix B for the Risk Management Underwriting Report.

II. DEFINITIONS

Burglar Alarm – A central station or direct reporting theft or burglar alarm that is maintained and in use.

Fire Alarm – A central station or direct reporting fire alarm that is maintained and in use.

Renovated House – A house that has had the plumbing and heating systems and the electrical system including wiring, receptacles, circuit boxes and conduits in exposed areas completely upgraded. The renovations must have been completed by a licensed contractor in compliance with the local building codes.

RHO075 – Failure to apply a 5% fire alarm credit. Incorrectly applying a 2% temperature monitoring system credit.

COMPANY RESPONSE: We agree with the violation based on the inspection report. The underwriter was advised to correct the policy.

38.2-1906 D/04 Used wrong territory

We were cited with 6 violations for using an incorrect territory resulting in an undercharge.

COMPANY RESPONSE: We agree with the violations. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

We were cited with 1 violation for using an incorrect territory resulting in an overcharge.

COMPANY RESPONSE: We disagree with the violation for RHO060. We are filed by counties. Alexandria City is considered it's own county per the filing. Please refer to the below.

Insight Software Solutions
Zip Codes

Download Zip Express

ZIP	CITY AND STATE	COUNTY	AREA
22311	Alexandria, VA	Alexandria City	703

38.2-1906 D/05 Incorrect rating tier

We were cited with 15 violations for using an incorrect rating tier resulting in undercharges.

COMPANY RESPONSE: We agree with the violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a monoline homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The DOI was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

38.2-1906 D/08 Rates/rules filed-final rates

We were cited for the following 18 violations:

RHO002 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$116 overcharge.

COMPANY RESPONSE: We disagree with the violation. All rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers for zone 303. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO006 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$46 overcharge.

COMPANY RESPONSE: We disagree with the violation. All rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers for zone 303. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO009 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$57 overcharge.

COMPANY RESPONSE: We disagree with the violation. All rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers for zone 303. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO010 – Rates used produced overcharge of \$21,708.

COMPANY RESPONSE: We agree with the violation. The rates for this course of construction risk category were not correctly programmed in our ePCG system. This error was discovered and corrected in 2010, but the correction occurred after this policy had already been issued. The insured will receive a refund for the overcharge.

RHO016 – Rates used produced overcharge of \$116. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO019 – Rates used produced overcharge of \$80. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO024 – Rates used produced overcharge of \$57. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO032 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO033 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO038 – Not filing windstorm rates for individual tiers for zone 302 resulting in a \$186 overcharge.

COMPANY RESPONSE: We disagree with the violation. All rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers for zone 303. We agree that the filing was not as clear as intended, but there was no violation. Further,

filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO052 – Rates used produced overcharge of \$31,842.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. This was corrected with the 2010 renewal, but we will provide a refund of the 2009 overcharge premium amount.

RHO055 – Rates used produced an undercharge.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. The premium was corrected with the 2011 renewal.

RHO058 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO062 – Rates used produced an overcharge of \$407.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO064 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO069 – Rates used produced overcharge of \$711. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO073 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

RHO074 – Rates used produced overcharge of \$704. Windstorm rates not filed.

COMPANY RESPONSE: We disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating. In addition, all rates have been filed and approved. Filing#APCG-125967860 referenced by the examiner has windstorm rates. These rates apply to all tiers. We agree that the filing was not as clear as intended, but there was no violation. Further, filing#APCG-126805614 contained clarification language. This filing was submitted on 9/9/10 and approved on 10/21/10. We respectfully request that this violation is withdrawn from the report or cited as a clarification recommendation.

38.2-1906 D/12 Incorrect construction type

We were cited with 11 violations for using the wrong construction type in the rating resulting in undercharges.

COMPANY RESPONSE: We agree with the violations. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the properties, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

38.2-2126 A-1/1 Insurance Credit Score Disclosure not provided

We were cited with 12 violations for not providing a credit score disclosure at the time of application.

COMPANY RESPONSE: We disagree with 9 of the 12 violations identified. The credit score disclosure language is found in the ACORD application. As noted in 38.2-1318/1, we were unable to initially locate the applications. They were not uploaded into our system by the brokers or sent directly to the company. We subsequently located 9 of the 12 applications. Refer to appendix A for the applications. Today brokers have the ability to upload documents into our system via broker self-serve. We will ask our IT Dep't to program a message in broker self-serve reminding brokers to upload the application.

We were unable to locate an application for the below. As such we cannot provide evidence of proper disclosure.

RHO011
RNO012
RHO018

38.2-2126 B/3 Credit score rating

We were cited with 4 violations for receiving a credit score after the policy effective date.

RHO006 – Policy effective 5/28/10. Credit score on 6/14/10.

COMPANY RESPONSE: We disagree with the violation. The policy transaction date was 6/14/10 and thus the credit score reflects a date of 6/14/10. The policy effective date was retroactive to 5/28/10 per broker's request. Refer to Appendix C for supporting documentation.

RHO007 – Policy effective 10/15/09. Credit score on 10/26/09.

COMPANY RESPONSE: We disagree with the violation. We acknowledge that the ePCG system recorded a credit score date of 10/26/09 which is 11 days after the policy effective date. This was the result of the system reordering the credit score. There was a system's glitch and another credit score was ordered on 10/26/09 and recorded as the final record. However, this policy could not have been rated without a credit score request due to the automated nature of the rating. Please refer to appendix C for

the credit score used on 10/15/09. It is the same score as that used on 10/26/09. We respectfully request that this be withdrawn from the report or cited as a recommendation.

RHO009 – Policy effective 2/2/10. Credit score on 2/8/10.

COMPANY RESPONSE: We disagree with the violation. The policy transaction date was 2/8/10 and thus the credit score reflects a date of 2/8/10. The policy effective date was retroactive to 2/2/10 per broker's request. Refer to Appendix C for supporting documentation.

RHO015 – Policy effective 3/18/10. Credit score on 4/27/10.

COMPANY RESPONSE: We disagree with the violation. The policy transaction date was 4/27/10 and thus the credit score reflects a date of 4/27/10. The policy effective date was retroactive to 3/18/10 per broker's request. Refer to Appendix C for supporting documentation.

38.2-1906 D/13 Incorrect public protection class

We were cited with the following 2 violations for using an incorrect public protection class in the rating.

RHO046 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: We agree with the violation. We obtain public protection class codes from ISO Passport. Although automated today, the underwriter had to manually request the report for this policy term and apply the code. The wrong code was applied. The policy will be corrected on renewal.

RHO072 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: We disagree with the violation. We used public protection class code 5. This was supported by an inspection of the property. Although we could not locate the ISO Passport report from that period, refer to appendix B for the current ISO Passport report along with the inspection. Both confirm public protection class code 5.

38.2-305 A/1 Dec page missing information.

We were cited with 1 violation for an incorrect Dec page.

COMPANY RESPONSE: We agree with the violation in principle. The Dec page was missing the contents limit. However, this is an extension from **38.2-1906 D/01** RHO043. The policy was incorrectly written with a \$0 contents limit (should have been 5% contents). The Dec Page listed what was written.

PART ONE – TERMINATION REVIEW

Please refer to our responses to the examiner's observations.

38.2-2113 Proof of mailing for cancellation notice to insured

We were cited with 5 violations for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violations. We were unable to locate the proof of mailing in archives. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

38.2-2113 C/07 Proof of mailing for cancellation notice to mortgagee

We were cited with 13 violations for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

Policy Provision/21 - Company failed to abide by terms of its policy when canceling the policy.

We were cited with 3 violations for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violations. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

38.2-1906 D/34 Incorrect calculation return premium.

We were cited with 5 violations for over-refunding or under-refunding premium.

THO006 – Undercharged \$5.81

COMPANY RESPONSE: We agree with the violation. The calculation was off by \$5.81.

THO009 – Overcharged \$47.60

COMPANY RESPONSE: We disagree with the violation. The insured did not remit the Earned Premium of \$135.00 due for the 31 days of coverage provided from 3/11/10 to 4/11/10. The delinquent Earned Premium amount of \$135.00 was sent to an outside collections agency on 12/10/10 (there were two other policies with a delinquent balance on the account that were also sent to an outside collections on the same date- Home Policy [REDACTED] for \$418.00 and Collections Policy [REDACTED] for \$33.00). The total of these three policies is \$586.00- this is the total amount sent to an outside collections agency on 12/10/10. Only \$135.00 of this relates to the specific policy in question. We received a wire payment on 3/2/11. Refer to Appendix D for a spreadsheet and screen prints of transactions by policy (Write-off for the policy being sent to out Outside Collections on 12/10/10 and payment from the Collections Agency to us on 3/2/11).

THO010 – Undercharged \$30.99

COMPANY RESPONSE: We continue to disagree with the violation. We had previously provided the billing screens. We calculated earned premium of \$595.25 and the examiner calculated earned premium of \$626.24. We believe our calculation is correct.

THO013 – Undercharged \$343

COMPANY RESPONSE: We continue to disagree with the violation. We had previously provided the billing screens. We calculated a different earned premium than the examiner. We believe our calculation is correct.

THO025 – Not refunded \$619

COMPANY RESPONSE: We disagree with the violation. The house was effective 7/19/09 and canceled by per insured's request effective 1/19/10. The original premium for the policy was \$5072. Two credit endorsements were processed on the policy (both effective 11/20/09). The Earned Premium/Day is calculated for the first 124 days of the policy from 7/19/09 to 11/19/09 (prior to the two credit endorsements being effective 11/20/09). The Earned Premium/Day is re-calculated for the last 60 days of the policy from 11/20/09 to 1/19/10 based on the revised annual premium figure (with the two credit endorsements being effective 11/20/09). The total Earned Premium for the 184 days of coverage is \$2347.58. Payments totaling \$3804.00 were made on the policy. The payments made less the Earned Premium equals the refunded amount of \$1456.42. Refund check # [REDACTED] for \$1456.00 was sent 3/3/10. Refer to Appendix D for supporting documentation.

38.2-2114 A-1-6/1 Cancellation reason not permitted

We were cited with 3 violations for cancellation reason not permitted:

THO003 – Vacancy not a permitted reason for cancellation.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The property was vacant and either foreclosed or in foreclosure hearings. There is no documentation in the underwriting file regarding the date of foreclosure. Unless the foreclosure is final, it cannot be used as a cancellation reason. This topic is addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO003 – Increase in hazard is not a permitted reason for cancellation.

COMPANY RESPONSE: We disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 10/21/09 and discovered a course of construction that was never disclosed to us. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection clearly showed a progression of work that has not begun on the date of inspection. We believe the increase in hazard due to the construction projects is a valid cancellation reason.

THO008 – Material Misrepresentation not substantiated.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The policy was canceled due to the insured advising the property has an alarm, but an inspection revealed otherwise. We were unable to locate the appropriate documentation in the underwriting file. Proper file documentation is a topic addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

38.2-2114 A-5/1 Cancellation reason/physical changes no inspections

We were cited with 2 violations for unsupported cancellation reason:

THO005 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 10/27/09 and discovered the home is under construction. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection also noted the property was vacant due to the construction. The inspection clearly showed a progression of work that began prior to the date we inspected. Refer to appendix B for the inspection. We believe the cancellation reason is valid.

THO006 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 6/18/09 and discovered construction work. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection also noted the property was vacant due to the construction. Per the below filed rule, this property was not eligible for a minor renovation surcharge due to the home being vacant. The inspection clearly showed a progression of work that began prior to the date of inspection. Refer to appendix B for the inspection. We believe the cancellation reason is valid.

Minor Renovation Surcharge

There is a 25% surcharge while the house or condominium, cooperative or rental unit is undergoing a minor renovation. The surcharge is removed once the minor renovation is completed.

A “minor renovation” is defined as:

- (1) any project where the client remains a resident of the property, and
- (2) when the resulting increase in dwelling value does not exceed 10% of the coverage A amount or \$500,000 total (whichever is less); or
- (3) for a condominium, cooperative or rental unit, when the resulting increase in additions and alterations value does not exceed 10% of the coverage C amount or \$500,000 total (whichever is less).

38.2-2114 C 3/1 Right to a review

We were cited with 2 violations for not informing insureds of their right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violations. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

38.2-2114 C 4 Available Coverage Through VPIA

We were cited with 2 violations for not informing insureds of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violations. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

38.2-2113 A-1(b)/1 Proof of mailing of cancellation notice to insured

We were cited with 7 violations for not properly recording the insured name and address on our internal mailing report.

COMPANY RESPONSE: We disagree with the violations. The cancellation notices contained the correct name and address and proof of mailing was provided to the examiners. The format used on the company's internal log had no impact on the receipt or appearance of the cancellation notices. We respectfully request that these violations be withdrawn from the report or cited as a recommendation.

38.2-2113 C/02 Retain copy of cancellation notice to mortgagee

We were cited with 2 violations for not retaining a copy of the cancellation notice to the mortgagee.

COMPANY RESPONSE: We agree with the violations. We were unable to locate the mortgagee copy of the notice in the underwriting files.

Policy Provision 1 - General

We were cited with 8 violations for honoring a backdated cancellation request by the insured.

COMPANY RESPONSE: We agree with the violations. The policy language requires the insured notify the company of the future cancellation date. However, as a rule, we must honor a backdated cancellation request when the insured provides evidence of coverage with other insurance company on that date. We will file an amendment to our policy language to remove reference to future date.

38.2-2113 C/04 Retain copy of nonrenewal notice to mortgagee

We were cited with 1 violation for not retaining a copy of the nonrenewal notice to the mortgagee.

COMPANY RESPONSE: We agree with the violation. We were unable to locate the mortgagee copy of the notice in the underwriting file.

38.2-2113 C/10 Proof of mailing for nonrenewal notice to insured

We were cited with 3 violations for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violations. We were unable to locate the proof of mailing in archives. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

38.2-2113 C/12 Proof of mailing for nonrenewal notice to mortgagee

We were cited with 4 violations for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

38.2-2114 I/1 Nonrenewal reason not permitted

We were cited with 2 violations for invalid nonrenewal reason:

THO032 – Windstorm loss is not a permitted reason for nonrenewal.

COMPANY RESPONSE: We agree with the violation. This topic was addressed in nonrenewal training documents released in 2010. This policy was nonrenewed prior to the training.

THO034 – The nonrenewal notice incorrectly noted 3 claims.

COMPANY RESPONSE: We agree with the violation. There were 2 claims.

PART ONE – CLAIMS REVIEW

Please refer to our responses to the examiner's observations.

38.2-510 A-10/1 Coverage on draft

We were cited with 2 violations for not disclosing the coverage under which the company paid the loss.

CHO013 - Company did not provide a copy of the check. The letter does not state on coverage.

COMPANY RESPONSE: We continue to disagree with the violation. Per agreement with the examiners during the on-site exam, we were only required to provide sample checks. The samples were provided. Refer to appendix E for copies of payments made including check number, payee, mailing address, date paid and amount. In addition, the settlement letter notice payment is for "repairs to home". This claim is for repairs to the HVAC system.

CHO038 - The letter does not state the coverage.

COMPANY RESPONSE: We continue to disagree with the violation. There was extensive damage throughout the house. The letter making reference to "Chartis estimate" was provided to the insured along with an itemized list of all repairs and costs. Refer to appendix E for copies.

38.2-510 A-3/1 Standards prompt investigation

We were cited with 9 violations for failing to adopt reasonable standards for prompt investigation of claim.

CHO010 - Insured submitted two estimates without showing cost of material and labor. Company should have requested detailed estimates.

COMPANY RESPONSE: We continue to disagree with the violation. This claim involved specialty items which would not be found in a manual. As previously noted, the adjuster verified the scope of the work with the original general contractor. Refer to appendix E for the letter. In addition, the adjuster confirmed the required repair with a specialized copper roof installer. Our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO011 - Various investigation observations.

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, we verified that the roof product was no longer available and replaced it with a roof of similar quality and functionality. Our subrogation attorney had investigated the roofing company and advised they had liquid assets. We are considering recovery options. The adjuster determined that the structure was impacted by the large tree and gave the insured the benefit of the doubt regarding the chimney. We agree the file could have been documented with more details. However, with respect to the violation, our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO014 - Issues with the bill.

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, we agree that payroll information could have been requested to substantiate the holiday pay. However, our adjuster developed an estimate of hours of labor factoring in the holiday. This estimate was close to the insured's estimate thus the insured was indemnified based on actual cost incurred. Our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO015 - No police report, but check issued to insured.

COMPANY RESPONSE: We disagree with the violation. Refer to appendix E for the documents including police report.

CHO020 - Various investigation issues.

COMPANY RESPONSE: We continue to disagree with the violation because proper standards were applied. Our previous responses dated 4/28/11 and 5/4/11 summarized the claim investigation. However, we agree the file was not properly documented with respect to the at-fault vs good neighbor payment decision.

CHO031 - Failure to pursue subrogation.

COMPANY RESPONSE: We agree with the violation. A decision was made not to pursue subrogation due to the tenant not having insurance. The file has been referred to our subrogation attorney for recovery consideration.

CHO035 - Questionable charges paid without proof.

COMPANY RESPONSE: We continue to disagree with the violation. Our previous response summarized the claim investigation. We were comfortable with the AI reaching a fair and equitable agreement on the scope of repairs. Refer to appendix E.

CHO039 - Standards of investigation.

COMPANY RESPONSE: We continue to disagree. Please refer to section **Policy Provision/26 Claim Overpayment CHO039** for details on how we adjusted the claim.

CHO048 - Conclusion on cause of damage questioned

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted and discussed, we believe the file supports the power surge as cause of loss.

14 VAC 5-400-30/1 Proper Documentation

We were cited with 11 violations for failing to document the file.

CHO005 - No documentation for higher estimate.

COMPANY RESPONSE: We continue to disagree with the violation. The higher estimate was prepared by a licensed contractor.

CHO011 - File not complete. Missing bills and proof of loss.

COMPANY RESPONSE: We agree with the violation. The file could have been better documented.

CHO013 - File not complete. Missing replacement bill.

COMPANY RESPONSE: We agree with the violation.

CHO014 - Payment not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. Refer to appendix E for statement of loss, inventory list and contents cleaning estimate.

CHO015 - No documentation regarding what prompted the payment.

COMPANY ACTION: We continue to disagree with the violation. Refer to appendix E for the police report.

CHO020 - Documentation missing from file.

COMPANY ACTION: We agree with the violation. The adjuster did not document the file in accordance with our standards.

CHO021 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The experienced adjuster reviewed the estimates and agreed with the scope of the repairs.

CHO028 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The experienced adjuster reviewed the estimates and agreed with the scope of the repairs.

CHO029 - Letter containing wrong payment amount sent to insured.

COMPANY ACTION: We continue to disagree with the violation. While we agree there was a typo on the original letter 3/15, another letter was sent on 3/31 with the correct payment amount. Refer to appendix E.

CHO036 - No documentation of follow up in file.

COMPANY ACTION: We agree with the violation.

CHO039 – No documentation in file on furniture.

COMPANY RESPONSE: We continue to disagree with the violation. Please refer to section **Policy Provision/26 Claim Overpayment CHO039** for details on how we adjusted the claim.

14 VAC 5-400-A/2 Inform first party of ALE

We were cited with 1 violation for not informing of ALE.

COMPANY RESPONSE: We continue to disagree with the violation. Our investigation determined that no sand blew into the home. Drying equipment was set up to assist with mitigating the damages. ALE was not invoked because the insured continued to live in the home.

14 VAC 5-400-40A/99 Inform first party of benefits

We were cited with 1 violation for not informing the insured of benefits.

COMPANY RESPONSE: Upon further review, we disagree with the violation. The tenant continued to live in the home. Thus there was no reason to discuss the Fair Rental Value.

14 VAC 5-400-70 A/1 Written denial in file

We were cited with 5 violations for not retaining a written denial in the file.

CHO0002 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The denial for the pipe should have been in writing. Today we have a procedure whereby adjusters send partial denials in writing.

CHO017 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The partial denial was provided verbally. Today we have a procedure whereby adjusters send partial denials in writing.

CHO026 – Verbal denial of estimate.

COMPANY RESPONSE: We agree with the violation. The estimate provided was for an unrelated claim and verbally denied. However, we should have denied in writing which is our current procedure.

CHO039 – Verbal denial of ALE.

COMPANY RESPONSE: We continue to disagree with the violation. The claim is pending and thus premature to assess losses. As previously noted, the insured has yet to present his incurred expenses.

CHO045 – Verbal denial of ALE and mileage.

COMPANY RESPONSE: We agree with the violation. Although our homeowners policy provides ALE only if the home becomes uninhabitable, due to the severity of the loss we should have provided a letter explaining why ALE was not applicable (i.e., home is habitable). However, we provided \$100 in mileage and utilities allowance thus no denial letter required.

14 VAC 5-400-70 B/1 Explanation for denial

We were cited with 1 violation for not accurately referencing the policy provision.

COMPANY ACTION PLAN: We continue to disagree with the violation. This observation appears to be critical of the content of the denial. However, we believe the content was appropriate. To restate, January 2010 is not mentioned in the specific Courts of the suit, only in the background. The termination of the Service Agreement on 4/12/10 triggered the incident, not the alleged conversation prior to that date. We cannot make assumptions outside of the allegations noted in the courts.

14 VAC 5-400-70 D/14 Reopen claim to provide amount owed

We were cited with 1 violation for not accurately paying for ALE and other items.

COMPANY ACTION PLAN: We continue to disagree with the violation for CHO045 and can restate our original position. There was no ALE coverage because although the home was vandalized, it continued to be habitable. The insured made a claim for usual customary living expenses, such as taxes, phone and cable. The insured did not make a claim for increased costs. We also determined that the cost for mileage reimbursement did not meet the terms for our additional coverage, but negotiated a payment of \$100 to cover expenses for some of the mileage and incidental costs incurred. We disagree that this claim should be reopened and additional payments made.

Policy Provision/25 Lienholder not on check

We were cited with 19 violations for not identifying the mortgagee on the payments.

COMPANY RESPONSE: We agree with the violations. Our policy provision notes that the mortgagee will be identified on the payment along with the insured. We are currently reviewing the policy language and will make a determination on how to align the workflow with the policy provision.

Policy Provision/26 Claim Overpayment

We were cited with 4 violations for overpaying the claim.

CHO019 – overpayment of \$4,975

COMPANY RESPONSE: We continue to disagree with the violation. The deductible applied to the loss and absorbed any contents payment. The settlement letter outlines what the payment is for and payment was made for the balance of the dwelling items due. We do not believe we overpaid this claim. Refer to appendix F for supporting documents.

CHO023 – overpayment of \$1,000

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, our investigation revealed that the damages were the result of the same storm. Therefore, a single deductible would apply.

CHO039 – overpayment of \$147,112.67

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the initial estimate was prepared by an IA with limited expertise in repair methods needed in custom homes. Our payment was based on the evaluation completed by an experienced builder with expertise in hardwood flooring and custom kitchen cabinetry. The insured's claim submission dated 5/28/10 includes charges for the chandelier which total \$11,916 and does not include installation. We also disagree that an overpayment was made on that portion of the claim. The extent of damages and the tenacity required to clean up the broken glass was significant.

In addition, we address each of the three Observations separately below, and provide clarification to the initial response. It is important to note when evaluating this claim that the Chartis Private Client Group coverage form is generally broader than standard forms.

Observation No. 1: This claim was first investigated by an independent adjuster who was inexperienced with the particular flooring and kitchen cabinetry at issue. Nevertheless, the initial estimate was referred as not presented by the insured, but was prepared by the IA hired by Chartis. The insured provided evidence that the insured could not make the necessary repairs and replacement of the custom wood flooring that was damaged for the price the independent adjuster determined. Accordingly, Chartis engaged a contractor who was experienced in custom-built homes and the specific type of flooring and cabinets that were damaged by the loss. The more experienced contractor advised Chartis what it would cost the insured to repair/replace the various damaged components. Chartis determined to accept the judgment of the more experienced expert and paid the insured the more comprehensive amount as determined by the more experienced expert. In this instance, Chartis supports its adjuster's decision to provide payment as determined by a more experienced contractor's estimate.

Observation No. 2: There was an objection to the payment of \$12,000 for the cleaning of the broken glass. We assume the objection is due to file documentation, rather than the line item itself. The insured's costs to clean up the broken glass would be a covered loss under the policy.

With respect to the \$12,000 allowance for cleaning up the broken glass, Chartis' adjuster fully evaluated the extent of the required cleanup, which was extremely tedious and dangerous, and determined that \$12,000 was a reasonable allowance for that work, based on Chartis' experience with the cost of cleaning services. Please note it was necessary to perform the cleanup in advance of the replacement of the floors and cabinets because the insured had children who would be exposed to the broken glass.

Observation No. 3: Chartis has evaluated the claim file on this matter, and finds that, as noted in Chartis' initial comments, the documentation in this file supports Chartis' payment of the full amount of \$14,403.98. It is unclear what estimates were reviewed by the examiner, but Chartis made payment based on documentation supplied by the insured to support the cost of the chandelier totaling \$11,916.00. The cost of installation was separately accounted for.

We respectfully request that this violation be withdrawn from the report.

CHO047 – overpayment of \$270,656.64

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the company provided coverage for this loss under the peril of collapse. Renovations were last completed at the insured location in 2003. Accordingly, despite our subrogation pursuit, it is unlikely that any allegation of faulty, inadequate or defective workmanship would be sustained in the litigation process. Our failure to look for coverage elsewhere in our policy would cause our insured undue hardship.

Unlike typical homeowners insurance policies, the Chartis Private Client Group coverage form does not exclude coverage for Collapse. The Insured in this case argued that the cause of loss was “collapse.” While Chartis investigated the possibility that the loss may have been caused by faulty workmanship, the relevant work was performed in 2003. By statute in Virginia:

No action to recover for any injury to property, real or personal, or for bodily injury or wrongful death, arising out of the defective and unsafe condition of an improvement to real property, nor any action for contribution or indemnity for damages sustained as a result of such injury, shall be brought against any person performing or furnishing the design, planning, surveying, supervision of construction, or construction of such improvement to real property more than five years after the performance or furnishing of such services and construction.

In addition, we reference VA. Code Ann. § 8.01-250 (Limitation on certain actions for damages arising out of defective or unsafe condition of improvements to real property). This statute is known as the “Statute of Repose” in Virginia. The purpose of the statute is to reflect “a legislative policy determination that a time should come beyond which a potential defendant will be immune from liability for his past acts and omissions.”

Commonwealth of Virginia v. Owens-Corning Fiberglas Corporation, et al., 238 Va. 595; 385 S.E.2d 865; 1989 Va. LEXIS 179 (Va. 1989), citing *School Bd. of the City of Norfolk v. U.S. Gypsum*, 234 Va. 32, 37, 360 S.E.2d 325, 327-28 (Va.1987) also reflects an unspoken, but understood judgment that if construction has lasted for five years, the likelihood that the construction caused any loss is unlikely. In this case, the insured’s ceiling collapsed.

Virginia courts interpret insurance contracts in the light most favorable to the insured where policy language is susceptible to two reasonable interpretations. *Resource Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 636 (4th Cir. 2005) (“Because insurance companies typically draft their policies without the input of the insured, the companies bear the burden of making their contracts clear. Accordingly, if an ambiguity exists, it must be construed against the insurer.”). In this case, two reasonable interpretations of coverage exist.

The insured presented sufficient evidence that the cause of loss was “collapse” – in this case, a covered cause of loss. Chartis made a coverage decision that the likelihood of success on any challenge to coverage for this loss was uncertain. Accordingly, Chartis determined to pay this claim as a collapse. That certainly does not preclude Chartis from continuing to attempt to prove, in a subrogation action, that the collapse was caused by faulty workmanship. As between Chartis and the insured, however, Chartis’ obligation under Virginia law is to provide coverage unless excluded by the relevant policy language.

In conclusion, we ask that Chartis respectfully requests that you honor Chartis’ adjustment of this claim. As a final thought, Chartis’ experienced adjusters were present and fully evaluated this claim and determined that payment of the claim was required. We respectfully ask that you reconsider our adjustment of this claim and remove it as a violation.

We respectfully request that this violation be withdrawn from the report.

PART ONE – FORMS REVIEW

Please refer to our responses to the examiner's observations.

38.2-317 A/1 Forms filed 30 days prior to effective date

We were cited with 3 violations for using a prior edition of a form.

COMPANY RESPONSE: We agree with the violations. The violations occurred because the 3 policies were issued in advance of their effective date, which was before the IT release cycle for the new edition of the forms. This cross over resulted in prior editions generated. The examiners otherwise noted 100% compliance with policy issuance.

PART ONE – POLICY ISSUANCE REVIEW

Please refer to our responses to the examiner's observations.

38.2-2118/1 Replacement cost notice/minimum requirement

We were cited with 10 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. Replacement cost is defined as the reconstruction cost of the house or other permanent structures up to the coverage limit shown on the declarations page. We also offer guaranteed rebuilding cost, which is defined the reconstruction cost of the house or other permanent structures even if the amount is greater than the coverage limit shown on the declarations page. One of the two options is selected by the insured without a minimum required coverage limit. With respect to the amendatory endorsement provision on how construction additions and alterations are adjusted, we do not see how this relates to the minimum coverage referenced in the insurance code. Please see below.

(i) any minimum coverage requirement necessary for the replacement cost provision to be fully effective, and (ii) the effect on claim payment of not meeting the minimum coverage requirement.

38.2-2116 A-2/1 Credit adverse action notice not sent

We were cited with 5 violations for not sending a credit adverse action notice to the insured.

MHO001 – Credit adverse action notice not sent

COMPANY RESPONSE: We agree with the violation based on the insured's credit score.

MHO002 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had a "no hit" on his credit. There was no adverse action taken. Credit was simply not a factor in the rating.

MHO003 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an "873" credit score which is considered excellent. There was no adverse action taken.

MHO004 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had a "792" credit score which is considered very good. There was no adverse action taken on this policy.

MHO005 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an "831" credit score which is considered excellent. There was no adverse action taken.

38.2-610 A/1 Provide written AUD to insured

We were cited with 1 violation for not providing an adverse action notice for an adverse underwriting decision.

COMPANY RESPONSE: We continue to disagree with the violation. Medical payments coverage was extended from the insured's primary home to this secondary home thus there was no need to provide duplicate coverage and charge additional premium. As for the deductible, our proposal offered multiple deductible options. The broker bound coverage with a \$5,000 deductible and medical payments coverage extended from the primary home. The insured paid the premium which is an acceptance of the offer. There was no adverse underwriting action taken against this insured.

PART ONE – STATUTORY NOTICES REVIEW

Please refer to our responses to the examiner's observations.

38.2-604 B/2 Information Collection Long Notice

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: We continue to disagree with the violation. As previously discussed, our combined notices PCG-GLBA and PCG-MAIP address the insurance code. The code does not promulgate the language to use nor the method (1 notice vs 2). We understand that the examiners do not feel the language of our notices is sufficient. We will thus draft a single notice incorporating the examiner's observations, but respectfully request that this violation be moved to a recommendation.

38.2-604 A/2 AUD/Not Approved Prototype

We were cited with 1 violation for not using an approved prototype AUD notice.

COMPANY RESPONSE: We continue to disagree with the violation. The adverse action notice contains language similar to the prototype set forth in Adm./ Letter 1981-16 while expanding upon the disclosure. The observation appears to focus on our notice not containing a 90 day requirement. However, our notice contains an unlimited timeframe in which the insured can request additional information. We do not restrict the timeframe for such requests. We only require requests in writing. The insured's records are stored in the company's system and are maintained indefinitely. We do not believe that the code prevents us from extending the timeframe to request information beyond 90 days.

38.2-2118/1 Replacement Cost Notice

We were cited with 1 violation for not utilizing a replacement cost notice.

COMPANY RESPONSE: We continue to disagree with the violation. This issue is also noted as a violation in the policy issuance section and addressed there. The insurance code addresses minimum required coverage for replacement cost coverage. It is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. Further, replacement cost is defined as the reconstruction cost of the house or other permanent structures up to the coverage limit shown on the declarations page. We also offer guaranteed rebuilding cost, which is defined the reconstruction cost of the house or other permanent structures even if the amount is greater than the coverage limit shown on the declarations page. One of the two options is selected by the insured without a minimum required coverage limit. With respect to the amendatory endorsement provision on how construction additions and alterations are adjusted, we do not see how this relates to the minimum coverage referenced in the insurance code. Please see below.

(i) any minimum coverage requirement necessary for the replacement cost provision to be fully effective, and (ii) the effect on claim payment of not meeting the minimum coverage requirement.

38.2-2126 A-1 Credit Score Disclosure Notice incomplete

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation. The Virginia ACORD application contains the credit score disclosure language. The reference to "may use" credit by ACORD is appropriate vs the examiner's preference of "will use" credit. For example, if our insureds do not have credit, we will rate the policy without credit. We also do not use credit for COC risks including in the base rates. The Virginia ACORD disclosure although not using the identical language in the insurance code addresses all the observations.

PART ONE – LICENSING & APPOINTMENT REVIEW

Please refer to our responses to the examiner's observations.

38.2-1318/3 Agent Review/Unable to provide application

We were cited with 12 violations for not locating the application from the submitting agent.

COMPANY RESPONSE: We agree with the violations. They were not uploaded into our system via broker self-serve or sent to the company. Today brokers have the ability to upload documents into our

system via broker self-serve. We will ask our IT Department to program a message in broker self-serve reminding brokers to upload the application.

38.2-1882 A/1 Unlicensed Agent

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. There was an 18 day gap from the time the policy became effective to the time the agent's license became effective. The policy became effective 6/25/10 and the agent's license became effective 7/13/10. The agent is currently licensed and there were no other unlicensed agent violations.

38.2-1883/1 Notice of appointment within 30 days

We were cited with 8 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the violations. The agents were not appointed for the writing company at the time the policies were written. However, all of the agents have been appointed within the last year. The Producer Licensing Unit has been proactive over the last year in identifying agents requiring appointments. They have run reports and cross referenced the agents with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

38.2-1812/2 Commission to agent/agency not appointed within 30 days

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the violations. The agencies were not appointed for the writing company at the time the policies were written. Two of the agencies were subsequently appointed on 4/6/10 and the third agency was appointed on 4/26/11. The Producer Licensing Unit has been proactive over the last year in identifying agents and agencies requiring appointments. They have run reports and cross referenced the agents and agencies with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will be run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

COMMONWEALTH OF VIRGINIA

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



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December 5, 2011

VIA UPS 2ND DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the October 26, 2011 response to the Preliminary Market Conduct Report (Report) of AIU Insurance Company (Company). The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings, or items that have changed in the Report. The Company failed to respond to the Report in the format requested. The Bureau's response to the Company follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Homeowner New Business

- (1) After further review, the violations for RHO010, RHO012, RHO013, RHO014, RHO017, RHO019, RHO023, RHO025, and RHO057 have been withdrawn from the Report. The Company provided the applications for these policies.
- (2) These items remain in the Report. The Company used a default credit score of 780 when a "no hit" was received on the insured. There are no rules on file with the Bureau indicating a default credit score of 780. The Company still has not filed a default credit score rule for AIU Insurance Company (under the Company's NAIC #19399).
- (3.a) The violation for RHO001 remains in the Report. The Company's "Process Notes" of 07/07/10 show the renovation credit (renovation year 2010) should be applied. The rule on file reads "renovations" the rule does not stipulate that there must be a total renovation. The Risk Management Underwriting Report shows that there were renovations to the plumbing, electrical and HVAC.

After further review, the violation for RHO019 has been withdrawn from the Report. The overcharge amount is amended to \$165.00.

The violation for RHO025 remains in the Report. The violation for failure to apply the 10% secondary house surcharge was withdrawn on 04/26/11 and replaced with failure to apply the Rented to Others surcharge of 25%. The overcharge amount was amended to \$990.00. The Risk Management Underwriting Report dated 07/29/10 shows the occupancy as "Rented to Others" and the occupancy comments as "The home is rented to others." The Company's rule "Rented to Others Surcharge" does not eliminate the surcharge if rented to a family member. The Company's records show this location as a non-owner occupied and is not the primary residence.

- (3d) The violations for RHO002, RHO006, RHO009, RHO016, RHO019 and RHO024 remain in the Report. The Company used windstorm rates that were not filed with the Bureau. The manual pages for the windstorm rates filed by the company in filing # APCG-125967860 did not reference any tiers and as such the pages were filed for every tier and the windstorm rates filed prior to this filing were superseded. In addition, the Company submitted filing number APCG126805614 on 09/09/10 for windstorm replacement rates for individual zones without tiers as well. These rates were filed after the examination period with an effective date of 10/21/10
- (4) After further review, the violations for RHO013, RHO014, RHO022, RHO023, and RHO057 have been withdrawn from the Report. The Company provided copies of the applications with the Credit Score Disclosure Notice. The application provided for RHO021 is not valid as this application is not for the location on the policy reviewed. The violation for RHO006 and RHO008 remain in the Report. The "Proposal for Insurance (accepted as the application for these policies) did not include the Credit Disclosure Notice.
- (5) After further review, the violations in this item are withdrawn from the Report. The Company provided additional information to support the date the credit score was obtained. The Report has been renumbered to reflect this change.

Homeowner Renewal Business

- (2) These items remain in the Report. The Company used a default credit score of 780 when a "no hit" was received for the insured. There are no rules on file with the Bureau pertaining to a default credit score of 780. The Company still has not filed a rule for use of a default credit score for AIU Insurance Company (under the Company's NAIC# 19399).
- (3.a) The violation for RHO028 remains in the Report. The Company has not provided any additional information for the Bureau to reconsider its original findings.
- The violation for RHO041 remains in the Report. The \$1,000 deductible is not higher than the 01/26/08 claim loss of \$2,082.00. Therefore, the claim is not eliminated and is subject to the 10% claim surcharge.
- After further review, the violation for RHO049 is withdrawn from the Report. The Company provided additional information to support the contents coverage on Unit 41 in Charleston, SC.
- After further review, the violation for RHO072 is withdrawn from the Report. The undercharge amount is amended to \$134.00.
- (3b) After further review, the violation for RHO060 is withdrawn from the Report. The undercharge amount had been removed.
- (3d) The violations the RHO032, RHO033, RHO038, RHO058, RHO062, RHO064, RHO069, RHO073 and RHO074 remain in the Report. The Company used windstorm rates that were not filed with the Bureau. The manual pages for the

windstorm rates filed by the company in filing # APCI-125967860 did not reference any tiers and as such the pages were filed for every tier and the windstorm rates filed prior to this filing were superseded. In addition, the Company submitted filing number APCI126805614 on 09/09/10 for windstorm replacement rates for individual zones without tiers as well. These rates were filed after the examination period with an effective date of 10/21/10

- (3f) The violation for RHO072 remains in the Report. Please see Exhibit A showing the insured's address and county. Protection Class 5 would not apply. The pages show protection class 2 for the city of Charlottesville and protection class 7/9 for Charlottesville in the Albemarle County area. The underwriting information, "Dwelling Partners in Risk Management", shows the Charlottesville Fire Department. Charlottesville is located in Albemarle County.

Terminations

Company Initiated Cancellations Homeowner Policies

Notice Mailed After the 89th Day of Coverage

- (3) The violation for THO007 remains in the Report. The Company incorrectly referenced this violation as THO003. The Company did not inspect the property until after the policy was written. Therefore, a physical change cannot be supported. The Company does not have documentation showing the condition of the property at the time the policy was written as compared to the condition of the property at the time of the inspection on October 21, 2009.

The violation for THO005 remains in the Report. The policy was effective July 20, 2009. The Company did not inspect the property until October 27, 2009. Therefore, a physical change cannot be supported. The Company does not have documentation showing the condition of the property at the time the policy was written as compared to the condition of the property at the time of the inspection.

The violation for THO006 remains in the Report. The policy was effective May 8, 2009. The Company did not inspect the property until June 18, 2009. Therefore, a physical change cannot be supported. The Company does not have documentation showing the condition of the property at the time the policy was written as compared to the condition at the time of the inspection. Eligibility for a surcharge is not relevant.

Nonpayment of Premium Homeowner Policies

- (1) The violation for THO009 has been withdrawn from the Report.
- The violation for THO010 remains in the Report. This policy was active for 96 days. The applicable prorata factor is .263. The premium of \$2381 x .263 = 626.20-595.25 (the amount the insured paid) = \$30.95 undercharge. For reconsideration the Company should provide its calculations.
- The violation for THO013 remains in the Report. The Company has not provided any additional information for reconsideration.
- (3) The Company's response references seven violations. There are eight violations in the Report. The Bureau cannot determine if the Company agrees or disagrees with one of eight violations.

The eight violations in the Report are THO011, THO014, THO015, THO016, THO017, THO018, THO019, and THO020. The violations for THO011, THO014,

THO016, THO018 and THO020 remain in the Report. The Company has not provided any additional documentation that would cause the examiners to reconsider their initial findings. The violations for THO015, THO017 and THO019 have been withdrawn.

Requested By the Insured- Homeowner Policies

- (1) The violation for THO025 remains in the Report. The overcharge has been amended to an undercharge in the Report. The earned premium on this policy was \$1723.04 for a period of 124 days. Earned premium for an additional 60 days was \$695.34. Total earned premium was \$2418.43. The insured paid \$3804.00. The Company refunded \$1456.42. The Company should have refunded \$1385.57. The total undercharge was \$70.85.

Claims-Homeowner Policies

- (1) The violation for CHO005 remains in the Report. The file does not include an estimate from the licensed contractor. This violation is due to the company's failure to have all of the necessary information documented in the file. The Company's file does not include any documentation explaining the Company's decision to accept an estimate for \$57,300.47 instead of the estimate for \$34,000.00.
The violation for CHO014 remains in the Report. The Company has not provided documentation for the cleaning expense and payment of \$5,710.00.
The violation for CHO015 remains in the Report. The police report did not document the loss. The police report directly contradicted the insured's report of the loss.
The violation for CHO021 remains in the Report. The Company paid for the repair of the trailer, gutters, steps and a storage building without an itemized estimate of the labor and/or the materials.
The violation for CHO028 remains in the Report. The Company paid the loss without an itemized estimate of the labor and/or the materials.
The violation for CHO029 has been withdrawn from the Report.
The violation for CHO039 remains in the Report. The file is not documented regarding a related loss.
- (2a) The violation for CHO005 remains in the Report. The Company did not know the extent of damage at the time of the initial report and therefore could not have known if Additional Living Expense would be applicable. Therefore, the insured should have been informed of the coverage in the event associated expenses were incurred.
- (2b) The violation for CHO031 remains in the Report. The loss was reported as a fire with smoke damage throughout the home. The Company should have informed the insured of applicable coverages on his policy. There is no documentation to support the Company's statement that the renter remained on the property.
- (3) The violation for CHO039 remains in the Report. The insured estimated his Additional Living Expense to be \$35,000. The Company denied payment of the \$35,000.00. The Company is required to provide the insured with a written denial.
- (4) The violation for CHO044 has been withdrawn from the Report. The Report has been renumbered to reflect this change.
- (5) The violation for CHO045 has been withdrawn from the Report. A new violation has been added to the Report. The Company owes the insured for increased utility and related expenses (under the Dwelling coverage) while the vandals lived in the home.

The Company also owes the insured for increased utility expenses during the time of repair.

- (6) The violation for CHO010 remains in the Report. The Company paid the loss without an itemized estimate of the labor and/or the materials. The Company did not verify the damages.

The violation for CHO011 remains in the Report. The Company agreed that recovery from the manufacturer should have been considered. The contractor's estimate clearly states that the chimney had prior damage but the Company did not investigate further. The insured admitted that his shingles were of an inferior quality but the Company replaced the entire roof (only three slopes were damaged) with a significantly higher quality product without reviewing coverage and without considering subrogation on this \$307,465.00 loss.

The violation for CHO014 remains in the Report. The insured stated that he used his employees to paint his home. Therefore, payroll records should have been available to support salaries totaling over \$7,000.00.

The violation for CHO015 remains in the Report. The policy requires a police report. The police report significantly differs from the report the insured provided to the Company. The Company did not investigate this discrepancy.

The violation for CHO020 remains in the Report. The Company has not provided any additional information for the Bureau to reconsider.

The violation for CHO035 remains in the Report. The Company has not provided any additional information to support the payment for the floor damage or the moving expenses.

The violation for CHO039 remains in the Report. The Company has not provided any additional support for the payment of \$147,112.67.

The violation for CHO048 remains in the Report. It is the Company's practice to obtain weather reports as well as burn evidence in lightning claims. The Company did not employ this investigative practice in this particular claim. It is discriminatory to require some policyholders to produce such evidence while not requiring it of others.

- (7) The violations for CHO013 and CHO038 have been withdrawn from the Report. The Report has been renumbered to reflect this change.

- (8b) The violation for CHO019 remains in the Report. The Company's response does not apply to this violation.

The violation for CHO023 has been withdrawn from the Report.

The violation for CHO039 remains in the Report. In an inspection completed June 1, 2010, the Company's expert stated that the hardwood floors had "minor scratching-may require stripped and waxed..." The estimate to repair was \$41,512.00. The Company chose to accept the insured's indefensible demand to replace not only the floors around the accident area but to remove and replace unrelated kitchen cabinets and counter tops for the purpose of replacing flooring under the cabinets. The total cost of the repairs was \$172,790.50.

Regarding the insured's additional demand of \$207,299.47 to replace furnishings, the Company's expert estimated \$117,000.00 even though there was no evidence that anything other than two pieces of furniture needed to be replaced.

The Company paid the insured the undocumented clean-up cost of \$12,000.00 that the insured allegedly paid to his employees in order to protect his grandchildren from the glass. This was a second residence. Neither the insured, nor his grandchildren,

were living in or visiting the home. This was supported by several facts, one of which was that the insured billed the company for his flight to view the damages in July. If the insured was living in the home, there would have been no need to fly to it.

Concerning the chandelier, the insured sent a letter December 15, 2010 demanding \$10,627.98. The company paid \$14,463.98. The insured replaced the chandelier for less than the original cost. The Company incorrectly paid the original cost instead of the replacement cost.

The violation for CHO047 remains in the Report. This violation concerns the failure to comply with policy provisions, not the time limit for the recovery of damages. The Statute of Repose is not relevant to the coverage. It is only relevant to the subrogation. There is no mention in the file concerning the presentation of evidence of collapse by the insured. The Company did not question the coverage. Therefore, there would have been no reason for the insured to present "sufficient evidence". There is no discussion or reference to the workmanship exclusion in the Company's file. There is no documentation or evidence of a coverage analysis in the Company's file. The Company's engineering expert stated that the cause of loss was faulty workmanship. The policy clearly excludes this loss under D. Exclusions, 8 (b).

Policy Issuance New Business Homeowner Policies

- (1) The violation for MHO002 remains in the Report. The insured requested a \$1,000.00 deductible. The Company issued a policy with a \$5,000.00 deductible.
- (2) The violations in this area remain in the Report. The Company's policy form limits coverage to ACV on building additions and renovations if the insured is not living in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. This is a coverage requirement. Therefore, the insured is entitled to a notice informing him of this requirement.
- (3) The violation for MHO002 remains in the Report. The Company did not file to use a default credit score under NAIC number 19399.

The violations for MHO003, MHO004, and MHO005 remain in the Report. The Company has not provided previously requested verification that the insureds' tier placement and eligibility for discounts were not affected by any adverse action.

Policy Issuance Renewal Business-Homeowner Policies

The violations in this area remain in the Report. The Company's policy form limits coverage to ACV on building additions and renovations if the insured is not in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. This is a coverage requirement. Therefore, the insured is entitled to a notice informing him of this requirement.

Notices

General Statutory Notices

- (1) The violation for NGS005 remains in the Report. The Company has previously stated that PCCG-GLBA was the notice applicable to § 38.2-604 C of the Code of Virginia. The Company is now advising that PCCG-GLBA and PCG- MAIP are the notices applicable to § 38.2-604 B of the Code of Virginia. Neither of the notices informs the insured of his right to request that information be corrected, that information obtained

about the insured through an insurance support organization can be retained and disclosed to others, and that the information could be deleted.

- (2) There is no violation in the Report for § 38.2-604 A. NGS002 is a violation of § 38.2-610 A of the Code of Virginia. Assuming the Company was referring to § 38.2-610 A, this item remains in the Report. The Company advised the Bureau that its notice allows insureds to request information for an unlimited period of time. This is not accurate. During the review of the Company's termination files, the Bureau discovered several cancellation notices wherein the Company advised an insured that he "...must submit a written request within 90 business days..." The Company must be consistent and cannot discriminate from one insured to another.

Statutory Property Notices

- (1) The violation for NSP005 remains in the Report. The Company's policy form limits coverage to ACV on building additions and renovations if the insured is not in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. The completion of repairs is a minimum coverage requirement. Therefore, the insured is entitled to a notice that informs him of this requirement.
- (2) The violation for NSP003 remains in the Report. The Company advised the Bureau that the Company uses a default credit score when credit is not available. Therefore, the Company uses credit and should so advise the applicant by stating that they "will use" credit.

Licensing and Appointment Review

- (1) After further review, violations AG003, AG005, AG008, AG012, AG015, and AG021 have been withdrawn from the Report. The Company provided copies of the applications.

PART TWO CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1, 2, 3) The overcharge table has been amended to reflect any changes. The Company should make restitution to all insureds listed in the table.
- (4) Please advise when the Company will implement the program reminding brokers to upload the insured's application.
- (5) The Company has not submitted a Corrective Action Plan for this item.
- (6) The Company has not addressed item five in its Corrective Action Plan. The Company addressed item six as item five.
- (8) The Corrective Action previously shown as item eight has been removed from the Report.

Claims

- (1) The overcharge table has been amended to reflect any changes. The Company should make restitution to all insureds listed in the table.
- (6) The Company has not submitted a Corrective Action Plan for this item.

Forms

The Company has not submitted a Corrective Action Plan for this item.

PART THREE – EXAMINERS' NOTES

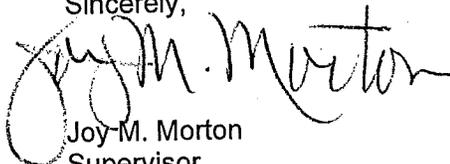
Recommendations

Rating

The Company failed to address any of the recommendations in the Report.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheets, 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 December 27, 2011.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804)371-9540
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STATE CORP COMMISSION
BUREAU OF INSURANCE

12 JAN 10 AM 9:40

CHARTIS 

January 9, 2012

Via UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

Re: **AIU Insurance Company (NAIC # 19399)**
Homeowners Market Conduct Examination
September 1, 2009 – August 31, 2010
Additional Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated December 5, 2011 and along with my e-mail of December 19th and your January 3rd e-mail. We acknowledge your reconsideration of the preliminary report and the many violations removed. We also appreciate the additional time granted to review the materials to provide the attached response on behalf of the Company.

Enclosed is a second response to your letter and preliminary report dated December 5, 2011. Also included are Appendix A & B and an Action Plan for corrective action.

We are in the process of completing the restitution spreadsheet and will be forwarding a revised spreadsheet under separate cover. There are a number of issues contained in the attached material where we disagree with the finding. These items may affect the final restitutions.

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

Page 2
January 9, 2012
Ms. Joy M. Morton
Virginia Bureau of Insurance

Thank you for your cooperation in this matter.

Sincerely,



Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – Report response document – 24 pages
Appendix A & B
Action Plan/Examiner notes

Cc: Michael Neuwirth, PCG, Chartis
Richard Dunlevy, Chartis
Scott Miller, PCG, Chartis
Kimberlie Pezzuto, PCG, Chartis

Jmorton VA HO AIU response two 01 09 12

AIU Insurance Company

Private Client Group Division

Response to the Virginia Homeowners Market Conduct Exam Letter dated December 5, 2011.
This is the second Company response to the preliminary Report.

For consistency, we reformatted our initial response per the DOI preference. In addition, we provided additional responses to the DOI letter dated 12-5-11 where applicable.

PART ONE – EXAMINER’S OBSERVATIONS

RATING & UNDERWRITING REVIEW

Homeowners New Business Policies

(1) 38.2-1318 of the Code of Virginia

Thank you for withdrawing 9 of the original 13 violations. We are now cited with 4 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 4 violations. We were unable to locate an application for RHO001, RHO011, RHO018 and RHO022. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

(2) 38.2-1906 A of the Code of Virginia

We were cited with 5 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: We continue to disagree with the 5 violations. The system is programmed to assign an entry in the credit score portion of the algorithm. When the insured receives a “no hit” on their credit score, the premium is calculated without use of a credit score. Since the number 780 represents no impact, we programmed the system with the number 780 for no hits. This is equivalent to programming the system with the abbreviation N/A for not applicable. We respectfully request that these violations be noted as a recommendation. The examiner also observed that a default credit score number was not filed by the company as previously recommended and agreed upon. The filing was submitted under Chartis Property Casualty Company and approved on 11/15/11. The SERFF Tracking # is APCG-127709574. The State Tracking # is 012. Please note that AIU is no longer the underwriting company for homeowners. It was replaced by Chartis Property Casualty Company with a 2010 filing that was approved in 2011. We thus filed the rule in Chartis property Casualty Company which is the current homeowners company.

(3) 38.2-1906 D of the Code of Virginia

a. Thank you for withdrawing the violation for RHO019. There are 5 remaining violations for failing to apply discounts and/or surcharges. We continue to disagree with 2 of the following 5 violations:

RHO001 – Failure to apply a 10% renovation credit. The company instead applied a new house credit of 4%. Total overcharge is \$166.

COMPANY RESPONSE: We continue to disagree with the violation. A renovation credit applies only when the plumbing, heating and electrical systems have been completely upgraded. The rule makes reference to the General Rules for definitions. Refer to the definitions below for the type of renovations qualifying for a credit.

Renovated House Credit

There is a credit for houses that have been renovated within the last ten years as shown below. The year of the oldest renovation will be determined by an authorized inspector. *To qualify for this credit, the house must be renovated as defined in the General Rules.*

GENERAL RULES

II. DEFINITIONS

Burglar Alarm – A central station or direct reporting theft or burglar alarm that is maintained and in use.

Fire Alarm – A central station or direct reporting fire alarm that is maintained and in use.

Renovated House – *A house that has had the plumbing and heating systems and the electrical system including wiring, receptacles, circuit boxes and conduits in exposed areas completely upgraded. The renovations must have been completed by a licensed contractor in compliance with the local building codes.*

RHO008 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. The underwriting file does not contain documentation of a caretaker. The underwriter was advised to apply the surcharge on renewal.

RHO018 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

RHO025 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We continue to disagree with the violation because the house is occupied by the insured's daughter. A property that is rented involves a rental agreement with rental fees. There is no such agreement between daughter and parents. The daughter is considered a caretaker by virtue of occupying the house in her parent's absence. We do not believe that the insured should pay a 25% surcharge for allowing the daughter to stay at the house.

RHO057 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

b. There is 1 violation for failing to use the correct territory.

COMPANY RESPONSE: We agree with the violation. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There are 3 violations for using incorrect tier eligibility resulting in undercharges.

COMPANY RESPONSE: We agree with the 3 violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a mono-line homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The DOI was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 7 violations for failing to use the correct base and/or final rates. We continue to disagree with 6 of the following 7 violations:

RHO002 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$116 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO006 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$46 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO009 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$57 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO010 – Rates used produced overcharge of \$21,708.

COMPANY RESPONSE: We agree with the violation. The rates for this course of construction risk category were not correctly programmed in our ePCG system. This error was discovered and corrected in 2010, but the correction occurred after this policy had already been issued. The insured will receive a refund for the overcharge.

RHO016 – Rates used produced overcharge of \$116. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO019 – Rates used produced overcharge of \$80. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO024 – Rates used produced overcharge of \$57. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

e. There is 1 violation for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violation. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

(4) **38.2-2126 A of the Code of Virginia**

Thank you for withdrawing 5 of the original 12 violations. We were now cited with 7 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 7 violations. The credit score disclosure language is found in the ACORD application. We were unable to locate the application for RHO006, RHO008, RHO011, RHO012, RHO017, RHO018 and RHO021. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

Homeowners Renewal Business Policies

(1) **38.2-305 A of the Code of Virginia**

We were cited with 1 violation for incorrect Dec Page.

COMPANY RESPONSE: We agree with the violation in principle. The Dec page was missing the contents limit. However, this is an extension from **38.2-1906 D/01** RHO043. The policy was incorrectly written with a \$0 contents limit (should have been 5% contents). The Dec Page listed what was written.

(2) **38.2-1906 A of the Code of Virginia**

We were cited with 8 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: We continue to disagree with the violations. The system is programmed to assign an entry in the credit score portion of the algorithm. When the insured receives a "no hit" on their credit score, the premium is calculated without use of a credit score. Since the number 780 represents no impact, we programmed the system with the number 780 for no hits. This is equivalent to programming

the system with the abbreviation N/A for not applicable. We respectfully request that these violations be noted as a recommendation. The examiner also observed that a default credit score number was not filed by the company as previously recommended and agreed upon. The filing was submitted under Chartis Property Casualty Company and approved on 11/15/11. The SERFF Tracking # is APCG-127709574. The State Tracking # is 012. Please note that AIU is no longer the underwriting company for homeowners. It was replaced by Chartis Property Casualty Company with a 2010 filing that was approved in 2011. We thus filed the rule in Chartis property Casualty Company which is the current homeowners company.

(3) 38.2-1906 D of the Code of Virginia

a. Thank you for withdrawing the violation for RHO049 and RHO072. There are 9 remaining violations for failing to apply discounts and/or surcharges. We continue to disagree with 1 of the following 9 violations:

RHO028 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We continue to disagree with the violation. The house is occupied full time by the insured's daughter. A property that is rented involves a rental agreement with rental fees. There is no such agreement between daughter and parents. The daughter is considered a caretaker by virtue of occupying the house full time in her parent's absence. Per the filed rules, the 10% surcharge is waived if a full-time caretaker is present. We do not believe that the insured should pay a surcharge for allowing the daughter to stay at the house. This is neither a rented property nor a property subject to a secondary house surcharge based on our rules.

Seasonal/Secondary House Surcharge

There is a 10% surcharge on any house maintained as a secondary house, if and only if there is a primary residence also insured on the same policy. The surcharge is 30% if the seasonal or secondary house is 'unsupported', or if there is no primary residence on the policy.

The 10% surcharge does not apply if a full-time caretaker is present at the seasonal or secondary house during the owner's absence, and the 'unsupported' is reduced to 20%. The surcharge is reduced to 5% (25% if unsupported) if a fulltime caretaker lives on the grounds, but not in the house itself, or to 8% (28% if unsupported) if a caretaker (or equivalent service with an established maintenance company) checks on the house at least once per week during the unoccupied time period.

RHO041 – Failure to apply a 10% claims surcharge.

COMPANY ACTION: We agree with the violation. The underwriter failed to pick up the claim on the 2009 term. The 2010 term correctly reflected the claim.

RHO043 – Incorrectly applying a no contents discount.

COMPANY RESPONSE: We agree with the violation. In most states, we apply a credit when contents coverage is 0%. In Virginia, contents cannot be lower than 5% thus there is no credit. Today our ePCG system has an edit to prevent the credit from being selected. This policy was issued prior to that edit.

RHO044 – Incorrectly applying a rate cap.

COMPANY RESPONSE: We agree with the violation. In 2009, we filed a rule to cap rate increases at 20% for policies that renew into tiers 1-4. The rate cap was to be in effect for one year and removed at

the next renewal. This policy should not have received a rate cap on its 2010 renewal. This was a system's error that was caught and fixed in 2011.

RHO048 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. A review of the file indicates a secondary house without a full-time caretaker. The underwriter was notified to add the surcharge on renewal.

RHO051 – Policy received a companion credits, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove the credit on renewal.

RHO069 – Policy incorrectly received a 25% vacancy surcharge.

COMPANY RESPONSE: We agree with the violation. Although the inspection report indicates that the owner is away from the home for part of summer, this is a primary home and does not fit the definition of vacant home. The underwriter was advised to remove the surcharge and refund the surcharge amount.

RHO075 – Failure to apply a 5% fire alarm credit. Incorrectly applying a 2% temperature monitoring system credit.

COMPANY RESPONSE: We agree with the 2 violations based on the inspection report.

b. Thank you for withdrawing the violation for RHO060. There are 5 remaining violations for failing to use the correct territory.

COMPANY RESPONSE: We agree with the 5 violations. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There are 12 violations for using an incorrect rating tier resulting in undercharges.

COMPANY RESPONSE: We agree with the violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a monoline homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The DOI was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 11 violations for failing to use the correct base and/or final rates. We continue to disagree with 9 of the following 11 violations:

RHO032 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO033 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO038 – Not filing windstorm rates for individual tiers for zone 302 resulting in a \$186 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO052 – Rates used produced overcharge of \$31,842.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. This was corrected with the 2010 renewal, but we will provide a refund of the 2009 overcharge premium amount.

RHO055 – Rates used produced an undercharge.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. The premium was corrected with the 2011 renewal.

RHO058 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous.

RHO062 – Rates used produced an overcharge of \$407.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO064 – Rates used produced an undercharge.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a rating worksheet from Actuarial in our prior response. The worksheet confirms the accuracy of the rating.

RHO069 – Rates used produced overcharge of \$711. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO073 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we agree to the discrepancy between our filing and our intent.

RHO074 – Rates used produced overcharge. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

e. There are 10 violations for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violations. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

f. There are 2 violations for using an incorrect public protection class. We agree with the below 2 violations.

RHO046 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: We agree with the violation. We obtain public protection class codes from ISO Passport. Although automated today, the underwriter had to manually request the report for this policy term and apply the code. The wrong code was applied. The policy will be corrected on renewal.

RHO072 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: Based on the information provided by the examiner, we agree with the violation. We used the public protection class code provided by ISO Passport. We will notify ISO of the error.

TERMINATION REVIEW

Company-Initiated Cancellations – Homeowners Policies

NOTICE MAILED PRIOR TO THE 90th DAY OF COVERAGE

1) 38.2-2113 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violation. We were unable to locate the proof of mailing in archives. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2113 C of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the violation. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

NOTICE MAILED AFTER THE 89th DAY OF COVERAGE

1) 38.2-1906 D of the Code of Virginia

We were cited with 1 violation for over-refunding or under-refunding premium.

COMPANY RESPONSE: We agree with the violation for THO006. The calculation was off by \$5.81.

2) 38.2-2113 C of the Code of Virginia

We were cited with 6 violations for not retaining proof of mailing to the mortgagee or insured.

COMPANY RESPONSE: We agree with the violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) 38.2-2114 A of the Code of Virginia

We were cited with 5 violations for cancellation reason not permitted or unsupported. We continue to disagree with 3 of the 5 violations. Please see below.

THO003 – Vacancy not a permitted reason for cancellation.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The property was vacant and either foreclosed or in foreclosure hearings. There is no documentation in the underwriting file regarding the date of foreclosure. Unless the foreclosure is final, it cannot be used as a cancellation reason. This topic is addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO007 – Increase in hazard is not a permitted reason for cancellation.

COMPANY RESPONSE: We continue to disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 10/21/09 and discovered a course of construction that was never disclosed to us. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection clearly showed a progression of work that had not begun on the date of inspection. The examiner's position that we cannot support an increase in hazard because we did not inspect on the date the policy inception is not a valid position in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily,

construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project is a valid cancellation reason.

THO008 – Material Misrepresentation not substantiated.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The policy was canceled due to the insured advising the property has an alarm, but an inspection revealed otherwise. We were unable to locate the appropriate documentation in the underwriting file. Proper file documentation is a topic addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO005 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 10/27/09 and discovered the home is under construction. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection clearly showed a progression of work that had not begun on the date of inspection. In addition, the inspection showed that the home was now vacant due to the construction projects. The examiner's position that we cannot support an increase in hazard because we did not inspect on the date the policy inception is not a valid position in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily, construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project is a valid cancellation reason.

THO006 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. We inspected the property on 6/18/09 and discovered construction work. The construction at the home presented a daily physical change in hazard due to the past and present work being conducted. The inspection clearly showed a progression of work that had not begun on the date of inspection. In addition, the inspection showed that the home was now vacant due to the construction projects. The examiner's position that we cannot support an increase in hazard because we did not inspect on the date the policy inception is not a valid position in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily, construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project is a valid cancellation reason.

4) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

6) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

1) 38.2-1906 D of the Code of Virginia

Thank you for withdrawing the violation for RHO009. There are 2 remaining violations for over-refunding or under-refunding premium. We disagree with the 2 violations. Please see below.

THO010 – Undercharged \$30.99

COMPANY RESPONSE: We continue to disagree with the violation. We had previously provided the billing screens. We calculated earned premium of \$595.25. Refer to appendix A Terminations for the support.

THO013 – Undercharged \$343

COMPANY RESPONSE: We continue to disagree with the violation. As requested, please refer to appendix A Terminations for the support.

2) 38.2-2113 A of the Code of Virginia

Thank you for withdrawing the violations for THO015, THO017 and THO019. Also, please note that the examiner referenced item 3 in the 12-5-11 letter, but we believe the correct reference is item 2. We have 5 violations remaining for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We continue to disagree with 4 of the 5 violations. The cancellation notices for THO011, THO014, THO016 and THO018 contained the correct name and address and proof of mailing was provided to the examiners. The examiner took issue with the format used on the company's internal log. However, the format used by the company internally had no impact on the receipt or appearance of the cancellation notices. We respectfully request that these violations be withdrawn from the report or cited as a recommendation to develop a new internal log.

3) 38.2-2113 C of the Code of Virginia

a. We were cited with 2 violations for not retaining a copy of the notice of cancellation to the lien holder.

COMPANY RESPONSE: We agree with the 2 violations.

b. We were cited with 9 violations for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

4) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

6) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

REQUESTED BY THE INSURED

1) 38.2-1906 D of the Code of Virginia

We were cited with 1 violation for under-refunding premium.

COMPANY RESPONSE: We continue to disagree with the violation for THO025. We can only restate our original calculation. The house was effective 7/19/09 and canceled by per insured's request effective 1/19/10. The original premium for the policy was \$5072. Two credit endorsements were processed on the

policy (both effective 11/20/09). The Earned Premium/Day is calculated for the first 124 days of the policy from 7/19/09 to 11/19/09 (prior to the two credit endorsements being effective 11/20/09). The Earned Premium/Day is re-calculated for the last 60 days of the policy from 11/20/09 to 1/19/10 based on the revised annual premium figure (with the two credit endorsements being effective 11/20/09). The total Earned Premium for the 184 days of coverage is \$2347.58. Payments totaling \$3804.00 were made on the policy. The payments made less the Earned Premium equals the refunded amount of \$1456.42.

2) Policy Provision 1 - General

We were cited with 8 violations for honoring a backdated cancellation request by the insured.

COMPANY RESPONSE: We agree with the violations. The policy language requires the insured notify the company of the future cancellation date. However, as a rule, we must honor a backdated cancellation request when the insured provides evidence of coverage with other insurance company on that date. We will file an amendment to our policy language to remove reference to future date.

Company-Initiated Non-Renewals – Homeowners Policies

1) 38.2-2113 C of the Code of Virginia

a. We were cited with 9 violations for not retaining a copy of the notice of nonrenewal to the lien holder or proof of mailing to the insured or lien holder.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2114 I of the Code of Virginia

We were cited with 2 violations for invalid nonrenewal reason. We agree with the below violations.

THO032 – Windstorm loss is not a permitted reason for nonrenewal.

COMPANY RESPONSE: We agree with the violation. This topic was addressed in nonrenewal training documents released in 2010. This policy was nonrenewed prior to the training.

THO034 – The nonrenewal notice incorrectly noted 3 claims.

COMPANY RESPONSE: We agree with the violation. There were 2 claims.

CLAIMS REVIEW

Homeowners Claims

1) 14 VAC 5-400-30

Thank you for withdrawing the violation for CHO029. We have 10 violations remaining for failing to document the file. We believe our original responses are justified.

CHO005 - No documentation for higher estimate.

COMPANY RESPONSE: We continue to disagree with the violation. The higher estimate was prepared by a licensed contractor.

CHO011 - File not complete. Missing bills and proof of loss.

COMPANY RESPONSE: We agree with the violation. The file could have been better documented.

CHO013 - File not complete. Missing replacement bill.

COMPANY RESPONSE: We agree with the violation.

CHO014 - Payment not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. Refer to appendix E for statement of loss, inventory list and contents cleaning estimate.

CHO015 - No documentation regarding what prompted the payment.

COMPANY ACTION: We continue to disagree with the violation. Refer to appendix E for the police report.

CHO020 - Documentation missing from file.

COMPANY ACTION: We agree with the violation. The adjuster did not document the file in accordance with our standards.

CHO021 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The experienced adjuster reviewed the estimates and agreed with the scope of the repairs.

CHO028 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The experienced adjuster reviewed the estimates and agreed with the scope of the repairs.

CHO036 - No documentation of follow up in file.

COMPANY ACTION: We agree with the violation.

CHO039 - No documentation in file on furniture.

COMPANY RESPONSE: We continue to disagree with the violation. Please refer to CHO039 of section 8 for details on how we adjusted the claim.

2) 14 VAC 5-400 A

We were cited with 2 violations for not informing the insured of benefits.

COMPANY RESPONSE: We continue to disagree with the 2 violations. Please see below.

- a. CHO005 – We disagree with the violation. Our investigation determined that no sand blew into the home. Drying equipment was set up to assist with mitigating the damages. ALE was not invoked because the insured continued to live in the home.
- b. CHO031 - We disagree with the violation. The tenant continued to live in the home. Thus there was no reason to discuss the Fair Rental Value.

3) 14 VAC 5-400-70 A

We were cited with 5 violations for not retaining a written denial in the file. We disagree with 1 of the 5 violations. Please see below.

CHO0002 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The denial for the pipe should have been in writing. Today we have a procedure whereby adjusters send partial denials in writing.

CHO017 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The partial denial was provided verbally. Today we have a procedure whereby adjusters send partial denials in writing.

CHO026 – Verbal denial of estimate.

COMPANY RESPONSE: We agree with the violation. The estimate provided was for an unrelated claim and verbally denied. However, we should have denied in writing which is our current procedure.

CHO039 – Verbal denial of ALE.

COMPANY RESPONSE: We continue to disagree with the violation. The claim is pending and thus premature to assess losses. As previously noted, the insured has yet to present his incurred expenses.

CHO045 – Verbal denial of ALE and mileage.

COMPANY RESPONSE: We agree with the violation. Although our homeowners policy provides ALE only if the home becomes uninhabitable, due to the severity of the loss we should have provided a letter explaining why ALE was not applicable (i.e., home is habitable). However, we provided \$100 in mileage and utilities allowance thus no denial letter required.

4) 14 VAC 5-400-70 D

We were originally cited with 1 violation for not accurately paying for ALE and other items. This was withdrawn and replaced with the company owes the insured for increased utility and related expenses.

COMPANY ACTION PLAN: We disagree with the violation for CHO045 and do not understand how the examiner determined that we owe \$10,000 when the insured filed a claim for less than \$600. What documentation did the examiner find for \$10,000? Our position for denying the claim remains unchanged. There was no ALE coverage because although the home was vandalized, it continued to be habitable. The insured made a claim for usual customary living expenses, such as taxes, phone and cable. The insured did not make a claim for increased costs. We also determined that the cost for mileage reimbursement did not meet the terms for our additional coverage, but negotiated a payment of \$100 to cover expenses for some of the mileage and incidental costs incurred. We disagree that this claim should be reopened and additional payments made.

5) **38.2-510 A 3 of the Code of Virginia**

We were cited with 9 violations for failing to adopt reasonable standards for prompt investigation of claim. We disagree with 8 of the 9 violations. Please see below.

CHO010 - Insured submitted two estimates without showing cost of material and labor. Company should have requested detailed estimates.

COMPANY RESPONSE: We continue to disagree with the violation. This claim involved specialty items which would not be found in a manual. As previously noted, the adjuster verified the scope of the work with the original general contractor. Refer to appendix E for the letter. In addition, the adjuster confirmed the required repair with a specialized copper roof installer. Our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO011 - Various investigation observations.

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, we verified that the roof product was no longer available and replaced it with a roof of similar quality and functionality. Our subrogation attorney had investigated the roofing company and advised they had liquid assets. We are considering recovery options. The adjuster determined that the structure was impacted by the large tree and gave the insured the benefit of the doubt regarding the chimney. We agree the file could have been documented with more details. However, with respect to the violation, our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO014 - Issues with the bill.

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, we agree that payroll information could have been requested to substantiate the holiday pay. However, our adjuster developed an estimate of hours of labor factoring in the holiday. This estimate was close to the insured's estimate thus the insured was indemnified based on actual cost incurred. Our experienced adjuster applied reasonable standards in the investigation of the claim.

CHO015 - No police report, but check issued to insured.

COMPANY RESPONSE: We disagree with the violation. Refer to appendix E for the documents including police report.

CHO020 - Various investigation issues.

COMPANY RESPONSE: We continue to disagree with the violation because proper standards were applied. Our previous responses dated 4/28/11 and 5/4/11 summarized the claim investigation. However,

we agree the file was not properly documented with respect to the at-fault vs. good neighbor payment decision.

CHO031 - Failure to pursue subrogation.

COMPANY RESPONSE: We agree with the violation. A decision was made not to pursue subrogation due to the tenant not having insurance. The file has been referred to our subrogation attorney for recovery consideration.

CHO035 - Questionable charges paid without proof.

COMPANY RESPONSE: We continue to disagree with the violation. Our previous response summarized the claim investigation. We were comfortable with the Independent Adjuster reaching a fair and equitable agreement on the scope of repairs. Refer to appendix E.

CHO039 – Standards of investigation.

COMPANY RESPONSE: We continue to disagree. Please refer to section **Policy Provision/26 Claim Overpayment CHO039** for details on how we adjusted the claim.

CHO048 - Conclusion on cause of damage questioned

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted and discussed, we believe the file supports the power surge as cause of loss.

6) Policy Provision

a. We were cited with 23 violations for not identifying the mortgagee on the payments.

COMPANY RESPONSE: We agree with the violations. Our policy provision notes that the mortgagee will be identified on the payment along with the insured. We are currently reviewing the policy language and will make a determination on how to align the workflow with the policy provision.

b. Thank you for withdrawing CHO023. We have 3 violations remaining for overpaying the claim. We disagree with the 3 violations. Please see below.

CHO019 – overpayment of \$4,975

COMPANY RESPONSE: We continue to disagree with the violation. The deductible applied to the loss and absorbed any contents payment. The settlement letter outlines what the payment is for and payment was made for the balance of the dwelling items due. We do not believe we overpaid this claim. Refer to appendix F for supporting documents.

CHO039 – overpayment of \$147,112.67

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the initial estimate was prepared by an Independent Adjuster with limited expertise in repair methods needed in custom homes. Our payment was based on the evaluation completed by an experienced builder with expertise in hardwood flooring and custom kitchen cabinetry. The insured's claim submission dated

5/28/10 includes charges for the chandelier which total \$11,916 and does not include installation. We also disagree that an overpayment was made on that portion of the claim. The extent of damages and the tenacity required to clean up the broken glass was significant.

In addition, we address each of the three Observations separately below, and provide clarification to the initial response. It is important to note when evaluating this claim that the Chartis Private Client Group coverage form is generally broader than standard forms.

Observation No. 1: This claim was first investigated by an independent adjuster who was inexperienced with the particular flooring and kitchen cabinetry at issue. Nevertheless, the initial estimate was referred as not presented by the insured, but was prepared by the IA hired by Chartis. The insured provided evidence that the insured could not make the necessary repairs and replacement of the custom wood flooring that was damaged for the price the independent adjuster determined. Accordingly, Chartis engaged a contractor who was experienced in custom-built homes and the specific type of flooring and cabinets that were damaged by the loss. The more experienced contractor advised Chartis what it would cost the insured to repair/replace the various damaged components. Chartis determined to accept the judgment of the more experienced expert and paid the insured the more comprehensive amount as determined by the more experienced expert. In this instance, Chartis supports its adjuster's decision to provide payment as determined by a more experienced contractor's estimate.

Observation No. 2: There was an objection to the payment of \$12,000 for the cleaning of the broken glass. We assume the objection is due to file documentation, rather than the line item itself. The insured's costs to clean up the broken glass would be a covered loss under the policy.

With respect to the \$12,000 allowance for cleaning up the broken glass, Chartis' adjuster fully evaluated the extent of the required cleanup, which was extremely tedious and dangerous, and determined that \$12,000 was a reasonable allowance for that work, based on Chartis' experience with the cost of cleaning services. Please note it was necessary to perform the cleanup in advance of the replacement of the floors and cabinets because the insured had children who would be exposed to the broken glass.

Observation No. 3: Chartis has evaluated the claim file on this matter, and finds that, as noted in Chartis' initial comments, the documentation in this file supports Chartis' payment of the full amount of \$14,403.98. It is unclear what estimates were reviewed by the examiner, but Chartis made payment based on documentation supplied by the insured to support the cost of the chandelier totaling \$11,916.00. The cost of installation was separately accounted for.

We respectfully request that this violation be withdrawn from the report.

CHO047 – overpayment of \$270,656.64

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the company provided coverage for this loss under the peril of collapse. Renovations were last completed at the insured location in 2003. Accordingly, despite our subrogation pursuit, it is unlikely that any allegation of faulty, inadequate or defective workmanship would be sustained in the litigation process. Our failure to look for coverage elsewhere in our policy would cause our insured undue hardship.

Unlike typical homeowners insurance policies, the Chartis Private Client Group coverage form does not exclude coverage for Collapse. The Insured in this case argued that the cause of loss was "collapse." While Chartis investigated the possibility that the loss may have been caused by faulty workmanship, the relevant work was performed in 2003. By statute in Virginia:

No action to recover for any injury to property, real or personal, or for bodily injury or wrongful death, arising out of the defective and unsafe condition of an improvement to real property, nor any action for contribution or indemnity for damages sustained as a result of such injury, shall be brought against any person performing or furnishing the design, planning, surveying, supervision of construction, or

construction of such improvement to real property more than five years after the performance or furnishing of such services and construction.

In addition, we reference VA. Code Ann. § 8.01-250 (Limitation on certain actions for damages arising out of defective or unsafe condition of improvements to real property). This statute is known as the “Statute of Repose” in Virginia. The purpose of the statute is to reflect “a legislative policy determination that a time should come beyond which a potential defendant will be immune from liability for his past acts and omissions.”

Commonwealth of Virginia v. Owens-Corning Fiberglas Corporation, et al., 238 Va. 595; 385 S.E.2d 865; 1989 Va. LEXIS 179 (Va. 1989), citing *School Bd. of the City of Norfolk v. U.S. Gypsum*, 234 Va. 32, 37, 360 S.E.2d 325, 327-28 (Va.1987) also reflects an unspoken, but understood judgment that if construction has lasted for five years, the likelihood that the construction caused any loss is unlikely. In this case, the insured’s ceiling collapsed.

Virginia courts interpret insurance contracts in the light most favorable to the insured where policy language is susceptible to two reasonable interpretations. *Resource Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 636 (4th Cir. 2005) (“Because insurance companies typically draft their policies without the input of the insured, the companies bear the burden of making their contracts clear. Accordingly, if an ambiguity exists, it must be construed against the insurer.”). In this case, two reasonable interpretations of coverage exist.

The insured presented sufficient evidence that the cause of loss was “collapse” – in this case, a covered cause of loss. Chartis made a coverage decision that the likelihood of success on any challenge to coverage for this loss was uncertain. Accordingly, Chartis determined to pay this claim as a collapse. That certainly does not preclude Chartis from continuing to attempt to prove, in a subrogation action, that the collapse was caused by faulty workmanship. As between Chartis and the insured, however, Chartis’ obligation under Virginia law is to provide coverage unless excluded by the relevant policy language.

In conclusion, we ask that Chartis respectfully requests that you honor Chartis’ adjustment of this claim. As a final thought, Chartis’ experienced adjusters were present and fully evaluated this claim and determined that payment of the claim was required. We respectfully ask that you reconsider our adjustment of this claim and remove it as a violation.

We respectfully request that this violation be withdrawn from the report.

REVIEW OF FORMS

POLICY FORMS CURRENTLY USED

38.2-317 A/1 of the Code of Virginia

We were cited with 3 violations for using a prior edition of a form.

COMPANY RESPONSE: We agree with the violations. The violations occurred because the 3 policies were issued in advance of their effective date, which was before the IT release cycle for the new edition of the forms. This cross over resulted in prior editions generated. The examiners otherwise noted 100% compliance with policy issuance.

REVIEW OF POLICY ISSUANCE PROCESS

NEW BUSINESS POLICIES

1) **38.2-610 A of the Code of Virginia**

We were cited with 1 violation for not providing an adverse action notice for an adverse underwriting decision.

COMPANY RESPONSE: We continue to disagree with the violation referenced MHO002. Medical payments coverage was extended from the insured's primary home to this secondary home thus there was no need to provide duplicate coverage and charge additional premium. As previously noted, our proposal offered multiple deductible options. There is no adverse action taken against the insured when multiple options are offered. The insured selected a \$5,000 deductible with medical payments coverage extended from the primary home to save on his premium. The insured paid the premium which is an acceptance of the offer. The insured could have rejected the proposal and requested a new proposal with a zero deductible if that was his preference. We do not believe that an adverse underwriting action was taken against this insured.

2) **38.2-2118 of the Code of Virginia**

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as a recommendation and not as violations.

3) **38.2-2116 A-2 of the Code of Virginia**

We were cited with 5 violations for not sending a credit adverse action notice to the insured. We continue to disagree with 3 of the 5 violations. Please see below.

MHO001 – Credit adverse action notice not sent

COMPANY RESPONSE: We agree with the violation. The underwriter should have provided the notice.

MHO002 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had a "no hit" on his credit. This means that a credit score was not used due to the inability to obtain a score for this insured. The examiner's note that we did not file a default credit score was addressed in the rating section. We believe we could not have taken adverse action by virtue of not using his credit.

MHO003 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an “873” credit score which is considered excellent and the highest points awarded. There was no adverse action taken. Refer to appendix B for the tier.

HO Credit Score	Points
831 or above	-30

MHO004 – Credit adverse action notice not sent

COMPANY RESPONSE: After further review, we agree with the violation. The underwriter should have provided the notice.

MHO005 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an “831” credit score which is considered excellent and the highest points awarded. There was no adverse action taken. Refer to appendix B for the tier.

HO Credit Score	Points
831 or above	-30

RENEWAL BUSINESS POLICIES

38.2-2118 of the Code of Virginia

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as a recommendation and not as violations.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

1) 38.2-604 B of the Code of Virginia

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: We continue to disagree with the violation. Both notices (PCG-GLBA and PCG-MAIP) attached to the policies. We believe the combination addressed the Code. The Code does not promulgate the language to use nor the method (1 notice vs. 2). We understand that the examiners do not feel the language of our notices is sufficient. We will thus draft a single notice incorporating the examiner's observations, but respectfully request that this violation be moved to a recommendation.

2) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not using an approved prototype AUD notice.

COMPANY RESPONSE: We continue to disagree with the violation. The examiner noted that several cancellation notices advised of the 90 day requirement and that we need to be consistent. However, this observation involves our adverse action notice, not cancellation notice. The adverse action notice contains language similar to the prototype set forth in Adm./ Letter 1981-16 while expanding upon the disclosure. The observation appears to focus on our notice not containing a 90 day requirement. However, our notice contains an unlimited timeframe in which the insured can request additional information. We do not restrict the timeframe for such requests. We only require requests in writing. The insured's records are stored in the company's system and are maintained indefinitely. We do not believe that the code prevents us from extending the timeframe to request information beyond 90 days.

Statutory Property Notices

1) 38.2-2118 of the Code of Virginia

We were cited with 1 violation for not utilizing a replacement cost notice.

COMPANY RESPONSE: We continue to disagree with the violation. This issue is also noted as a violation in the policy issuance section. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as a recommendation and not as violations.

2) 38.2-2126 A of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation. The examiner notes that we advised that a default score is used when there is no credit score. We should thus notify the insured that we will use credit. We cannot support this position. We do not use credit where there is no credit. Assigning a number to bypass the system without factoring credit is not equivalent to using credit. Advising insureds

that their premium was generated based on credit would be misleading when they do not have a credit score. Further, we also do not use credit for COC risks including in the base rates. The Virginia ACORD disclosure is appropriate.

LICENSING & APPOINTMENT REVIEW

Agent Review

1) 38.2-1318 of the Code of Virginia

Thank you for withdrawing 6 of the original 12 violations. We are now cited with 6 remaining violations for not locating the application from the submitting agent.

COMPANY RESPONSE: We agree with the 6 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. There was an 18 day gap from the time the policy became effective to the time the agent's license became effective. The policy became effective 6/25/10 and the agent's license became effective 7/13/10. The agent is currently licensed and there were no other unlicensed agent violations.

3) 38.2-1883 of the Code of Virginia

We were cited with 8 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 8 violations. The agents were not appointed for the writing company at the time the policies were written. However, all of the agents have been appointed within the last year. The Producer Licensing Unit has been proactive over the last year in identifying agents requiring appointments. They have run reports and cross referenced the agents with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

Agency Review

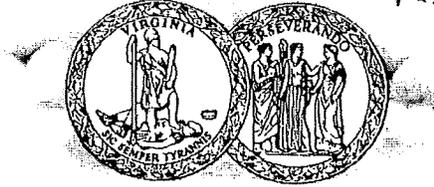
1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. The agencies were not appointed for the writing company at the time the policies were written. Two of the agencies were subsequently appointed on 4/6/10 and the third agency was appointed on 4/26/11. The Producer Licensing Unit has been proactive over the last year in identifying agents and agencies requiring appointments. They have run reports and cross referenced the agents and agencies with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will be run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

COMMONWEALTH OF VIRGINIA

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



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March 6, 2012

VIA UPS 2ND DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the AIU Insurance Company's January 9, 2012 response to the Revised 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

Homeowner New Business

- (2) These items remain in the Report. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
- (3a) The violation for RHO001 remains in the Report. The underwriting notes provided by the company indicate the renovation credit is applicable. 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 RHO025 has been withdrawn from the report. The overcharge is amended to \$0.00

Homeowner Renewal Business

- (2) These items all remain in the Report. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
- (3a) After further review, the violation for THO028 has been withdrawn from the report. The overcharge is amended to \$0.00.
- (3d) The 11 violations in this section all remain in the Report. Each of these violations is due to the company's failure to use the filed windstorm rates for the territories of each

of the insureds. These violations do not question the accuracy of the rating calculation but the use of windstorms rates that are not on file with the Bureau.

Terminations

Company Initiated Cancellations Homeowner Policies

Notice Mailed After the 89th Day of Coverage

- (3) The violation for THO005, THO006 and THO007 all remain the Report. The Bureau has established the necessary criteria for terminating an owner occupied dwelling midterm due to vacancy (please review our Common Problems found during Market Conduct Examinations Handbook, which can be found on the Bureau's website). The Company has not provided evidence of an inspection at the time the policy was written. Therefore, the company cannot support its position that the condition of the property changed.

Nonpayment of Premium Homeowner Policies

- (1) The violation for THO010 has been removed from the Report.
The violation for THO013 has been removed from the Report. The Report has been renumbered to reflect this change.
- (2) The violations for THO011, THO014, THO016, and THO018 remain in the Report. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

Requested By the Insured- Homeowner Policies

- (1) The violation for THO025 has been removed from the Report. The Report has been renumbered to reflect this change.

Claims-Homeowner Policies

- (1) The violation for CHO005 remains in the Report. The Company's has not addressed the company's decisions to accept an estimate \$57,300.47 instead of an estimate for \$34,000.00.
The violation for CHO014 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
The violation for CHO015 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
The violation for CHO021 remains in the Report. The file is missing the documentation to substantiate the estimate is a valid estimate. The Company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
The violation for CHO028 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E.

The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

The violation for CHO039 remains in the Report. Please provide the notes for this file showing the documentation applicable to the furniture.

- (2a) The violation for CHO005 remains in the Report. The file does not indicate the insured was advised that Additional Living Expense (ALE) was available and what ALE covers. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
- (2b) The violation for CHO031 remains in the Report. There is no documentation to support the Company's statement that the renter remained on the property.
- (3) The violation for CHO039 remains in the Report. Please provide the notes showing that the file is still active and that the company has not denied the ALE.
- (4) The violation for CHO045 remains in the Report. The examiner established a rough estimate of \$10,000.00. The Company is incorrect in its statement that there is no Additional Living Expense coverage on this policy. Coverage is not in dispute. The issue is the amount of the loss under the coverage. The Company should contact the insured and determine what, if any, additional expenses were incurred.
- (5) The violation for CHO010 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E. 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 CHO011 has been withdrawn

The violation for CHO014 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 CHO015 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

The violation for CHO020 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 CHO035 remains in the Report. The company has referenced Appendix E in its response. The response provided did not include an appendix E. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

The violation for CHO039 remains in the Report. There is no evidence that the kitchen cupboards were damaged as a result of a chandelier falling in the family room. There is no documentation for the clean-up cost of \$12,000.00. The cost of the chandelier can be found in the insured's letter of 12/15/2010.

The violation for CHO048 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 CHO019 remains in the Report. The company has referenced Appendix F in its response. The response provided did not include an Appendix F. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

- (6) The violation for CHO019 remains in the Report. The company has referenced Appendix F in its response. The response provided did not include an Appendix F. The company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

The violation for CHO039 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 CHO047 remains in the Report. There is no documentation that the Company recognized the coverage issues nor is there evidence that the insured "argued for" coverage.

Policy Issuance New Business Homeowner Policies

- (1) The violation for MHO002 remains in the Report. The Company has not provided documentation supporting the insured's selection of lower limits.
- (2) The violations in this area remain in the Report. The Company's policy limits coverage to ACV on building additions and renovations if the insured is not living in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. This is a coverage requirement. Therefore, the insured is entitled to a notice informing him of this requirement.
- (3) The violations in this section all remain in the Report. A no hit means the insured did not get the best premium available due to his credit information; as such, the insured's premium was adversely affected by his credit (or lack thereof). The insured should have been sent the Credit Adversely Action Notice.

Policy Issuance Renewal Business-Homeowner Policies

The violations in this area remain in the Report. The Company's policy limits coverage to ACV on building additions and renovations if the insured is not in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. This is a coverage requirement. Therefore, the insured is entitled to a notice informing him of this requirement.

Notices

General Statutory Notices

- (1) The violation for NGS005 remains in the Report. The notices submitted by the Company are not compliant in specific areas detailed in Bureau's response to the Company on December 2, 2011.
- (2) The violation for NGS002 remains in the Report. The Bureau has previously advised the Company of the inconsistency of its notices. The Company cannot grant unlimited time to some insureds and require others to comply within 90 business days. This is discriminatory.

Statutory Property Notices

- (1) The violation for NSP005 remains in the Report. The Company's policy limits coverage to ACV on building additions and renovations if the insured is not in the home during any part of the renovation. The policy requires the insured to complete repairs before Replacement Cost will apply. The completion of repairs is a minimum

coverage requirement. Therefore, the insured is entitled to a notice that informs him of this requirement.

- (2) The violation for NSP003 remains in the Report. The Company uses a "default credit score" when credit is not available. The Company has not provided a reasonable explanation for their contention that a "default credit score" has no relationship to credit.

PART TWO CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1) The Company should make restitution to all insureds listed in the table prior to the response date below.

Claims

- (1) The Company should make restitution to all insureds listed in the table prior to the response date below.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheets, 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 April 26, 2012.

Sincerely,

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

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
New York, New York 10038
(212) 458-7026 Telephone
(212) 458-2697 Facsimile
Allan.Wadsworth@chartisinsurance.com

STATE CORP COMMISSION
BUREAU OF INSURANCE

12 APR 25 PM 1:04

CHARTIS 

April 23, 2012

Via UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

Re: AIU Insurance Company (NAIC # 19399)
Homeowners Market Conduct Examination
September 1, 2009 – August 31, 2010
Additional Response to Preliminary Report

Dear Ms. Morton:

This is in response to your letter dated March 6, 2012. We acknowledge your reconsideration of the preliminary report and the many violations removed.

Enclosed is the response to your letter and the revised preliminary report included with your letter of March 6th. I have enclosed several appendix sections to support our current response. In addition, the Action Plan for corrective action is included with this submission.

I am also enclosing updated restitution spreadsheets for rating and underwriting, terminations and claims. There are a number of issues contained in the attached material where we disagree with the finding and also disagree that any refund amount is appropriate.

Chartis
175 Water Street – 18th floor
New York, New York 10038
www.chartisinsurance.com

Page 2
April 23, 2012
Ms. Joy M. Morton
Virginia Bureau of Insurance

Thank you for your cooperation in this matter.

Sincerely,



Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – Report response document – 25 pages
Appendix A – Rating & Underwriting
Appendix B – Terminations
Appendix C – Claims
Appendix D – Policy Issuance
Action Plan/Examiner notes
Revised restitution spreadsheets (3)

Cc: Michael Neuwirth, PCG, Chartis
Richard Dunlevy, Chartis
Stephen Harris, Chartis
Scott Miller, PCG, Chartis
Kimberlie Pezzuto, PCG, Chartis

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AIU INSURANCE COMPANY

HOMEOWNERS Market Conduct Exam Commonwealth of Virginia

Private Client Group

Response to the Virginia Homeowners Market Conduct Exam Letter dated 3-6-2012

PART ONE – EXAMINER’S OBSERVATIONS

RATING & UNDERWRITING REVIEW

Homeowners New Business Policies

(1) 38.2-1318 of the Code of Virginia

Thank you for withdrawing 9 of the original 13 violations. We are now cited with 4 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 4 violations. We were unable to locate an application for RHO001, RHO011, RHO018 and RHO022. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

(2) 38.2-1906 A of the Code of Virginia

We were cited with 5 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: We continue to disagree with the 5 violations. The system is programmed to assign an entry in the credit score portion of the algorithm. When the insured receives a “no hit” on their credit score, the premium is calculated without use of a credit score. Since the number 780 represents no impact, we programmed the system with the number 780 for no hits. This is equivalent to programming the system with the abbreviation N/A for not applicable. We respectfully request that these violations be noted as a recommendation. The examiner also observed that a default credit score number was not filed by the company as previously recommended and agreed upon. The filing was submitted under Chartis Property Casualty Company and approved on 11/15/11. The SERFF Tracking# is APCG-127709574. The State Tracking# is 012. Please note that AIU is no longer the underwriting company for homeowners. It was replaced by Chartis Property Casualty Company with a 2010 filing that was approved in 2011. We thus filed the rule in Chartis property Casualty Company which is the current homeowners company.

(3) 38.2-1906 D of the Code of Virginia

a. Thank you for withdrawing the violation for RHO025. There are 4 remaining violations for failing to apply discounts and/or surcharges. We continue to disagree with 1 of the following 4 violations:

RHO001 – Failure to apply a 10% renovation credit. The company instead applied a new house credit of 4%. Total overcharge is \$166.

COMPANY RESPONSE: We agree that the underwriting notes indicate a renovation credit. Upon reviewing the rating, we discovered that the rating worksheet provided to the examiner reflected policy inception which at that time had a new house credit. However, there was a subsequent transaction effective 7/7/10 to reflect the findings of the inspection. This transaction provided the insured with a renovation credit, superior protection credits and increased residential sprinkler to all spaces. The rating was validated by our actuaries. We apologize for the confusion. Please refer to appendix A for the underwriting notes, the dec page and a rating worksheet from the actuaries to reflect the renovation credit.

RHO008 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. The underwriting file does not contain documentation of a caretaker. The underwriter was advised to apply the surcharge on renewal.

RHO018 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

RHO057 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

b. There is 1 violation for failing to use the correct territory.

COMPANY RESPONSE: We agree with the violation. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There are 3 violations for using incorrect tier eligibility resulting in undercharges.

COMPANY RESPONSE: We agree with the 3 violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a mono-line homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The DOI was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 7 violations for failing to use the correct base and/or final rates. We will agree with the 7 violations:

RHO002 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$116 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO006 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$46 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO009 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$57 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO010 – Rates used produced overcharge of \$21,708.

COMPANY RESPONSE: We agree with the violation. The rates for this course of construction risk category were not correctly programmed in our ePCG system. This error was discovered and corrected in 2010, but the correction occurred after this policy had already been issued. The insured will receive a refund for the overcharge.

RHO016 – Rates used produced overcharge of \$116. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO019 – Rates used produced overcharge of \$80. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO024 – Rates used produced overcharge of \$57. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

e. There is 1 violation for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violation. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

(4) 38.2-2126 A of the Code of Virginia

Thank you for withdrawing 5 of the original 12 violations. We were now cited with 7 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 7 violations. The credit score disclosure language is found in the ACORD application. We were unable to locate the application for RHO006, RHO008, RHO011,

RHO012, RHO017, RHO018 and RHO021. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

Homeowners Renewal Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 1 violation for incorrect Dec Page.

COMPANY RESPONSE: We agree with the violation in principle. The Dec page was missing the contents limit. However, this is an extension from **38.2-1906 D/01** RHO043. The policy was incorrectly written with a \$0 contents limit (should have been 5% contents). The Dec Page listed what was written.

(2) 38.2-1906 A of the Code of Virginia

We were cited with 8 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: We continue to disagree with the violations. The system is programmed to assign an entry in the credit score portion of the algorithm. When the insured receives a "no hit" on their credit score, the premium is calculated without use of a credit score. Since the number 780 represents no impact, we programmed the system with the number 780 for no hits. This is equivalent to programming the system with the abbreviation N/A for not applicable. We respectfully request that these violations be noted as a recommendation. The examiner also observed that a default credit score number was not filed by the company as previously recommended and agreed upon. The filing was submitted under Chartis Property Casualty Company and approved on 11/15/11. The SERFF Tracking# is APCG-127709574. The State Tracking# is 012. Please note that AIU is no longer the underwriting company for homeowners. It was replaced by Chartis Property Casualty Company with a 2010 filing that was approved in 2011. We thus filed the rule in Chartis property Casualty Company which is the current homeowners company.

(3) 38.2-1906 D of the Code of Virginia

a. Thank you for withdrawing the violation for RHO028. There are 8 remaining violations for failing to apply discounts and/or surcharges. We agree with the 8 violations:

RHO041 – Failure to apply a 10% claims surcharge.

COMPANY ACTION: We agree with the violation. The underwriter failed to pick up the claim on the 2009 term. The 2010 term correctly reflected the claim.

RHO043 – Incorrectly applying a no contents discount.

COMPANY RESPONSE: We agree with the violation. In most states, we apply a credit when contents coverage is 0%. In Virginia, contents cannot be lower than 5% thus there is no credit. Today our ePCG system has an edit to prevent the credit from being selected. This policy was issued prior to that edit.

RHO044 – Incorrectly applying a rate cap.

COMPANY RESPONSE: We agree with the violation. In 2009, we filed a rule to cap rate increases at 20% for policies that renew into tiers 1-4. The rate cap was to be in effect for one year and removed at the next renewal. This policy should not have received a rate cap on its 2010 renewal. This was a system's error that was caught and fixed in 2011.

RHO048 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. A review of the file indicates a secondary house without a full-time caretaker. The underwriter was notified to add the surcharge on renewal.

RHO051 – Policy received a companion credits, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove the credit on renewal.

RHO069 – Policy incorrectly received a 25% vacancy surcharge.

COMPANY RESPONSE: We agree with the violation. Although the inspection report indicates that the owner is away from the home for part of summer, this is a primary home and does not fit the definition of vacant home. The underwriter was advised to remove the surcharge and refund the surcharge amount.

RHO075 – Failure to apply a 5% fire alarm credit. Incorrectly applying a 2% temperature monitoring system credit.

COMPANY RESPONSE: We agree with the 2 violations based on the inspection report.

b. Thank you for withdrawing the violation for RHO060. There are 5 remaining violations for failing to use the correct territory.

COMPANY RESPONSE: We agree with the 5 violations. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There is 12 violations for using an incorrect rating tier resulting in undercharges.

COMPANY RESPONSE: We agree with the violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a monoline homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The DOI was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 11 violations for failing to use the correct base and/or final rates. These violations are the result of an ambiguous filing not intent. We will agree with the 11 violations:

RHO032 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO033 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO038 – Not filing windstorm rates for individual tiers for zone 302 resulting in a \$186 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

RHO052 – Rates used produced overcharge of \$31,842.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. This was corrected with the 2010 renewal and we provided a refund of the 2009 overcharge premium amount.

RHO055 – Rates used produced an undercharge.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. The premium was corrected with the 2011 renewal.

RHO058 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO062 – Wrong windstorm rates used.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO064 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO069 – Rates used produced overcharge of \$711. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

RHO073 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO074 – Rates used produced overcharge. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

e. There are 10 violations for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violations. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

f. There are 2 violations for using an incorrect public protection class. We agree with the below 2 violations.

RHO046 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: We agree with the violation. We obtain public protection class codes from ISO Passport. Although automated today, the underwriter had to manually request the report for this policy term and apply the code. The wrong code was applied. The policy will be corrected on renewal.

RHO072 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: Based on the information provided by the examiner, we agree with the violation. We used the public protection class code provided by ISO Passport. We will notify ISO of the error.

TERMINATION REVIEW

Company-Initiated Cancellations – Homeowners Policies

NOTICE MAILED PRIOR TO THE 90th DAY OF COVERAGE

1) 38.2-2113 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violation. We were unable to locate the proof of mailing in archives. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2113 C of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the violation. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

NOTICE MAILED AFTER THE 89th DAY OF COVERAGE

1) 38.2-1906 D of the Code of Virginia

We were cited with 1 violation for over-refunding or under-refunding premium.

COMPANY RESPONSE: We agree with the violation for THO006. The calculation was off by \$5.81.

2) 38.2-2113 C of the Code of Virginia

We were cited with 6 violations for not retaining proof of mailing to the mortgagee or insured.

COMPANY RESPONSE: We agree with the violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) 38.2-2114 A of the Code of Virginia

We were cited with 5 violations for cancellation reason not permitted or unsupported. We continue to disagree with 3 of the 5 violations. Please see below.

THO003 – Vacancy not a permitted reason for cancellation.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The property was vacant and either foreclosed or in foreclosure hearings. There is no documentation in the underwriting file regarding the date of foreclosure. Unless the foreclosure is final, it cannot be used as a cancellation reason. This topic is addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO007 – Increase in hazard is not a permitted reason for cancellation.

COMPANY RESPONSE: We continue to disagree with the violation. We believe that prohibiting an insurance company from canceling a policy due to an increase in hazard that was not disclosed may threaten the future solvency of that company. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 10/21/09 and discovered a course of construction that was never disclosed to us. Please refer to appendix B for photos of the house. The existence of an increase in hazard is apparent. The construction presented a daily physical change in hazard due to the past and present work being conducted. The inspection showed a progression of work that had not begun on the date of inspection. The examiner's position that we cannot support an increase in hazard because we did not inspect on the date the policy inception is not a valid position in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily, construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project is a valid cancellation reason especially when it is undisclosed to the company.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

THO008 – Material Misrepresentation not substantiated.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The policy was canceled due to the insured advising the property has an alarm, but an inspection revealed otherwise. We were unable to locate the appropriate documentation in the underwriting file. Proper file documentation is a topic addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO005 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. We believe that prohibiting an insurance company from canceling a policy due to increase in hazards that were not disclosed may threaten the future solvency of that company. The Insurance Code permits cancellation for omissions of hazards and for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 10/27/09 and discovered many undisclosed hazards and the home is under construction. Please refer to appendix B for photos of the house. The existence of an increase in hazard is apparent. There are bare electrical wires, mold and mildew, corroding pipes and work being conducted. This hazards which were ommitted by the insured and the physical changes due to the work being conducted represents sufficient grounds for cancellation.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

THO006 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. We believe that prohibiting an insurance company from canceling a policy due to an increase in hazard that was not disclosed may threaten the future solvency of that company. The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 6/18/09 and discovered a course of construction that was never disclosed to us. Please refer to appendix B for photos of the house. The existence of an increase in hazard is apparent. The construction presented a daily physical change in hazard due to the past and present work being conducted. The inspection showed a progression of work that had not begun on the date of inspection. The examiner's position that we cannot support an increase in hazard because we did not inspect on the date the policy incepted is not a valid position in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily, construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project is a valid cancellation reason especially when it is undisclosed to the company.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or

4. Physical changes in the property which results in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

4) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

6) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

1) 38.2-2113 A of the Code of Virginia

We were cited with 5 violations remaining for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We continue to disagree with 4 of the 5 violations because how the company records its cancellations for internal purposes only is not relevant. This was discussed during a call with the DOI and the supervisor agreed. The cancellation notices for THO011, THO014, THO016 and THO018 contained the correct name and address and proof of mailing was provided to the examiners. The examiner took issue with the format used on the company's internal log. This format had no impact on the receipt or appearance of the cancellation notices. We respectfully request that these violations be withdrawn from the report or cited as a recommendation to develop a new internal log.

2) 38.2-2113 C of the Code of Virginia

a. We were cited with 2 violations for not retaining a copy of the notice of cancellation to the lienholder.

COMPANY RESPONSE: We agree with the 2 violations.

b. We were cited with 9 violations for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

4) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

REQUESTED BY THE INSURED

1) Policy Provision 1 - General

We were cited with 8 violations for honoring a backdated cancellation request by the insured.

COMPANY RESPONSE: We agree with the violations. The policy language requires the insured notify the company of the future cancellation date. However, as a rule, we must honor a backdated cancellation

request when the insured provides evidence of coverage with other insurance company on that date. We will file an amendment to our policy language to remove reference to future date.

Company-Initiated Non-Renewals – Homeowners Policies

1) 38.2-2113 C of the Code of Virginia

a. We were cited with 9 violations for not retaining a copy of the notice of nonrenewal to the lienholder or proof of mailing to the insured or lienholder.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2114 I of the Code of Virginia

We were cited with 2 violations for invalid nonrenewal reason. We agree with the below violations.

THO032 – Windstorm loss is not a permitted reason for nonrenewal.

COMPANY RESPONSE: We agree with the violation. This topic was addressed in nonrenewal training documents released in 2010. This policy was nonrenewed prior to the training.

THO034 – The nonrenewal notice incorrectly noted 3 claims.

COMPANY RESPONSE: We agree with the violation. There were 2 claims.

CLAIMS REVIEW

Homeowners Claims

1) 14 VAC 5-400-30

We were cited with 10 violations for failing to document the file. We believe our original responses are justified.

CHO005 - No documentation for higher estimate.

COMPANY RESPONSE: We continue to disagree with the violation. The staff is experienced and determined that the higher estimate which was prepared by a licensed contractor was appropriate. We do not believe we violated the Code of Virginia by accepting the higher estimate.

CHO011 - File not complete. Missing bills and proof of loss.

COMPANY RESPONSE: We agree with the violation. The file could have been better documented.

CHO013 - File not complete. Missing replacement bill.

COMPANY RESPONSE: We agree with the violation.

CHO014 - Payment not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. We provided a statement of loss, inventory list and contents cleaning estimate in our original response on October 26, 2011 via appendix E. Please refer to our original response.

CHO015 - No documentation regarding what prompted the payment.

COMPANY ACTION: We continue to disagree with the violation. We provided the police report in our original response on October 26, 2011 via appendix E. Please refer to our original response.

CHO020 - Documentation missing from file.

COMPANY ACTION: We agree with the violation. The adjuster did not document the file in accordance with our standards.

CHO021 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The adjuster reviewed the estimates and agreed with the scope of the repairs. This is an experienced adjuster who is knowledgeable on the issues and costs associated with the often unique claims of the Private Client Group. The adjuster did not require further validation of estimates. We do not believe we violated the Code of Virginia by accepting the estimates.

CHO028 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The experienced adjuster reviewed the estimates and agreed with the scope of the repairs. This is an experienced adjuster who is knowledgeable on the issues and costs associated with the often unique claims of the Private Client Group. The adjuster did not require further validation of estimates. We do not believe we violated the Code of Virginia by accepting the estimates.

CHO036 - No documentation of follow up in file.

COMPANY ACTION: We agree with the violation.

CHO039 – No documentation in file on furniture.

COMPANY RESPONSE: We continue to disagree with the violation. Please refer to CHO039 of section 8 for details on how we adjusted the claim.

2) **14 VAC 5-400 A**

We were cited with 2 violations for not informing the insured of benefits.

COMPANY RESPONSE: We continue to disagree with 1 of the 2 violations. Please see below.

a. CHO005 – We disagree with the violation. Our investigation determined that no sand blew into the home. Drying equipment was set up to assist with mitigating the damages. The insured continued to live in the home and thus ALE was not invoked.

b. CHO031 – We agree with the violation due to file documentation. The tenant continued to live in the home and thus there was no reason to discuss the Fair Rental Value. However, the file does not contain a note on this matter.

3) 14 VAC 5-400-70 A

We were cited with 5 violations for not retaining a written denial in the file. We disagree with 1 of the 5 violations. Please see below.

CHO0002 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The denial for the pipe should have been in writing. Today we have a procedure whereby adjusters send partial denials in writing.

CHO017 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The partial denial was provided verbally. Today we have a procedure whereby adjusters send partial denials in writing.

CHO026 – Verbal denial of estimate.

COMPANY RESPONSE: We agree with the violation. The estimate provided was for an unrelated claim and verbally denied. However, we should have denied in writing which is our current procedure.

CHO039 – Verbal denial of ALE.

COMPANY RESPONSE: We continue to disagree with the violation. The claim was pending and thus premature to assess losses. The claim was settled in February 2012. Refer to appendix C for the settlement documents.

CHO045 – Verbal denial of ALE and mileage.

COMPANY RESPONSE: We agree with the violation. Although our homeowners policy provides ALE only if the home becomes uninhabitable, due to the severity of the loss we should have provided a letter explaining why ALE was not applicable (i.e., home is habitable). However, we provided \$100 in mileage and utilities allowance thus no denial letter required.

4) 14 VAC 5-400-70 D

We were originally cited with 1 violation for not accurately paying for ALE and other items. This was withdrawn and replaced with the company owes the insured for increased utility and related expenses.

COMPANY ACTION PLAN: We disagree with the violation for CHO045 and do not believe we need to remit \$10,000 for Additional Living Expense. The examiner noted that a rough estimate was established for \$10,000. However, the insured filed for less than \$600. We disagree that this claim should be reopened and additional payments made.

5) 38.2-510 A 3 of the Code of Virginia

Thank you for withdrawing CHO011. We have 8 violations for failing to adopt reasonable standards for prompt investigation of claim. We disagree with 7 of the 8 violations. Please see below.

CHO010 - Insured submitted two estimates without showing cost of material and labor. Company should have requested detailed estimates.

COMPANY RESPONSE: We continue to disagree with the violation. This claim involved specialty items which would not be found in a manual. As previously noted, the adjuster verified the scope of the work with the original general contractor. Refer to our original response on October 26, 2011 appendix E for the letter. In addition, the adjuster confirmed the required repair with a specialized copper roof installer. Our experienced adjuster applied reasonable standards in the investigation of the claim. We do not believe we violated the Code of Virginia.

CHO014 - Issues with the bill.

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted, we agree that payroll information could have been requested to substantiate the holiday pay. However, our adjuster developed an estimate of hours of labor factoring in the holiday. This estimate was close to the insured's estimate thus the insured was indemnified based on actual cost incurred. Our experienced adjuster applied reasonable standards in the investigation of the claim and was not in violation of the Code of Virginia.

CHO015 - No police report, but check issued to insured.

COMPANY RESPONSE: We continue to disagree with the violation. Refer to our original response on October 26, 2011 appendix E for the documents including the police report.

CHO020 - Various investigation issues.

COMPANY RESPONSE: We continue to disagree with the violation because proper standards were applied. Our previous responses dated 4/28/11 and 5/4/11 summarized the claim investigation. We agree the file was not properly documented with respect to the at-fault vs good neighbor payment decision. However, our adjuster applied reasonable standards in the investigation of the claim.

CHO031 - Failure to pursue subrogation.

COMPANY RESPONSE: We agree with the violation. A decision was made not to pursue subrogation due to the tenant not having insurance. The file has been referred to our subrogation attorney for recovery consideration.

CHO035 - Questionable charges paid without proof.

COMPANY RESPONSE: We continue to disagree with the violation. Our previous response summarized the claim investigation. We were comfortable with the AI reaching a fair and equitable agreement on the scope of repairs. Please refer to our original response on October 26, 2011 appendix E for documentation.

CHO039 – Standards of investigation.

COMPANY RESPONSE: We continue to disagree. Please refer to section **Policy Provision/26 Claim Overpayment CHO039** for details on how we adjusted the claim. We agree the documentation was not sufficient, but reasonable standards were applied in the investigation.

CHO048 - Conclusion on cause of damage questioned

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted and discussed, we believe the file supports the power surge as cause of loss.

NOTE: The examiner made reference to a violation for CHO019 in section 5. There is no record of this violation.

6) Policy Provision

a. We were cited with 23 violations for not identifying the mortgagee on the payments.

COMPANY RESPONSE: We agree with the violations. Our policy provision notes that the mortgagee will be identified on the payment along with the insured. We are currently reviewing the policy language and will make a determination on how to align the workflow with the policy provision.

b. We were cited for 3 violations for overpaying the claim. We disagree with the 3 violations. Please see below.

CHO019 – overpayment of \$4,975

COMPANY RESPONSE: We continue to disagree with the violation. The deductible applied to the loss and absorbed any contents payment. The settlement letter outlines what the payment is for and payment was made for the balance of the dwelling items due. We do not believe we overpaid this claim. The reference to appendix F for supporting documents is from our original response dated October 26, 2011. We do not believe we violated the Code of Virginia.

CHO039 – overpayment of \$147,112.67

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the initial estimate was prepared by an IA with limited expertise in repair methods needed in custom homes. Our payment was based on the evaluation completed by an experienced builder with expertise in hardwood flooring and custom kitchen cabinetry. The insured's claim submission dated 5/28/10 includes charges for the chandelier which total \$11,916 and does not include installation. We also disagree that an overpayment was made on that portion of the claim. The extent of damages and the tenacity required to clean up the broken glass was significant.

In addition, we address each of the three Observations separately below, and provide clarification to the initial response. It is important to note when evaluating this claim that the Chartis Private Client Group coverage form is generally broader than standard forms.

Observation No. 1: This claim was first investigated by an independent adjuster who was inexperienced with the particular flooring and kitchen cabinetry at issue. Nevertheless, the initial estimate was referred as not presented by the insured, but was prepared by the IA hired by Chartis. The insured provided

evidence that the insured could not make the necessary repairs and replacement of the custom wood flooring that was damaged for the price the independent adjuster determined. Accordingly, Chartis engaged a contractor who was experienced in custom-built homes and the specific type of flooring and cabinets that were damaged by the loss. The more experienced contractor advised Chartis what it would cost the insured to repair/replace the various damaged components. Chartis determined to accept the judgment of the more experienced expert and paid the insured the more comprehensive amount as determined by the more experienced expert. In this instance, Chartis supports its adjuster's decision to provide payment as determined by a more experienced contractor's estimate.

Observation No. 2: There was an objection to the payment of \$12,000 for the cleaning of the broken glass. We assume the objection is due to file documentation, rather than the line item itself. The insured's costs to clean up the broken glass would be a covered loss under the policy.

With respect to the \$12,000 allowance for cleaning up the broken glass, Chartis' adjuster fully evaluated the extent of the required cleanup, which was extremely tedious and dangerous, and determined that \$12,000 was a reasonable allowance for that work, based on Chartis' experience with the cost of cleaning services. Please note it was necessary to perform the cleanup in advance of the replacement of the floors and cabinets because the insured had children who would be exposed to the broken glass.

Observation No. 3: Chartis has evaluated the claim file on this matter, and finds that, as noted in Chartis' initial comments, the documentation in this file supports Chartis' payment of the full amount of \$14,403.98. It is unclear what estimates were reviewed by the examiner, but Chartis made payment based on documentation supplied by the insured to support the cost of the chandelier totaling \$11,916.00. The cost of installation was separately accounted for.

We do not believe we violated the Code of Virginia and respectfully request that this violation be withdrawn from the report.

CHO047 – overpayment of \$270,656.64

COMPANY RESPONSE: We continue to disagree with the violation. We had responded that the company provided coverage for this loss under the peril of collapse. Renovations were last completed at the insured location in 2003. Accordingly, despite our subrogation pursuit, it is unlikely that any allegation of faulty, inadequate or defective workmanship would be sustained in the litigation process. Our failure to look for coverage elsewhere in our policy would cause our insured undue hardship.

Unlike typical homeowners insurance policies, the Chartis Private Client Group coverage form does not exclude coverage for Collapse. The Insured in this case argued that the cause of loss was "collapse." While Chartis investigated the possibility that the loss may have been caused by faulty workmanship, the relevant work was performed in 2003. By statute in Virginia:

No action to recover for any injury to property, real or personal, or for bodily injury or wrongful death, arising out of the defective and unsafe condition of an improvement to real property, nor any action for contribution or indemnity for damages sustained as a result of such injury, shall be brought against any person performing or furnishing the design, planning, surveying, supervision of construction, or construction of such improvement to real property more than five years after the performance or furnishing of such services and construction.

In addition, we reference VA. Code Ann. § 8.01-250 (Limitation on certain actions for damages arising out of defective or unsafe condition of improvements to real property). This statute is known as the "Statute of Repose" in Virginia. The purpose of the statute is to reflect "a legislative policy determination that a time should come beyond which a potential defendant will be immune from liability for his past acts and omissions."

Commonwealth of Virginia v. Owens-Corning Fiberglas Corporation, et al., 238 Va. 595; 385 S.E.2d 865; 1989 Va. LEXIS 179 (Va. 1989), citing *School Bd. of the City of Norfolk v. U.S. Gypsum*, 234 Va. 32, 37, 360 S.E.2d 325, 327-28 (Va.1987) also reflects an unspoken, but understood judgment that if construction has lasted for five years, the likelihood that the construction caused any loss is unlikely. In this case, the insured's ceiling collapsed.

Virginia courts interpret insurance contracts in the light most favorable to the insured where policy language is susceptible to two reasonable interpretations. *Resource Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 636 (4th Cir. 2005) ("Because insurance companies typically draft their policies without the input of the insured, the companies bear the burden of making their contracts clear. Accordingly, if an ambiguity exists, it must be construed against the insurer."). In this case, two reasonable interpretations of coverage exist.

The insured presented sufficient evidence that the cause of loss was "collapse" – in this case, a covered cause of loss. Chartis made a coverage decision that the likelihood of success on any challenge to coverage for this loss was uncertain. Accordingly, Chartis determined to pay this claim as a collapse. That certainly does not preclude Chartis from continuing to attempt to prove, in a subrogation action, that the collapse was caused by faulty workmanship. As between Chartis and the insured, however, Chartis' obligation under Virginia law is to provide coverage unless excluded by the relevant policy language.

In conclusion, we ask that Chartis respectfully requests that you honor Chartis' adjustment of this claim. As a final thought, Chartis' experienced adjusters were present and fully evaluated this claim and determined that payment of the claim was required. We respectfully ask that you reconsider our adjustment of this claim and remove it as a violation.

We do not believe we violated the Code of Virginia and respectfully request that this violation be withdrawn from the report.

REVIEW OF FORMS

POLICY FORMS CURRENTLY USED

38.2-317 A/1 of the Code of Virginia

We were cited with 3 violations for using a prior edition of a form.

COMPANY RESPONSE: We agree with the violations. The violations occurred because the 3 policies were issued in advance of their effective date, which was before the IT release cycle for the new edition of the forms. This cross over resulted in prior editions generated. The examiners otherwise noted 100% compliance with policy issuance.

REVIEW OF POLICY ISSUANCE PROCESS

NEW BUSINESS POLICIES

1) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not providing an adverse action notice for an adverse underwriting decision.

COMPANY RESPONSE: We continue to disagree with the violation referenced MHO002. The examiner requested additional support. Please refer to appendix D for the broker binder approving the proposed coverage. As previously noted, medical payments coverage was extended from the insured's primary home to this secondary home thus there was no need to provide duplicate coverage and charge additional premium. Our proposal offered multiple deductible options. There is no adverse action taken against the insured when multiple options are offered. The insured selected a \$5,000 deductible with medical payments coverage extended from the primary home to save on his premium. The insured paid the premium which is an acceptance of the offer. The insured could have rejected the proposal and requested a new proposal with a zero deductible if that was his preference. We do not believe that an adverse underwriting action was taken against this insured.

2) 38.2-2118 of the Code of Virginia

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

3) 38.2-2116 A-2 of the Code of Virginia

We were cited with 5 violations for not sending a credit adverse action notice to the insured. We continue to disagree with 3 of the 5 violations. Please see below.

MHO001 – Credit adverse action notice not sent

COMPANY RESPONSE: We agree with the violation. The underwriter should have provided the notice.

MHO002 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The examiner has taken the position that due to the inability to obtain a credit score, the insured was adversely affected. However, the filed rating plan does not contemplate credit when there is a no hit. It bypasses the credit components by considering it neutral. We do not believe that a violation exists due to an assumed credit score. The examiner's note that we did not file a default credit score was addressed in the rating section. We believe we could not have taken adverse action by virtue of not using his credit.

MHO003 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an "873" credit score which is considered excellent and the highest points awarded. There was no adverse action taken.

HO Credit Score	Points
831 or above	-30

MHO004 – Credit adverse action notice not sent

COMPANY RESPONSE: After further review, we agree with the violation. The underwriter should have provided the notice.

MHO005 – Credit adverse action notice not sent

COMPANY RESPONSE: We continue to disagree with the violation. The insured had an "831" credit score which is considered excellent and the highest points awarded. There was no adverse action taken.

HO Credit Score	Points
831 or above	-30

RENEWAL BUSINESS POLICIES

38.2-2118 of the Code of Virginia

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

1) 38.2-604 B of the Code of Virginia

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: We continue to disagree with the violation. Both notices (PCG-GLBA and PCG-MAIP) attached to the policies. We believe the combination addressed the Code. The Code does not promulgate the language to use nor the method (1 notice vs 2). We understand that the examiners do not feel the language of our notices is sufficient. We will thus draft a single notice incorporating the examiner's observations, but respectfully request that this violation be moved to a recommendation.

2) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not using an approved prototype AUD notice.

COMPANY RESPONSE: We will agree to add a 90 day requirement to the notice and revise any other portion as needed.

Statutory Property Notices

1) 38.2-2118 of the Code of Virginia

We were cited with 1 violation for not utilizing a replacement cost notice.

COMPANY RESPONSE: We continue to disagree with the violation. This issue is also noted as a violation in the policy issuance section. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

2) 38.2-2126 A of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We continue to disagree with the violation and do not know what else we can offer. The examiner notes that we advised that a default score is used when there is no credit score. We should thus notify the insured that we will use credit. We cannot support this position. We do not use credit where there is no credit. Assigning a number to bypass the system without factoring credit is not equivalent to using credit. Advising insureds that their premium was generated based on credit would be misleading when they do not have a credit score. Further, we also do not use credit for COC risks including in the base rates. The Virginia ACORD disclosure is appropriate.

LICENSING & APPOINTMENT REVIEW

Agent Review

1) 38.2-1318 of the Code of Virginia

Thank you for withdrawing 6 of the original 12 violations. We are now cited with 6 remaining violations for not locating the application from the submitting agent.

COMPANY RESPONSE: We agree with the 6 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. There was an 18 day gap from the time the policy became effective to the time the agent's license became effective. The policy became effective 6/25/10 and the agent's license became effective 7/13/10. The agent is currently licensed and there were no other unlicensed agent violations.

3) 38.2-1883 of the Code of Virginia

We were cited with 8 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 8 violations. The agents were not appointed for the writing company at the time the policies were written. However, all of the agents have been appointed within the last year. The Producer Licensing Unit has been proactive over the last year in identifying agents requiring appointments. They have run reports and cross referenced the agents with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

Agency Review

1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. The agencies were not appointed for the writing company at the time the policies were written. Two of the agencies were subsequently appointed on 4/6/10 and the third agency was appointed on 4/26/11. The Producer Licensing Unit has been proactive over the last year in identifying agents and agencies requiring appointments. They have run reports and cross referenced the agents and agencies with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will be run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

PART TWO – CORRECTIVE ACTION PLAN

RATING & UNDERWRITING REVIEW

1. Company will correct premium errors as agreed.

2. Refunds/Credits will include 6% simple interest.
3. Rating Overcharges file will be submitted to the Bureau upon completion.
4. Company notified brokers and added reminder note to the system on 12-22-11.
5. The ambiguous rate filing observed by the examiner does not exist today. The company has a different rating structure involving 12 tiers that was filed in 2010 and approved in 2011 in Chartis Property Casualty Company. The homeowners program is not currently written in AIU Insurance Company which was the subject of this exam. With respect to the rate filing having a typo, as noted in Part One, it has been filed and approved with the typo corrected.
6. The company will use rules and rates on file with the Bureau.
7. Refer to action taken in Part One. Company will provide required disclosure.

TERMINATION REVIEW

1. Refer to action taken in Part One. Company will retain proof of mailing in its system instead of sending to archives..
2. Company will calculate earned premium in accordance with filed rules and policy provisions.
3. Company has trained underwriting staff on permissible reasons for cancellation in 2010 and reinforced in 2011. The files reviewed predated the training.
4. Company will retain notice of cancellation sent to lienholder in its system.
5. Company has trained underwriting staff on permissible reasons for cancellation in 2010 and reinforced in 2011. The files reviewed predated the training.

CLAIMS REVIEW

1. Company will properly document claim files so that all events and dates pertinent to the claim can be reconstructed.
2. Company will make all claim denials in writing and retain a copy in the claim file.
3. Company will review its claims handling investigation standards and make changes where appropriate.

REVIEW OF FORMS

1. Refer to Part One. All forms are filed. 3 policies were issued in advance of the programming and are isolated cases.

POLICY ISSUANCE

1. Company will reinforce the Credit Adverse Action Notice requirement.

2. Company has agreed to draft and attached the notice to all policies. This notice will be added to the February or March 2012 IT release cycle.

LICENSING AND APPOINTMENTS

1. Company will keep record the submitting agent. Company notified brokers and added reminder note to the system on 12-22-11 to provide the applications to the company.
- 2-3. Company will appoint producers within 30 days of the application.
4. Company will pay commissions only to appoint producers.

In addition to the above, please refer to the preliminary report responses dates October 25, 2011 which include additional corrective actions. Some examples of these items include:

- System edits
- Contacting vendor (ISO) for risk location mapping
- Training
- Revised workflows for proof of mailings.
- Policy language modifications to align with cancellation.
- Nonrenewal training for staff.
- Procedure for adjusters sending claim denials in writing.

PART THREE – EXAMINERS’ NOTES

Termination

- Refer to Part One for corrective action.

Claims

- Procedure for identifying lienholder on checks will be reviewed and modified accordingly.

Recommendations

- Refer to Part One for corrective action taken on most of the recommendations. Company agrees to review recommendation notes and implement as appropriate.

COMMONWEALTH OF VIRGINIA

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



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June 27, 2012

VIA UPS 2ND DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U.S.
175 Water Street, 18th Floor
New York, NY 10038

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the AIU Insurance Company's (Company) April 23, 2012 response to the Revised 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

Homeowner New Business

- (2) The violations in this section remain in the Report. The Company does not have a median score in its manual of filed rules and rates. We have discussed the Company's position with our Rates and Forms Section (RRF). Based upon the scores in the Company's manual the examiners from the RRF section have advised a median or neutral score would fall between the scores of 747 and 767. The Company's use of 780 as a median "no hit" credit score is not aligned with the scores on file and allows an unfair advantage to customers with a "no hit" credit score in comparison to those customers with a documented credit score.
- (3a) The violation for RHO001 remains in the Report. The Company made changes to this policy effective 07/07/10 which resulted in a credit of \$315.00. These changes should have been applied back to the policy effective date. Along with the change from the new home credit to the renovation credit the Company amended several other credits that were not applied at new business. Specifically the Company applied a 10% credit for a sprinkler system that protected all enclosed spaces and then removed and replaced this credit with an additional 5% credit for areas if egress effective; also the Company applied a 4% credit for Superior Protection. As a result of these changes the overcharge of \$166 has been withdrawn and there is now an undercharge of \$38.00.

Homeowner Renewal Business

- (2) The violations in this section remain in the Report. The Company does not have a median score in its manual of filed rules and rates. We have discussed the Company's position with our RRF's section. Based upon the scores in the Company's manual the examiners from the RRF's section have advised a median or neutral score would fall between the scores of 747 and 767. The Company's use of 780 as a median "no hit" credit score is not aligned with the scores on file and allows an unfair advantage to customers with a "no hit" credit score in comparison to those customers with a documented credit score.

Terminations

Company Initiated Cancellations Homeowner Policies

Notice Mailed After the 89th Day of Coverage

- (3) The violations for THO005, THO006 and THO007 remain in the Report. In order for the insurer to use an increase in hazard as a reason to cancel mid-term, the insurer must show that there has been a physical change in the property since the policy was issued. This would require two inspection reports to support the insurer's position that there has been a physical change. The Bureau has not stated that the Company could not cancel a policy for an increase in hazard (physical change in property). The Company could have cancelled this policy for an increase in hazard if the Company had evidence that the property changed from its original condition at the time the policy was issued. The Company is unable to provide such documentation.

Nonpayment of Premium Homeowner Policies

- (1) After further review, the violations for THO011, THO014, THO016, and THO018 are withdrawn from the Report.

Claims-Homeowner Policies

- (1) The violation for CHO005 remains in the Report. The file is not sufficiently documented to fully understand how the Company arrived at the difference in the two estimates.

The violations for CHO014 and CHO015 remain in the Report. The Company has not provided an Appendix E in either of its responses; therefore, there is nothing for the Bureau to reconsider.

The violation for CHO021 remains in the Report. The file lacks documentation itemizing the cost for labor and material.

The violation for CHO028 remains in the Report. The Company's adjuster stated "I rec'd estimate from insd. No detailed line items. Will need IA to inspect." The Company then cancelled the Independent Adjuster and paid the estimate. The file lacks documentation itemizing the cost for labor and material.

The violation for CHO039 remains in the Report. The Company has referred the Bureau to Section 8 in their response. The Bureau assumes the Company is referencing Section 6 as there is no Section 8. The Company has not provided any additional information or documentation for the Bureau to reconsider its initial findings.

- (2a) After further review the violation for CHO005 is withdrawn from the Report.

- (3) The violation for CHO039 is withdrawn from the Report. The Company has provided evidence of negotiations for the Additional Living Expense claim.
- (4) The violation for CHO045 remains in the Report. The Company has responded that the insured filed for less than \$600. Was the \$600 for additional living expenses? Did the Company make a payment to the insured for \$600 of ALE? If the Company has not made this payment and has no evidence of the \$600 ALE charges, the Company should contact the insured and determine what, if any, additional expenses were incurred.
- (5) After further review the violations for CHO010 and CHO014 are withdrawn.
The violation for CHO015 remains in the Report. The Company is aware of the significant discrepancies between the police report and the insured's report of the loss. Further, the Company has not provided an Appendix E in either of its responses.
After further review the violation for CHO020 is withdrawn.
The violation for CHO035 remains in the Report. The Company has not provided an Appendix E in either of its responses.
The violation for CHO039 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 CHO048 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 CHO019 relating to the Company's investigation was withdrawn on 9/2/2011 with a copy to the Company. The violation was moved to a policy provision violation of which the company has responded to in Section (6 b) below.
- (6b) The violation for CHO019 remains in the Report. The Company has referenced Appendix F in its response. Neither of the Company's responses included an Appendix F. Additionally, the Company has responded to a violation for application of the deductible. This violation is not related to a deductible but to the absence of coverage.
The violation for CHO039 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 CHO047 remains in the Report. There is no documentation that the Company considered coverage or recognized the coverage issues.

Policy Issuance New Business Homeowner Policies

- (1) The violation for MHO002 remains in the Report. The Company was informed in the Data Call Manual and in the conference call that all information for the policy issuance review should be submitted with the initial packet of information sent for review and that this is the one area of the Report that additional information will not be accepted as this was the information the Company had at the time the policy was issued. The Agency Request to Bind Coverage document was not sent to the Bureau, as such, this information is not information that can be provided at this point in the review.
- (2) The violations in this area remain in the Report. The Company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

- (3) The violation for MHO002 remains in the Report. The Company does not have a median score in its manual of filed rules and rates. We have discussed the Company's position with our Rates and Forms Section (RRF). Based upon the scores in the Company's manual the examiners from the RRF section have advised a median or neutral score would fall between the scores of 747 and 767. The Company's use of 780 as a median "no hit" credit score is not aligned with the scores on file and allows an unfair advantage to customers with a "no hit" credit score in comparison to those customers with a documented credit score.

After further review the violations for MHO003 and MHO005 have been withdrawn from the Report.

Policy Issuance Renewal Business-Homeowner Policies

The violations in this area remain in the Report. The Company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

Notices

General Statutory Notices

- (1) The violation for NGS005 remains in the Report. The Company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.

Statutory Property Notices

- (1) The violation for NSP005 remains in the Report. The Company has not provided anything additional that would cause the Bureau to reconsider its initial findings in this area.
- (2) The violation for NSP003 remains in the Report. The Company has addressed one of three issues with their notice. The Bureau's response to the contested issue is unchanged as the Company has not provided anything additional for the Bureau to reconsider.

PART TWO CORRECTIVE ACTION PLAN

Rating and Underwriting

- (1) The Company should make restitution to the remaining insureds listed in the table prior to the response date listed below.

Terminations

- (1) The Company should correct the errors that caused the overcharge.

Claims

- (1) The Company should determine if additional monies are due the insured and if so, make the appropriate restitution prior to the response date listed below. If no additional claim will be made, the Company should advise the Bureau of such.

Policy Issuance

- (2) The Company should provide a copy of the proposed Replacement Cost notice to the Bureau by the date listed below.
- (3) The Company should provide a copy of the proposed Credit Adverse Action notice to the Bureau by the date listed below.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheets, and any review sheets that have been 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 July 16, 2012.

Sincerely,

Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
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CHARTIS

July 26, 2012

Via 2nd Day UPS Express Mail & E-Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219



Re: AIU Insurance Company (NAIC#19399)
Homeowners Market Conduct Examination
September 1, 2009 – August 31, 2010

Dear Ms. Morton:

This is in response to your letter dated June 27, 2012 for the AIU Insurance Company Homeowners Market Conduct Examination.

We have reviewed your comments and additional explanations and have included the Company's corresponding comments in the attached document. Additionally, we have several attachments that correspond to the comments.

We look forward to your favorable reply.

Sincerely,

Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – response document & 9 attachments
Cc: Steve Harris, Chartis

Jmorton VA HO AIU letter 07 26 12

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AIU INSURANCE COMPANY

(Private Client Group)

Response to the Virginia Homeowners Market Conduct Exam & Letter dated 6-27-2012

PART ONE – EXAMINER’S OBSERVATIONS

RATING & UNDERWRITING REVIEW

Homeowners New Business Policies

(1) 38.2-1318 of the Code of Virginia

We were cited with 4 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 4 violations. We were unable to locate an application for RHO001, RHO011, RHO018 and RHO022. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

(2) 38.2-1906 A of the Code of Virginia

We were cited with 5 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: Upon further consideration, we will agree with the 5 violations. Please note that we filed a rule identifying the default credit score for a no hit. The filing was approved for Chartis Property Casualty Company on 11/15/11. The SERFF Tracking# is APCG-127709574. The State Tracking# is 012. No further action is needed.

(3) 38.2-1906 D of the Code of Virginia

a. We were cited with 4 violations for failing to apply discounts and/or surcharges. We agree with the following 4 violations:

RHO001 – Failure to apply changes to credits/surcharges resulting in an undercharge.

COMPANY RESPONSE: We agree with the violation. The results of the inspection should have been applied retroactive to the policy effective date. The underwriting unit will be advised accordingly.

RHO008 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. The underwriting file does not contain documentation of a caretaker. The underwriter was advised to apply the surcharge on renewal.

RHO018 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

RHO057 – Policy receiving a companion credit, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove this credit on renewal.

b. There is 1 violation for failing to use the correct territory.

COMPANY RESPONSE: We agree with the violation. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There are 3 violations for using incorrect tier eligibility resulting in undercharges.

COMPANY RESPONSE: We agree with the 3 violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a mono-line homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The Insurance Department was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 7 violations for failing to use the correct base and/or final rates. We will agree with the 7 violations:

RHO002 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$116 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO006 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$46 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO009 – Not filing windstorm rates for individual tiers for zone 303 resulting in a \$57 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO010 – Rates used produced overcharge of \$21,708.

COMPANY RESPONSE: We agree with the violation. The rates for this course of construction risk category were not correctly programmed in our ePCG system. This error was discovered and corrected in 2010, but the correction occurred after this policy had already been issued. The insured will receive a refund for the overcharge.

RHO016 – Rates used produced overcharge of \$116. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO019 – Rates used produced overcharge of \$80. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

RHO024 – Rates used produced overcharge of \$57. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We will provide a refund.

e. There is 1 violation for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violation. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

(4) 38.2-2126 A of the Code of Virginia

We were cited with 7 violations for inability to locate an ACORD application.

COMPANY RESPONSE: We agree with the 7 violations. The credit score disclosure language is found in the ACORD application. We were unable to locate the application for RHO006, RHO008, RHO011, RHO012, RHO017, RHO018 and RHO021. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

Homeowners Renewal Business Policies

(1) 38.2-305 A of the Code of Virginia

We were cited with 1 violation for incorrect Dec Page.

COMPANY RESPONSE: We agree with the violation in principle. The Dec page was missing the contents limit. However, this is an extension from **38.2-1906 D/01** RHO043. The policy was incorrectly written with a \$0 contents limit (should have been 5% contents). The Dec Page listed what was written.

(2) 38.2-1906 A of the Code of Virginia

We were cited with 8 violations for using a default credit score of 780 that was not referenced in the rate filing.

COMPANY RESPONSE: Upon further consideration, we will agree with the 8 violations. Please note that we filed a rule identifying the default credit score for a no hit. The filing was approved for Chartis Property Casualty Company on 11/15/11. The SERFF Tracking# is APCG-127709574. The State Tracking# is 012. No further action is needed.

(3) 38.2-1906 D of the Code of Virginia

a. We were cited for 8 violations for failing to apply discounts and/or surcharges. We agree with the following 8 violations:

RHO041 – Failure to apply a 10% claims surcharge.

COMPANY ACTION: We agree with the violation. The underwriter failed to pick up the claim on the 2009 term. The 2010 term correctly reflected the claim.

RHO043 – Incorrectly applying a no contents discount.

COMPANY RESPONSE: We agree with the violation. In most states, we apply a credit when contents coverage is 0%. In Virginia, contents cannot be lower than 5% thus there is no credit. Today our ePCG system has an edit to prevent the credit from being selected. This policy was issued prior to that edit.

RHO044 – Incorrectly applying a rate cap.

COMPANY RESPONSE: We agree with the violation. In 2009, we filed a rule to cap rate increases at 20% for policies that renew into tiers 1-4. The rate cap was to be in effect for one year and removed at the next renewal. This policy should not have received a rate cap on its 2010 renewal. This was a system's error that was caught and fixed in 2011.

RHO048 – Failure to apply a secondary house surcharge of 10%.

COMPANY RESPONSE: We agree with the violation. A review of the file indicates a secondary house without a full-time caretaker. The underwriter was notified to add the surcharge on renewal.

RHO051 – Policy received a companion credits, but is not eligible.

COMPANY RESPONSE: We agree with the violation. Today, policies that refer on renewal are reviewed for eligible credits and new business credits are confirmed by the issuance team. We also added eligibility notes to our ePCG system for those credits. The underwriter was advised to remove the credit on renewal.

RHO069 – Policy incorrectly received a 25% vacancy surcharge.

COMPANY RESPONSE: We agree with the violation. Although the inspection report indicates that the owner is away from the home for part of summer, this is a primary home and does not fit the definition of vacant home. The underwriter was advised to remove the surcharge and refund the surcharge amount.

RHO075 – Failure to apply a 5% fire alarm credit. Incorrectly applying a 2% temperature monitoring system credit.

COMPANY RESPONSE: We agree with the 2 violations based on our review of the inspection report. The underwriter was notified accordingly.

b. There are 5 violations for failing to use the correct territory.

COMPANY RESPONSE: We agree with the 5 violations. Our system is mapped to ISO Passport for distance to shore (bay or ocean). We are not sure why ISO did not pick up the proximity to the bay. We have notified ISO to make the corrections.

c. There are 12 violations for using an incorrect rating tier resulting in undercharges.

COMPANY RESPONSE: We agree with the violations. This was a result of a typo in the rate filing. The intent was to apply a tier 2 for a monoline homeowners policy, but the filing showed tier 1. Our ePCG system was correctly programmed for tier 2. The insurance Department was notified of the typo in the filing on 5/26/11 and acknowledged the correction on 6/24/11.

d. There are 11 violations for failing to use the correct base and/or final rates. These violations are the result of an ambiguous filing not intent. We will agree with the 11 violations:

RHO032 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO033 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO038 – Not filing windstorm rates for individual tiers for zone 302 resulting in a \$186 overcharge.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

RHO052 – Rates used produced overcharge of \$31,842.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. This was corrected with the 2010 renewal and we provided a refund of the 2009 overcharge premium amount.

RHO055 – Rates used produced an undercharge.

COMPANY RESPONSE: We agree with the violation. The underwriter did not properly rate the policy. The premium was corrected with the 2011 renewal.

RHO058 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO062 – Wrong windstorm rates used.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO064 – Rates used produced an undercharge.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO069 – Rates used produced overcharge of \$711. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

RHO073 – Rates used produced an undercharge. Windstorm rates not filed.

COMPANY RESPONSE: The examiner is not questioning the accuracy of the rating. Rather the use of wrong windstorm rates due to an ambiguous filing. While we rated in accordance with intent, we will agree that our filing is ambiguous.

RHO074 – Rates used produced overcharge. Windstorm rates not filed.

COMPANY RESPONSE: Upon further review, we will agree that our filing is ambiguous. We provided a refund.

e. There are 10 violations for using the wrong construction type in the rating resulting in an undercharge.

COMPANY RESPONSE: We agree with the violations. We used the construction type provided by the broker directly or via the ACORD application. We subsequently inspected the property, but the underwriter missed the discrepancy between the inspection and broker submission. We began educating our brokers on correct construction types in 2010 as part of a quality data initiative. As part of this initiative, we also began to confirm the construction type applied vs the inspection through our client services unit.

f. There are 2 violations for using an incorrect public protection class. We agree with the below 2 violations.

RHO046 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: We agree with the violation. We obtain public protection class codes from ISO Passport. Although automated today, the underwriter had to manually request the report for this policy term and apply the code. The wrong code was applied. The policy will be corrected on renewal.

RHO072 – Incorrect public protection class resulted in an undercharge.

COMPANY RESPONSE: Based on the information provided by the examiner, we agree with the violation. We used the public protection class code provided by ISO Passport. We will notify ISO of the error.

TERMINATION REVIEW

Company-Initiated Cancellations – Homeowners Policies

NOTICE MAILED PRIOR TO THE 90th DAY OF COVERAGE

1) 38.2-2113 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violation. We were unable to locate the proof of mailing in archives. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2113 C of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the violation. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

NOTICE MAILED AFTER THE 89th DAY OF COVERAGE

1) 38.2-1906 D of the Code of Virginia

We were cited with 1 violation for over-refunding or under-refunding premium.

COMPANY RESPONSE: We agree with the violation for THO006. The calculation was off by \$5.81.

2) 38.2-2113 C of the Code of Virginia

We were cited with 6 violations for not retaining proof of mailing to the mortgagee or insured.

COMPANY RESPONSE: We agree with the violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) 38.2-2114 A of the Code of Virginia

We were cited with 5 violations for cancellation reason not permitted or unsupported. We continue to disagree with 3 of the 5 violations. Please see below.

THO003 – Vacancy not a permitted reason for cancellation.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The property was vacant and either foreclosed or in foreclosure hearings. There is no documentation in the underwriting file regarding the date of foreclosure. Unless the foreclosure is final, it cannot be used as a cancellation reason. This topic is addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO007 – Increase in hazard is not a permitted reason for cancellation.

COMPANY RESPONSE: We continue to disagree with the violation. A course of construction that was not disclosed to the company by the insured represents an increase in hazard. Had the insured disclosed the course of construction, the company would have been able to properly underwrite the risk.

The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 10/21/09 and discovered a course of construction that was not disclosed to us. Please refer to appendix B in our prior response. The existence of an increase in hazard is apparent. The inspection showed a progression of work. The examiner's position that we cannot support an increase in hazard because we did not conduct two inspections is inflexible in our opinion. We believe the failure to disclose the construction project and the ongoing construction work represents an increase in hazard and a valid reason for cancellation.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

THO008 – Material Misrepresentation not substantiated.

COMPANY RESPONSE: We agree with the violation due to lack of documentation. The policy was canceled due to the insured advising the property has an alarm, but an inspection revealed otherwise. We were unable to locate the appropriate documentation in the underwriting file. Proper file documentation is a topic addressed in cancellation training documents released in 2010. This policy was canceled prior to the training.

THO005 – Physical changes in the property is not substantiated.

COMPANY RESPONSE: As with THO007, we continue to disagree with the violation. A course of construction that was not disclosed to the company by the insured represents an increase in hazard. Had the insured disclosed the course of construction, the company would have been able to properly underwrite the risk.

The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 10/27/09 and discovered many undisclosed hazards and the home is under construction. Please refer to appendix B from our prior response. The existence of an increase in hazard is apparent. There are bare electrical wires, mold and mildew, corroding pipes and work being conducted. These hazards which were omitted by the insured and the physical changes due to the work conducted represent sufficient grounds for cancellation. The examiner's position that we cannot support an increase in hazard because we did not conduct two inspections is inflexible in our opinion.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

THO006 – Physical changes in the property is not substantiated.

As with THO007 and THO006, we continue to disagree with the violation. A course of construction that was not disclosed to the company by the insured represents an increase in hazard. Had the insured disclosed the course of construction, the company would have been able to properly underwrite the risk.

The Insurance Code permits cancellation for physical changes which result in property becoming uninsurable as determined from a physical inspection. This is also noted in the amendatory endorsement that is attached to the policy provided to the insured. Please see below.

We inspected the property on 6/18/09 and discovered a course of construction that was not disclosed to us. Please refer to appendix B from our prior response. The existence of an increase in hazard is apparent. The construction presented a daily physical change in hazard due to the past and present work being conducted. The inspection showed a progression of work that had not begun on the date of inspection. The examiner's position that we cannot support an increase in hazard because we did not conduct two inspections is inflexible in our opinion. A construction project represents a daily change in hazard. The type of work conducted changes daily, construction material and debris are left unattended, etc. We believe the increase in hazard due to the construction project which was not disclosed to the company is a valid cancellation reason.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which results in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

4) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

6) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

All Other Cancellations – Homeowners Policies

NONPAYMENT OF THE PREMIUM

1) 38.2-2113 A of the Code of Virginia

We were cited with 1 violation for not retaining proof of mailing to the insured.

COMPANY RESPONSE: We agree with the violation. We could not locate the proof of mailing in archives.

2) 38.2-2113 C of the Code of Virginia

a. We were cited with 2 violations for not retaining a copy of the notice of cancellation to the lienholder.

COMPANY RESPONSE: We agree with the 2 violations.

b. We were cited with 9 violations for not retaining proof of mailing to the mortgagee.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

3) 38.2-2114 C 3 of the Code of Virginia

We were cited with 1 violation for not informing the insured of his right to a review of the cancellation reason by the Commissioner.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

4) 38.2-2114 C 4 of the Code of Virginia

We were cited with 1 violation for not informing the insured of possible availability of insurance through the Virginia Property Insurance Association.

COMPANY RESPONSE: We agree with the violation. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation notice.

5) Policy Provision/21

We were cited with 1 violation for not having consistent language between the cancellation notice and policy cancellation provision.

COMPANY RESPONSE: We agree with the violation. Our policy cancellation provision states excess premium is refunded automatically, which is our procedure. The cancellation notice states excess premium is refunded on demand. The cancellation notice is from a third party system called Oden Policy Terminator. We are not authorized to modify Oden. We notified Oden of the DOI finding and requested a modification to their cancellation language.

REQUESTED BY THE INSURED

1) Policy Provision 1 - General

We were cited with 8 violations for honoring a backdated cancellation request by the insured.

COMPANY RESPONSE: We agree with the violations. The policy language requires the insured notify the company of the future cancellation date. However, as a rule, we must honor a backdated cancellation request when the insured provides evidence of coverage with other insurance company on that date. We will file an amendment to our policy language to remove reference to future date.

Company-Initiated Non-Renewals – Homeowners Policies

1) 38.2-2113 C of the Code of Virginia

a. We were cited with 9 violations for not retaining a copy of the notice of nonrenewal to the lienholder or proof of mailing to the insured or lienholder.

COMPANY RESPONSE: We agree with the 9 violations. Beginning this month, we implemented a new workflow. Client services will scan and upload all proof of mailings onto our ePCG system.

2) 38.2-2114 I of the Code of Virginia

We were cited with 2 violations for invalid nonrenewal reason. We agree with the below violations.

THO032 – Windstorm loss is not a permitted reason for nonrenewal.

COMPANY RESPONSE: We agree with the violation. This topic was addressed in nonrenewal training documents released in 2010. This policy was nonrenewed prior to the training.

THO034 – The nonrenewal notice incorrectly noted 3 claims.

COMPANY RESPONSE: We agree with the violation. There were 2 claims.

CLAIMS REVIEW

Homeowners Claims

1) 14 VAC 5-400-30

We were cited with 10 violations for failing to document the file. We continue to disagree with 6 of the violations.

CHO005 - No documentation for higher estimate.

COMPANY RESPONSE: We continue to disagree with the violation. The staff is experienced and determined that the higher estimate which was prepared by a licensed contractor was appropriate. We disagree with the examiner's position that we violated the Code of Virginia by accepting the higher estimate.

CHO011 - File not complete. Missing bills and proof of loss.

COMPANY RESPONSE: We agree with the violation. The file could have been better documented.

CHO013 - File not complete. Missing replacement bill.

COMPANY RESPONSE: We agree with the violation.

CHO014 - Payment not substantiated.

COMPANY RESPONSE: We continue to disagree with the violation. Please see attached statement of loss, inventory list and contents cleaning estimate.

CHO015 - No documentation regarding what prompted the payment.

COMPANY ACTION: We continue to disagree with the violation. Please see attached police report.

CHO020 - Documentation missing from file.

COMPANY ACTION: We agree with the violation. The adjuster did not document the file in accordance with our standards.

CHO021 - Payments based on questionable estimates.

COMPANY ACTION: We continue to disagree with the violation. The adjuster reviewed the estimates and agreed with the scope of the repairs. This is an experienced adjuster who is knowledgeable on the issues and costs associated with the often unique claims of the Private Client Group. The adjuster did not require further validation of estimates. We do not believe that we violated the Code of Virginia by accepting the estimates.

CHO028 - Payments based on questionable estimates.

COMPANY ACTION: We will agree to the violation due to the adjuster requesting an IA.

CHO036 - No documentation of follow up in file.

COMPANY ACTION: We agree with the violation.

CHO039 – No documentation in file on furniture.

COMPANY RESPONSE: We continue to disagree with the violation. Please refer to CHO039 of section 6 for details on how we adjusted the claim. We do not believe we violated the Code of Virginia.

2) 14 VAC 5-400 A

We were cited with 1 violation for not informing the insured of benefits.

COMPANY RESPONSE: We agree with the violation on CHO031 due to file documentation. The tenant continued to live in the home and thus there was no reason to discuss the Fair Rental Value. However, the file does not contain a note on this matter.

3) 14 VAC 5-400-70 A

We were cited with 4 violations for not retaining a written denial in the file. We agree with the 4 violations. Please see below.

CHO0002 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The denial for the pipe should have been in writing. Today we have a procedure whereby adjusters send partial denials in writing.

CHO0017 – Partial denial must be in writing.

COMPANY RESPONSE: We agree with the violation. The partial denial was provided verbally. Today we have a procedure whereby adjusters send partial denials in writing.

CHO0026 – Verbal denial of estimate.

COMPANY RESPONSE: We agree with the violation. The estimate provided was for an unrelated claim and verbally denied. However, we should have denied in writing which is our current procedure.

CHO0045 – Verbal denial of ALE and mileage.

COMPANY RESPONSE: We agree with the violation. Although our homeowners policy provides ALE only if the home becomes uninhabitable, due to the severity of the loss we should have provided a letter explaining why ALE was not applicable (i.e., home is habitable). However, we provided \$100 in mileage and utilities allowance thus no denial letter required.

4) 14 VAC 5-400-70 D

We were originally cited with 1 violation for not accurately paying for ALE and other items. This was withdrawn and replaced with the company owes the insured for increased utility and related expenses.

COMPANY RESPONSE: We continue to disagree with the violation for CHO045 and do not believe we need to remit \$10,000 for Additional Living Expense. The insured filed for less than \$600. Please see attached. Further the claim was settled to the satisfaction of the insured. Please see attached. We disagree that we are in violation of the Code of Virginia and should reopen the claim and make additional payments.

5) **38.2-510 A 3 of the Code of Virginia**

We were cited with 5 violations for failing to adopt reasonable standards for prompt investigation of claim. We continue to disagree with 3 of the 5 violations. Please see below.

CHO015 - No police report, but check issued to insured.

COMPANY RESPONSE: We will agree to this violation.

CHO031 - Failure to pursue subrogation.

COMPANY RESPONSE: We agree with the violation. A decision was made not to pursue subrogation due to the tenant not having insurance. The file has been referred to our subrogation attorney for recovery consideration.

CHO035 - Questionable charges paid without proof.

COMPANY RESPONSE: We continue to disagree with the violation. Our previous response summarized the claim investigation. We were comfortable with the AI reaching a fair and equitable agreement on the scope of repairs and do not believe we were in violation of the Code of Virginia.

CHO039 – Standards of investigation.

COMPANY RESPONSE: We continue to disagree. Please refer to section **Policy Provision/26 Claim Overpayment CHO039** for details on how we adjusted the claim. We agree the documentation was not sufficient, but reasonable standards were applied in the investigation and we do not believe we violated the Code of Virginia.

CHO048 - Conclusion on cause of damage questioned

COMPANY RESPONSE: We continue to disagree with the violation. As previously noted and discussed, we believe the file supports the power surge as cause of loss. We do not believe we violated the Code of Virginia.

6) **Policy Provision**

a. We were cited with 23 violations for not identifying the mortgagee on the payments.

COMPANY RESPONSE: We agree with the violations. Our policy provision notes that the mortgagee will be identified on the payment along with the insured. We are currently reviewing the policy language and will make a determination on how to align the workflow with the policy provision.

b. We were cited for 3 violations for overpaying the claim. We continue to disagree with the 3 violations. Please see below.

CHO019 – overpayment of \$4,975

COMPANY RESPONSE: We continue to disagree with the violation. The settlement letter outlines what the payment is for and payment was made for the balance of the dwelling items due. We do not believe we overpaid this claim nor violated the Code of Virginia.

CHO039 – overpayment of \$147,112.67

COMPANY RESPONSE: The examiner noted we did not provide anything further for consideration and thus the violation remains. We respectfully hold firm in our position that we did not violate the Code of Virginia. We can only restate our prior position.

We had responded that the initial estimate was prepared by an IA with limited expertise in repair methods needed in custom homes. Our payment was based on the evaluation completed by an experienced builder with expertise in hardwood flooring and custom kitchen cabinetry. The insured's claim submission dated 5/28/10 includes charges for the chandelier which total \$11,916 and does not include installation. We also disagree that an overpayment was made on that portion of the claim. The extent of damages and the tenacity required to clean up the broken glass was significant.

In addition, we address each of the three Observations separately below, and provide clarification to the initial response. It is important to note when evaluating this claim that the Chartis Private Client Group coverage form is generally broader than standard forms.

Observation No. 1: This claim was first investigated by an independent adjuster who was inexperienced with the particular flooring and kitchen cabinetry at issue. Nevertheless, the initial estimate was referred as not presented by the insured, but was prepared by the IA hired by Chartis. The insured provided evidence that the insured could not make the necessary repairs and replacement of the custom wood flooring that was damaged for the price the independent adjuster determined. Accordingly, Chartis engaged a contractor who was experienced in custom-built homes and the specific type of flooring and cabinets that were damaged by the loss. The more experienced contractor advised Chartis what it would cost the insured to repair/replace the various damaged components. Chartis determined to accept the judgment of the more experienced expert and paid the insured the more comprehensive amount as determined by the more experienced expert. In this instance, Chartis supports its adjuster's decision to provide payment as determined by a more experienced contractor's estimate.

Observation No. 2: There was an objection to the payment of \$12,000 for the cleaning of the broken glass. We assume the objection is due to file documentation, rather than the line item itself. The insured's costs to clean up the broken glass would be a covered loss under the policy.

With respect to the \$12,000 allowance for cleaning up the broken glass, Chartis' adjuster fully evaluated the extent of the required cleanup, which was extremely tedious and dangerous, and determined that \$12,000 was a reasonable allowance for that work, based on Chartis' experience with the cost of cleaning services. Please note it was necessary to perform the cleanup in advance of the replacement of the floors and cabinets because the insured had children who would be exposed to the broken glass.

Observation No. 3: Chartis has evaluated the claim file on this matter, and finds that, as noted in Chartis' initial comments, the documentation in this file supports Chartis' payment of the full amount of \$14,403.98. It is unclear what estimates were reviewed by the examiner, but Chartis made payment based on documentation supplied by the insured to support the cost of the chandelier totaling \$11,916.00. The cost of installation was separately accounted for.

We do not believe we violated the Code of Virginia and respectfully request that this violation be withdrawn from the report.

CHO047 – overpayment of \$270,656.64

COMPANY RESPONSE: The examiner noted there is no evidence we considered or recognized the coverage and coverage issues. We respectfully disagree and hold firm in our position that we did not violate the Code of Virginia. We can only restate our prior position.

Renovations were last completed at the insured location in 2003. Accordingly, despite our subrogation pursuit, it is unlikely that any allegation of faulty, inadequate or defective workmanship would be sustained in the litigation process. Our failure to look for coverage elsewhere in our policy would cause our insured undue hardship.

Unlike typical homeowners insurance policies, the Chartis Private Client Group coverage form does not exclude coverage for Collapse. The Insured in this case argued that the cause of loss was "collapse." While Chartis investigated the possibility that the loss may have been caused by faulty workmanship, the relevant work was performed in 2003. By statute in Virginia:

No action to recover for any injury to property, real or personal, or for bodily injury or wrongful death, arising out of the defective and unsafe condition of an improvement to real property, nor any action for contribution or indemnity for damages sustained as a result of such injury, shall be brought against any person performing or furnishing the design, planning, surveying, supervision of construction, or construction of such improvement to real property more than five years after the performance or furnishing of such services and construction.

In addition, we reference VA. Code Ann. § 8.01-250 (Limitation on certain actions for damages arising out of defective or unsafe condition of improvements to real property). This statute is known as the "Statute of Repose" in Virginia. The purpose of the statute is to reflect "a legislative policy determination that a time should come beyond which a potential defendant will be immune from liability for his past acts and omissions."

Commonwealth of Virginia v. Owens-Corning Fiberglas Corporation, et al., 238 Va. 595; 385 S.E.2d 865; 1989 Va. LEXIS 179 (Va. 1989), citing *School Bd. of the City of Norfolk v. U.S. Gypsum*, 234 Va. 32, 37, 360 S.E.2d 325, 327-28 (Va.1987) also reflects an unspoken, but understood judgment that if construction has lasted for five years, the likelihood that the construction caused any loss is unlikely. In this case, the insured's ceiling collapsed.

Virginia courts interpret insurance contracts in the light most favorable to the insured where policy language is susceptible to two reasonable interpretations. *Resource Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 636 (4th Cir. 2005) ("Because insurance companies typically draft their policies without the input of the insured, the companies bear the burden of making their contracts clear. Accordingly, if an ambiguity exists, it must be construed against the insurer."). In this case, two reasonable interpretations of coverage exist.

The insured presented sufficient evidence that the cause of loss was "collapse" – in this case, a covered cause of loss. Chartis made a coverage decision that the likelihood of success on any challenge to coverage for this loss was uncertain. Accordingly, Chartis determined to pay this claim as a collapse. That certainly does not preclude Chartis from continuing to attempt to prove, in a subrogation action, that the collapse was caused by faulty workmanship. As between Chartis and the insured, however, Chartis' obligation under Virginia law is to provide coverage unless excluded by the relevant policy language.

In conclusion, we ask that Chartis respectfully requests that you honor Chartis' adjustment of this claim. As a final thought, Chartis' experienced adjusters were present and fully evaluated this claim and

determined that payment of the claim was required. We respectfully ask that you reconsider our adjustment of this claim and remove it as a violation.

We do not believe we violated the Code of Virginia and respectfully request that this violation be withdrawn from the report.

REVIEW OF FORMS

POLICY FORMS CURRENTLY USED

38.2-317 A/1 of the Code of Virginia

We were cited with 3 violations for using a prior edition of a form.

COMPANY RESPONSE: We agree with the violations. The violations occurred because the 3 policies were issued in advance of their effective date, which was before the IT release cycle for the new edition of the forms. This cross over resulted in prior editions generated. The examiners otherwise noted 100% compliance with policy issuance.

REVIEW OF POLICY ISSUANCE PROCESS

NEW BUSINESS POLICIES

1) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not providing an adverse action notice for an adverse underwriting decision.

COMPANY RESPONSE: We continue to disagree with the violation referenced MHO002. The examiner has taken the position that we did not provide the agency request to bind coverage document with the initial submission. As a result we are cited for this violation. We disagree with this position. We did not anticipate the examiner citing us for violating an adverse action notification requirement. There was no adverse action taken and thus we provided the agency request to bind upon defending our position. We do not believe we are in violation of the Code of Virginia.

2) 38.2-2118 of the Code of Virginia

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations and can only restate our position.

The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

3) 38.2-2116 A-2 of the Code of Virginia

We were cited with 3 violations for not sending a credit adverse action notice to the insured. We agree with the 3 violations. Please see below.

MHO001 – Credit adverse action notice not sent

COMPANY RESPONSE: We agree with the violation. The underwriter should have provided the notice.

MHO002 – Credit adverse action notice not sent

COMPANY RESPONSE: We will agree to the violation due to agreeing to file a default credit score per the rating violation.

MHO004 – Credit adverse action notice not sent

COMPANY RESPONSE: After further review, we agree with the violation. The underwriter should have provided the notice.

RENEWAL BUSINESS POLICIES

38.2-2118 of the Code of Virginia

We were cited with 5 violations for not attaching a replacement cost minimum requirements policyholder notice to the new/renewal policy.

COMPANY RESPONSE: We continue to disagree with the violations. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

REVIEW OF STATUTORY NOTICES

General Statutory Notices

1) 38.2-604 B of the Code of Virginia

We were cited with 1 violation for not using a compliant information collection long notice.

COMPANY RESPONSE: We continue to disagree with the violation. Both notices (PCG-GLBA and PCG-MAIP) attached to the policies. We believe the combination addressed the Code. The Code does not promulgate the language to use nor the method (1 notice vs 2). We understand that the examiners do not feel the language of our notices is sufficient. We will thus draft a single notice incorporating the examiner's observations, but respectfully request that this violation be moved to a recommendation.

2) 38.2-610 A of the Code of Virginia

We were cited with 1 violation for not using an approved prototype AUD notice.

COMPANY RESPONSE: We will agree to add a 90 day requirement to the notice and revise any other portion as needed.

Statutory Property Notices

1) 38.2-2118 of the Code of Virginia

We were cited with 1 violation for not utilizing a replacement cost notice.

COMPANY RESPONSE: We continue to disagree with the violation. This issue is also noted as a violation in the policy issuance section. The insurance code addresses minimum required coverage and is intended for coinsurance. We do not use standard ISO forms nor do we have a coinsurance clause in our policy. We do not have a minimum coverage requirement for the replacement cost to be effective and we do not have a minimum coverage requirement to affect claim payments. The Code does not address the type of product we offer. The examiner notes that the policy requires the insured to complete repairs before Replacement Cost applies which is a coverage requirement. The definition of coverage is the total amount and type of insurance carried. We do not have a minimum coverage requirement.

Due to the examiner's position, we will agree to attach a notice to the policy and restate the policy language. However, we respectfully request that this observation is noted as recommendations and not as violations.

2) 38.2-2126 A of the Code of Virginia

We were cited with 1 violation for using incomplete credit score disclosure language.

COMPANY RESPONSE: We will agree to the violation. As previously noted, we rely on the industry standard Virginia ACORD application for the disclosure language. We will contact ACORD to revise its disclosure language.

LICENSING & APPOINTMENT REVIEW

Agent Review

1) 38.2-1318 of the Code of Virginia

We were cited with 6 violations for not locating the application from the submitting agent.

COMPANY RESPONSE: We agree with the 6 violations. They were not uploaded into our system via broker self-serve or sent to the company. Today brokers have the ability to upload documents into our system via broker self-serve. We added a reminder to the broker sign-on screen and included a reminder in our December broker newsletter on 12/22/11.

2) 38.2-1822 of the Code of Virginia

We were cited with 1 violation for using an unlicensed agent.

COMPANY RESPONSE: We agree with the violation. There was an 18 day gap from the time the policy became effective to the time the agent's license became effective. The policy became effective 6/25/10 and the agent's license became effective 7/13/10. The agent is currently licensed and there were no other unlicensed agent violations.

3) 38.2-1883 of the Code of Virginia

We were cited with 8 violations for using agents not appointed.

COMPANY RESPONSE: We agree with the 8 violations. The agents were not appointed for the writing company at the time the policies were written. However, all of the agents have been appointed within the last year. The Producer Licensing Unit has been proactive over the last year in identifying agents requiring appointments. They have run reports and cross referenced the agents with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

Agency Review

1) 38.2-1812 of the Code of Virginia

We were cited with 3 violations for paying commission to an agency not appointed.

COMPANY RESPONSE: We agree with the 3 violations. The agencies were not appointed for the writing company at the time the policies were written. Two of the agencies were subsequently appointed on 4/6/10 and the third agency was appointed on 4/26/11. The Producer Licensing Unit has been proactive over the last year in identifying agents and agencies requiring appointments. They have run reports and cross referenced the agents and agencies with SIRCON to confirm appointments. In addition, Private Client Group is building a new quoting/binding/issuing system called ePCGII that will be tied into the Chartis Producer Licensing System (PLS). All policies will be run through PLS with edits to notify the Producer Licensing Unit of any required appointments. ePCGII is expected to be released in early 2013.

PART TWO – CORRECTIVE ACTION PLAN

RATING & UNDERWRITING REVIEW

1. The Company has made all restitutions to the agreed violations.

TERMINATION REVIEW

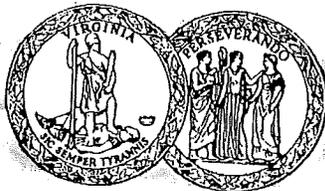
1. All violations have been addressed.

CLAIMS REVIEW

1. The Company does not believe that any additional monies are due the insured.

COMMONWEALTH OF VIRGINIA

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



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

August 16, 2012

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U. S.
100 Connell Drive Suite 1
East Berkeley Heights, New Jersey 07922

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has reviewed the July 26, 2012 response to the Preliminary Market Conduct Report (Report) of AIU Insurance Company (Company). The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings, or items that have changed in the Report. Enclosed is a revised version of the Report, technical reports and any review sheets added, withdrawn or changed since the Company's July 26, 2012 response.

Terminations

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

- (3) The violations for THO005, THO006 and THO007 remain in the Report. The company has not provided adequate documentation to justify a mid-term cancellation after the 89th day of coverage for a physical change in the property.

Claims

HOMEOWNER CLAIMS

- (1) The violation for CHO014 remains in the Report. Please refer to the March 26, 2010 letter from Capstone ISG to AIU. The file is documented that payment was recommended for \$5710.00 without adequate documentation to the file.

The violation for CHO021 remains in the Report. The estimates in the claim file do not include a breakdown of the cost of labor or the number of hours required to complete the task or the cost per hour. This file is not documented in a manner that events can be reconstructed.

The violation for CHO039 remains in the Report. The company has agreed in its response to sections 5 and 6 that the file lacks adequate documentation.

- (4) After further review the violation for CHO045 has been withdrawn.
- (5) After further review the violations for CHO035, CHO039 and CHO048 have been withdrawn.
- (6) After further review the violations for CHO019, CHO039 and CHO047 have been withdrawn.

Policy Issuance

NEW BUSINESS POLICIES

- (1) The violation for MHO002 remains in the Report. The policy was issued with less favorable coverage provisions than those requested by the insured in the application and the company failed to issue an Adverse Underwriting Decision (AUD) notice advising the reason for the less favorable provisions.
- (2) After further review the violations for MHO001, MHO002, MHO003, MHO004 and MHO005 have all been withdrawn.

RENEWAL BUSINESS POLICIES

After further review the violations for MHO006, MHO007, MHO008, MHO009 and MHO010 have all been withdrawn.

General Statutory Notices

- (1) We acknowledge the company's agreement to make the changes requested to the Notice of Information Collection and Disclosure.

Statutory Property Notices

- (1) We acknowledge the company's agreement to make the changes requested to the Replacement Cost notice. This is necessary because the policy form has actual cash value (depreciation) provisions for property under construction.

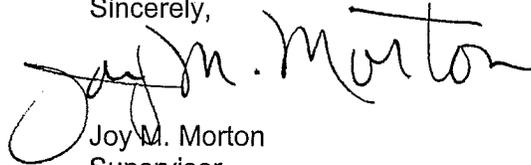
CORRECTIVE ACTION PLAN

Claims

- (1) The \$10,000 underpayment for THO045 has been withdrawn.

Enclosed with this letter is a revised version of the Report, technical reports, the Restitution spreadsheets, 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 August 31, 2012.

Sincerely,



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

Allan L. Wadsworth
Manager, Market Conduct Unit
Law Department
(908) 679-3505 Telephone
(908) 679-4250 Facsimile
Allan.Wadsworth@chartisinsurance.com
August 29, 2012

Via 2nd Day UPS Express Mail

Ms. Joy M. Morton, Supervisor
Market Conduct Section
Property & Casualty Division, 5th floor
Virginia Bureau of Insurance
State Corporation Commission
1300 E. Main Street
Richmond, Virginia 23219

CHARTIS



Re: AIU Insurance Company (NAIC#19399)
Homeowners Market Conduct Examination
September 1, 2009 – August 31, 2010

Dear Ms. Morton:

This is in response to your letter dated August 16, 2012 and the final draft report for the AIU Insurance Company Homeowners Market Conduct Examination.

We have reviewed your revisions and subsequent comments to the Final Report. Please be advised that all action plans have been implemented with one exception of two notices. As you requested, please see the attached two notices; Virginia privacy notice and the Virginia replacement cost notice. We appreciate your offer to review these two notices in advance of implementation.

With respect to amending our replacement cost coverage notice, please note that our current coverage does not include depreciation. Attached is the Virginia Amendatory Endorsement, which was applicable during the examination period (8/02) along with the current (9/06) Virginia Amendatory Endorsement. The reference to actual cash value means the reconstruction cost with deduction for any physical depreciation of the damaged structure was removed from the current form. As such, we believe our replacement cost coverage notice language is appropriate, but would appreciate your concurrence.

Thank you for your considerations.

Sincerely,


Allan L. Wadsworth
Manager, Market Conduct Unit
Chartis U.S.

www.Allan.Wadsworth@Chartisinsurance.com

Enclosures – Privacy & two replacement cost notices
Cc: Steve Harris, M. Neuwirth, S. Miller - Chartis

Jmorton VA HO AIU Final letter 08 29 12

Chartis
100 Connell Drive – Suite 1 East
Berkeley Heights, NJ 07922
www.chartisinsurance.com

Chartis U.S.

Virginia Privacy and Data Security Notice

About This Notice

This Privacy and Data Security Notice applies only to your Personal Information (see definition below) obtained by one of the Chartis U.S. Companies or their affiliates listed at the end of this notice, in connection with the products or services one of those companies provided primarily for your personal, family, or household purposes in connection with which you are receiving this notice.

Chartis U.S. has established practices, procedures and system protections that are designed to help protect the privacy and security of Personal Information that we collect in the course of conducting our business. This notice outlines how we collect, handle, and disclose Personal Information about you.

The term "Personal Information," as used in this Privacy and Data Security Notice, means information that identifies you personally. Examples of Personal Information include a first and last name, a home or other physical address, birth date, phone number, an email address, a financial account or credit card number, credit report information, a driver's license number, accident/violation history, information about vehicle operators, mortgages, lien/lease holders, vehicle information, information on your physical condition or health status, occupation and whether you own or rent your home.

I. Information Privacy

We may collect Personal Information from you in your request for a quotation of rates, applications, enrollment forms, policy transactions, in claims processing, or in your other interactions with us and with our Affiliates. We may also collect Personal Information from credit reporting agencies, motor vehicle departments, claim history reporting agencies and other third parties in connection with the sale of our products to you. For property insurance, we may send someone to inspect your property and verify information about the value and condition of your property.

We will collect Personal Information only in accordance with applicable laws or regulations, whether we collect it in response to your request for a product or service from us or otherwise.

Information Sharing

We may share your Personal Information with Affiliates and Non-Affiliates as described below.

With our Affiliates: Our Affiliates may include other insurance companies, insurance holding companies, insurance agents and agencies, claims administrators, marketing companies, e-commerce service providers, and companies providing administrative services.

We may share your Personal Information, including Personal Information of a health nature, with our Affiliates that assist us in servicing your insurance policies. Examples are administration (billing and collections), risk management, underwriting, and claims handling. We may share your Personal Information with our Affiliates for the purpose of detecting and preventing fraud, as directed or authorized by you, or as otherwise permitted or required by law. We may also share your Personal Information to affiliates that perform research and marketing services on our behalf.

With Non-Affiliates:

We may share your Personal Information, including Personal Information of a health nature, with Non-Affiliates that assist us in servicing your insurance policies. Examples are administration (billing and collections), risk management, underwriting, and claims handling. We may share your Personal Information with Non-Affiliates for the purpose of detecting and preventing fraud, as directed or authorized by you, or as otherwise permitted or required by law. We may also share your Personal Information to organizations conducting actuarial or research studies and to companies that perform research and marketing services on our behalf.

We may also enter into joint marketing agreements with Non-Affiliates to share your non-health Personal Information as permitted by law. These Non-Affiliates may include providers of financial products or services such as insurance companies, financial institutions, and securities firms.

Because we do not share Personal Information with either Affiliates or Non-Affiliates in any other way, there is no need for an opt-out process in our privacy procedures.

For California and Vermont Residents: If it becomes necessary to share your Personal Information with Non-Affiliates other than as specifically allowed by law, we will not do so without first obtaining your permission.

II. Data Security

To help prevent unwarranted disclosure of your Personal Information and secure it from theft, we utilize secure computer networks. Access is restricted to those persons who have a business need to use your Personal Information to provide products or services to you. We also maintain physical, electronic, and procedural safeguards designed to protect your Personal Information in compliance with federal and state privacy and information security laws. Non-Affiliates that assist us in servicing insurance policies or who enter into joint marketing agreements with us are required to take measures to maintain the security of your Personal Information in compliance with federal and state privacy and information security laws.

III. Maintaining Personal Information

We also maintain procedures to ensure that the Personal Information we collect is accurate, up-to-date, and as complete as possible. If you believe the information we have about you in our records or files is incomplete or inaccurate, you may request that we make additions or corrections, or if it is feasible, that we delete this information from our files. You may make this request in writing to (include your name, address and policy number):

**Chief Privacy Officer
Chartis U.S.
175 Water Street, 17th Floor
New York, NY 10038
Fax: 212 458-7081
E-Mail: CIPrivacy@chartisinsurance.com**

Special Notice: You can obtain access to any non-public Personal Information we have about you if you properly identify yourself and submit a written request to the address above describing the information you want to review. We will also tell you the identity, if recorded, of persons to whom we have disclosed your non-public Personal Information within the preceding two years.

You may request that we correct, amend or delete information about you. If we do so, we will notify organizations that provided us with that information and, at your request, persons who received that information from us within the preceding two years. If we cannot grant your request to correct, amend or delete the information, you may give us a written statement of the reasons you disagree, which we will place in your file and give to the same parties who would have been notified of the requested change.

Our Customers Can Depend on Us

We are committed to maintaining our trusted relationship with our Customers. We consider it our privilege to serve our Customers' insurance and financial needs and we value the trust they have placed in us. Our Customers' privacy is a top priority. We will continue to monitor our practices in order to protect that privacy and will comply with state privacy laws that require more restrictive practices than those set out in this notice.

Important Information Concerning the Applicability and Future Changes to this Privacy and Data Security Notice

We may change this Privacy and Data Security Notice from time to time, and if particular changes are required by law to be communicated to you, we will do so.

You may have received this notice in connection with products or services provided to you by one of the following Companies: American Home Assurance Company; Chartis Casualty Company; Chartis Property Casualty Company; Chartis Select Insurance Company; Chartis Specialty Insurance Company; Commerce and Industry Insurance Company; Granite State Insurance Company; Illinois National Insurance Co.; Landmark Insurance Company; Lexington Insurance Company; National Union Fire Insurance Company of Pittsburgh, Pa.; National Union Fire Insurance Company of Vermont; New Hampshire Insurance Company; The Insurance Company of the State of Pennsylvania; other Chartis U.S. companies, and American International Life Assurance Company of New York and American General Life Insurance Company of Delaware.

Homeowners Amendatory Endorsement Virginia

Part I – DEFINITIONS, the definition of **aircraft** is deleted and replaced by the following:

Aircraft means any machine or device capable of atmospheric flight except model airplanes.

Part I – DEFINITIONS, the definition of **bodily injury** is deleted and replaced by the following:

Bodily injury means bodily harm, including sickness or disease, required care, loss of services or death.

Part I – DEFINITIONS, the definition of **business** is deleted and replaced by the following:

Business means a part-time or full-time trade, occupation or profession, including farming.

Part I – DEFINITIONS, the definition of **insured person** is deleted and replaced by the following:

Insured person means:

- a. You or a **family member**;
- b. An Additional Insured named in the policy;
- c. Any person given permission by you or a **family member** to use a vehicle or **watercraft** covered under this policy with respect to their legal responsibility arising out of its use;
- d. Any other person under the age of twenty-one (21), in the care of any insured, if a resident of your household; or
- e. Any combination of the above.

Part I – DEFINITIONS, the definition of **recreational motor vehicle** is deleted and replaced by the following:

Recreational motor vehicle means a golf cart or snowmobile or any other motorized land conveyance designed for recreational use off public roads which does not require motor vehicle registration or operator licensing.

Part II – PROPERTY, Section B., Item 1. is deleted and replaced by the following:

1. Amount of coverage for your **House** and **Other Permanent Structures**

The amount of coverage for each **house** and for **other permanent structures** at each location shown on the Declarations Page is determined by the payment basis shown on the Declarations Page:

- a. *Guaranteed Rebuilding Cost Coverage.* We will pay Guaranteed Rebuilding Cost when shown on the Declarations Page of this policy. Guaranteed Rebuilding Cost coverage means that for a covered loss we will pay the **reconstruction cost** of your **house** or **other permanent structure**, for each **occurrence**, even if this amount is greater than the amount of coverage shown

on the Declarations Page. However, you must repair or rebuild your **house** or **other permanent structure** at the same location. If not, the maximum payable is the coverage limit shown for that location on the Declarations Page.

- b. *Replacement Cost Coverage.* We will pay Replacement Cost when shown on the Declarations Page of this policy. Replacement Cost Coverage means that for a covered loss we will pay the **reconstruction cost** up to the amount of coverage shown for that location on your Declarations Page, for each **occurrence**. For a covered total loss we will pay the **reconstruction cost** up to the amount of coverage shown for that location on your Declarations Page, for each **occurrence**, whether or not you actually rebuild your **house** or **other permanent structure**. The amount of coverage will be increased daily to reflect the current effect of inflation. At the time of a covered loss, your **house** and **other permanent structures** coverage will include any increase in the United States Consumer Price Index from the beginning of the Policy Period.
- c. Regardless of applicability of B.1.a. or B.1.b. above, if at any time during any period of coverage under this policy, you are constructing additions or renovations to your **house** or **other permanent structure** that results in your living out of the **house** during any part of the construction, for a covered loss:

(1) We will pay no more until actual repair or replacement is completed than the lesser of the:

- (a) Actual cash value of the damage at the time of the loss; or
- (b) The coverage limit shown for that location on the Declarations Page.

Once actual repair or replacement is complete, we will settle the loss according to the provisions of B.1.a. or B.1. b. above.

If you elect not to repair or replace, we will pay for losses only on an actual cash value basis.

(2) In the event you elect to have loss or damage settled on an actual cash value basis, you may still make a claim for any additional coverage subject to the provisions of Guaranteed Rebuilding Cost Coverage or Replacement Cost Coverage, as applicable, provided you notify us of your intent to do so within six (6) months of the later of the following dates:

- (a) The last date on which you received a payment for actual cash value; or
- (b) The date of entry of a final order of a court of competent jurisdiction declaring your right to full replacement cost.

Actual cash value means the **reconstruction cost** with deduction for any physical depreciation of the damaged structure.

We may change the amount of coverage shown on the Declarations Page when the policy renews or when appraisals are conducted to reflect current costs and values.

Part II – PROPERTY, Section B., Amount of Coverage For Your **Contents**, Item a. ii. is deleted in its entirety.

Part II – PROPERTY, Section B., Special Limits of Liability, Item a. is deleted and replaced by the following:

Special limits of liability

- a) The limit shown for each of the following categories is the maximum we will pay for a covered loss to that type of **contents**. These special limits do not increase the amount of coverage of your **contents**.
- i. Money, bank notes, bullion, gold other than goldware or gold-plated ware or silver other than silverware or silver-plated ware .
\$1,500
 - ii. **Watercraft**, including their outboard motors, equipment, and furnishings.
\$2,000
 - iii. Trailers.
\$3,000
 - iv. Grave markers.
\$5,000

Part II – PROPERTY, Section B., Special Limits of Liability, Item b) is deleted and replaced by the following:

- b) The limit shown for each of the following categories is the maximum we will pay for a covered loss to that type of **contents** unless they are stored in a bank vault or bank safe deposit box, in which case we will pay up to the total amount for **contents** coverage listed in the policy for each **occurrence**. These special limits do not increase the amount of coverage of your **contents**.
- i. Stamps & Coins. \$5,000
 - ii. Securities, accounts, deeds, evidences of debt, letters of credit, notes (other than bank notes), manuscripts, passports or tickets. \$5,000

Part II – PROPERTY, Section B., Special Limits of Liability, Item c) is deleted and replaced by the following:

- c) We will pay up to the total amount of **contents** coverage listed in the policy for each **occurrence** for **contents** in the following categories unless they are lost, misplaced or stolen, in which case we will only pay up to the limit shown below. These special limits do not increase the amount of coverage of your **contents**.
- i. Jewelry, watches, precious stones or semi-precious stones, whether set or unset.
\$5,000

- ii. Furs.
\$5,000
- iii. Guns.
\$5,000

Part II – PROPERTY, Section C., Additional Living Expense is deleted and replaced by the following:

Additional Living Expense

If a covered loss makes your **residence** uninhabitable, we cover any reasonable increase in living expenses incurred by you to maintain you household's usual standard of living. Payment will continue for the shortest reasonable amount of time necessary to restore your **residence** to a habitable condition or for your household to permanently locate elsewhere. Coverage will not be limited by the expiration of this policy. Your deductible does not apply to this coverage.

Part II – PROPERTY, Section C., Fair Rental Value is deleted and replaced by the following:

Fair Rental Value

If you are not able to rent out your **residence**, or a part of your **residence**, that you usually rent to others because of a loss covered by this policy, we will pay the fair rental value for the reasonable amount of time necessary to restore your **residence**, or that part of your **residence**, to a habitable condition. Coverage will not be limited by the expiration of this policy. Your deductible does not apply to this coverage.

Part II – PROPERTY, Section C., **Landscaping** is deleted and replaced by the following:
Landscaping

We will pay up to 5% of the coverage limit for the **house** or, if **house** coverage is not available, 10% of the coverage limit for the **contents** at the **residence** at which the covered loss occurs, but no more than \$5,000 for any one tree, shrub or plant.

We will pay only for losses caused by:

- a. **Aircraft;**
- b. Fire, lightning or explosion;
- c. Riot or civil commotion;
- d. A vehicle not owned or operated by someone who lives at the **residence**;
or
- e. Theft, attempted theft, vandalism or malicious mischief.

Part II – PROPERTY, Section C., Ensuing **Fungi**, Wet or Dry Rot, or Bacteria is deleted.

Part II – PROPERTY, Section D., Pollution or Contamination is deleted and replaced by the following:

Pollution or Contamination

We do not cover any loss caused by the discharge, dispersal, seepage, migration or release or escape of pollutants. Nor do we cover the cost to extract pollutants from land or water, or the cost to remove, restore or replace polluted or contaminated land or water. However, if a loss by fire, smoke (other than smoke from agricultural smudging or industrial operations), explosion, collapse of a building, glass breakage or water not otherwise excluded ensues then the policy shall cover only such ensuing loss from contamination. A “pollutant” is any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and “waste”. A “contaminant” is an impurity resulting from the mixture of or contact with a foreign substance. “Waste” includes materials to be disposed of, recycled, reconditioned or reclaimed.

Part II – PROPERTY, Section D., **Fungi**, Wet or Dry Rot or Bacteria is deleted and replaced by the following:

Fungi, Wet or Dry Rot or Bacteria

We do not cover any loss caused by the presence, growth, proliferation, spread or any activity of **fungi**, wet or dry rot, or bacteria. Including the cost to test for, monitor, clean up, move, remediate, contain, treat, detoxify, neutralize or in any way respond to, or assess the effects of **fungi**, wet or dry rot, or bacteria.

This exclusion does not apply to:

Fungi, wet or dry rot, or bacteria resulting from a covered loss unless another exclusion applies.

Part II – PROPERTY, Section D., Water or Ice Damage to Certain **Other Permanent Structures** is deleted and replaced by the following:

Water or Ice Damage to Certain **Other Permanent Structures**

We do not cover loss to certain **other permanent structures** caused by freezing, thawing, or the pressure or weight of water or ice, whether driven by wind or not. However, we do insure ensuing covered loss unless another exclusion applies. The **other permanent structures** to which this exclusion applies are swimming pools, fences, patios, pavements, foundations, retaining walls, wharves, docks, piers, or bulkheads.

Part II – PROPERTY, Section D., Motorized Land Vehicles is deleted and replaced by the following:

Motorized Land Vehicles

We do not cover any loss to motorized land vehicles, including any electronic devices, in or upon a motor vehicle, designed to be operated solely by power from the electrical system of that vehicle. However, we do cover vehicles not subject to motor vehicle registration, which are:

- a. Used to service any **residence** you own or live at;
- b. Designed to assist the handicapped; or
- c. Designed for recreational use off public roads.

Part II – PROPERTY, Section D., Temperature or Dampness is deleted and replaced by the following:

Temperature or Dampness

We do not cover any loss caused by extremes of temperature; dampness or dryness of atmosphere to your **contents**. This exclusion does not apply to loss caused directly by rain, sleet, snow or hail.

Part II – PROPERTY, Section D., Intentional Acts is deleted and replaced by the following:

Intentional Acts.

An intentional act is one whose consequences could have been foreseen by a reasonable person.

We do not cover any loss caused by any intentional act committed:

- a. By or at the direction of the **insured person**; and
- b. With the intent to cause a loss.

However, coverage will extend to the interest of another **insured person** if it is determined through investigation that the other **insured person** did not participate in or have knowledge of the intentional act.

Part III – LIABILITY, Section C. Defense Coverage and Claim Expense, is deleted and replaced by the following:

C. Defense Coverage and Claim Expense

We will pay the costs to defend an **insured person** against any suit seeking covered **damages** for **personal injury** or **property damage**, even if the suit is false, fraudulent or groundless. You may choose counsel from a panel of firms selected by us. If a panel counsel is not established in the jurisdiction where the suit is brought, we reserve the right to select counsel. Any defense costs and claim expenses incurred by the company will not reduce the applicable limit of liability.

We may investigate, defend and settle any claim or suit at our discretion.

Additionally, we will pay:

- 1) All court costs and expenses on judgements assessed against any **insured person**;

- 2) Reasonable expenses incurred by an **insured person** at our request, including actual loss of earnings up to \$500 a day for assisting us in the investigation or defense of a claim or suit;
- 3) The cost of bail bonds required of an **insured person** because of a covered loss;
- 4) All premiums on bonds required in a suit we defend, but not for bond amounts more than the coverage amount (we need not apply for or furnish any bond);
- 5) All expenses incurred by us; and
- 6) Interest on the entire judgement which accrues after entry of the judgement and before we pay or tender, or deposit in court, that part of the judgement which does not exceed the amount of coverage.
- 7) All prejudgment interest awarded against an insured person on that part of the judgement we pay or offer to pay. We will not pay any prejudgment interest based on that period of time after we make an offer to pay the amount of coverage.

In jurisdictions where we are prevented from defending an **insured person** for a covered loss because of laws or other reasons, we will pay any expenses incurred with our prior written consent for the **insured person's** defense.

If execution on a judgement against the **insured person** or their personal representative is returned unsatisfied in an action brought to recover **damages** for injury sustained or for loss or damage incurred during the life of the policy or contract, then an action may be maintained against the insurer.

Our duty to defend any claim or suit arising out of a single **occurrence** ends when the amount we have paid in **damages** for that **occurrence** equals the Personal Liability Limit shown on the Declarations Page of this policy.

Part III – LIABILITY, Section D., Medical Payments to Others, Item b. is deleted and replaced by the following:

- b. Arises from a condition at a **residence**, or the ways immediately adjoining a **residence**, listed on the Declarations Page with liability coverage;

Part III – LIABILITY, Section E., Motorized Land Vehicles is deleted and replaced by the following:

Motorized Land Vehicles

Personal injury or property damage arising out of the ownership, maintenance, use, loading or unloading of any motorized land vehicle.

This exclusion does not apply to:

- a. **Recreational motor vehicles** when they are used for other than participation in or practice for competitive racing;
- b. Motor vehicles kept in dead storage on the **residence** if the **personal injury or property damage** occurs on the **residence**; or
- c. **Bodily injury** to any **residence** employee arising out of and in the course of his employment by any **insured person**.

Part III – LIABILITY, Section E., **Aircraft** is deleted and replaced by the following:

Aircraft

Personal injury or property damage arising out of the ownership, maintenance, use, loading or unloading of any **aircraft**.

Part III – LIABILITY, Section E., **Watercraft** is deleted and replaced by the following:

Watercraft

Personal injury or property damage arising out of the ownership, maintenance, use, operation, loading or unloading of any **watercraft**:

- a. That is twenty-six (26) feet or more in length or fifty (50) or more horsepower and which is owned by an **insured person** or furnished or rented to an **insured person** for longer than thirty (30) days;
- b. Used for any **business** or commercial purpose; or
- c. Used for participation in or practice for competitive racing (except sailboats less than twenty-six (26) feet in length).

This exclusion does not apply if an insured owns a **watercraft** at the inception of the policy powered by any outboard motor(s), that total more than twenty-five (25) total horsepower and reports in writing to the company within forty-five (45) days after acquisition his intention to insure the outboard motor or combination of outboard motors. Nor does it apply to **bodily injury or property damage** occurring on the **residence** or **bodily injury** to any **residence** employee arising out of and in the course of his employment by any **insured person**.

Part III – LIABILITY, Section E., Discrimination is deleted and replaced by the following:

Discrimination

Personal Injury arising out of actual, alleged or threatened discrimination or harassment due to age, race, national origin, color, sex, creed, handicapped status, sexual preference or any other discrimination. This exclusion does not apply to **bodily injury**.

Part III - LIABILITY. Section E. Exclusions, **Fungi**, Wet or Dry Rot, or Bacteria is deleted.

Part IV – CONDITIONS, Bankruptcy or Death is deleted and replaced by the following:

Bankruptcy or Death

The **insured person's** bankruptcy or insolvency, or the insolvency of the **insured person's** state, shall not relieve us of any of our obligations. Further, if the **insured person** dies or becomes bankrupt or insolvent during the Policy Period, this policy, unless cancelled, will cover the **insured person's** legal representative for the remainder of the Policy Period.

In the event of death of the **insured person**, the definition of **insured person** is modified as follows:

The **insured person** shall mean:

- a. (1) The spouse, if a resident of the household at the time of such death; and
- (2) The legal representative but only with respect to the premises and property of the deceased covered under this policy at the time of such death.

b. **Insured person** shall also include:

- (1) Any member of the deceased's household who was covered under this policy at the time of such death, but only while a resident of the insured premises; and
- (2) With respect to the property of the **insured person**, the person having proper temporary custody thereof but only until the appointment and qualification of the legal representative.

Part IV – CONDITIONS, Legal Action Against Us is deleted and replaced by the following:

Legal Action Against Us

No action shall be brought against us unless the **insured person** has complied with this policy's provisions, nor until final judgement or agreement has set the amount of the **insured person's** legal obligation with us. You also agree to bring any action against us within two (2) years after a loss occurs, but not until thirty (30) days after proof of loss has been filed and the amount of loss has been determined. No one has the right to join us in any action against any **insured person**.

Any person or organization or their legal representative who has secured such judgement or written agreement against the **insured person** shall be entitled to recover under this policy to the extent of the insurance afforded under this policy.

Part IV – CONDITIONS, Section Appraisals is deleted and replaced by the following:

Appraisals

If you and we fail to agree on the amount of loss, either party may make a written demand that each selects an independent appraiser. In this event, the parties must notify each other of their selection within twenty (20) days. The independent appraisers will select an arbitrator within fifteen (15) days. If an arbitrator is not agreed upon within that time, either party may request the arbitrator be selected by a judge. The independent appraisers will then appraise the loss and then submit any differences to the arbitrator. A decision in writing agreed to by the two appraisers or either of the appraisers and the arbitrator will determine the amount of loss. Each appraiser will be paid by the party that has selected him. You and we will share the expenses of the arbitrator equally.

If we make the written demand, then the **insured person** shall be reimbursed by us for the reasonable cost of the **insured person's** appraiser and the **insured person's** portion of the cost of the arbitrator.

Part IV – CONDITIONS, Other Insurance is deleted and replaced by the following:

Other Insurance

If a loss covered by this policy is also covered by other insurance, we will pay only the proportion of the loss that the limit of liability that applies under this policy bears to the total amount of insurance covering the loss. This condition does not include medical payments to others.

Part IV – CONDITIONS, Mortgage Clause is amended as follows:

The following paragraph is deleted:

"If your policy is cancelled or not renewed by us, the mortgagee will be notified in writing at least ten (10) days before the date cancellation or nonrenewal takes effect."

The following paragraphs are added:

If your policy is canceled by us, the mortgagee will be notified in writing at least ten (10) days before the date cancellation takes effect.

If your policy is not renewed by us, the mortgagee will be notified in writing at least thirty (30) days before the date nonrenewal takes effect.

We will mail the notice of cancellation or nonrenewal to the mortgagee by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service, showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

Part IV – CONDITIONS, Our Cancellation is deleted and replaced by the following:

Our Cancellation.

To cancel this policy we must notify you in writing. We will mail the notice of cancellation to you at the last mailing address shown on the Declarations Page by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice. This notice will include the date the cancellation is to take effect and the reason for the cancellation. It shall also state that any excess premium will be automatically returned to the insured or as soon as possible after the cancellation takes effect. The unearned premium will be computed *pro rata* for the unexpired term of the policy.

We will mail the notice of cancellation to the mortgagee or other person shown by the policy to have an interest in any loss which may occur thereunder, by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

Nonpayment

When you have not paid the premium, we may cancel at any time by letting you know at least ten (10) days before the date cancellation takes effect.

Less than ninety (90) days

When this policy has been in effect for less than ninety (90) days and is not a renewal with us, we may cancel for any reason by letting you know at least ten (10) days before the date cancellation takes effect.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;

3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

Business or professional activities

When this policy includes business or professional activities conducted by an **insured person** at the **residence** we may cancel for the reasons stated below.

Nonpayment

When you have not paid the premium, we may cancel at any time by letting you know at least fifteen (15) days before the date cancellation takes effect.

Less than ninety (90) days

When this policy has been in effect for less than ninety (90) days and is not a renewal with us, we may cancel for any reason by letting you know at least forty-five (45) days before the date cancellation takes effect.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least forty-five (45) days before the date cancellation takes effect.

Part IV – CONDITIONS, Nonrenewal is deleted and replaced with the following:

Nonrenewal

We may elect not to renew this policy. We may do so by delivering to you, or by mailing to you at your mailing address shown on the Declarations Page, written notice, together with our reasons for non-renewal, at least thirty (30) days before the expiration date of this policy. We will mail the non-renewal notice to you by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

If this policy is written for a policy period of less than one year, we agree that we will not refuse to renew except as of the expiration of the policy period coinciding with the end of an annual period commencing with the original effective date.

Business or professional activities

When this policy includes business or professional activities conducted by an **insured person** at the **residence** we may elect not to renew this policy. We may do so by delivering to you, or by mailing to you at your mailing address shown on the Declarations Page, written notice, together with our reasons for non-renewal, at least:

1. Fifteen (15) days before the expiration date of this policy when you have not paid the premium; or
2. Forty-five (45) days before the expiration date of this policy for all other reasons.

All other provisions of this policy apply.

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Homeowners Amendatory Endorsement Virginia

Part I – DEFINITIONS, the definition of **aircraft** is deleted and replaced by the following:

Aircraft means any machine or device capable of atmospheric flight except model airplanes.

Part I – DEFINITIONS, the definition of **bodily injury** is deleted and replaced by the following:

Bodily injury means bodily harm, including sickness or disease, required care, loss of services or death.

Part I – DEFINITIONS, the definition of **business** is deleted and replaced by the following:

Business means a part-time or full-time trade, occupation or profession, including farming.

Part I – DEFINITIONS, the definition of **incidental business** is deleted and replaced by the following:

Incidental Business means babysitting, caddying, lawn care, newspaper delivery and other similar activities by any **insured person**.

Part I – DEFINITIONS, the definition of **insured person** is deleted and replaced by the following:

Insured person means:

- a. You or a **family member**;
- b. An Additional Insured named in the policy;
- c. Any person given permission by you or a **family member** to use a vehicle or **watercraft** covered under this policy with respect to their legal responsibility arising out of its use;
- d. Any other person under the age of twenty-one (21), in the care of any insured, if a resident of your household; or
- e. Any combination of the above.

The following is also considered an **insured person** for personal liability and medical payments to others:

Any person or organization legally responsible for your animals or watercraft when custody or use is with your permission, providing that custody or use is not a business activity.

Part I – DEFINITIONS, the definition of **landscaping** is deleted and replaced by the following:

Landscaping means your trees, lawn, shrubs, and other plants on the grounds of your **residence**.

Part I – DEFINITIONS, the definition of **recreational motor vehicle** is deleted and replaced by the following:

Recreational motor vehicle means a golf cart or snowmobile or any other motorized land conveyance designed for recreational use off public roads which does not require motor vehicle registration or operator licensing.

Part II – PROPERTY, Section B., Payment of a Loss is deleted and replaced by the following:

B. Payment of a Loss

1. Amount of Coverage for Your **House** and **Other Permanent Structures**

The amount of coverage for each **house** and for **other permanent structures** at each location shown on the Declarations Page is determined by the payment basis shown on the Declarations Page:

a. *Guaranteed Rebuilding Cost Coverage*

We will pay Guaranteed Rebuilding Cost when shown on the Declarations Page of this policy. Guaranteed Rebuilding Cost coverage means that for a covered loss we will pay the **reconstruction cost** of your **house** or **other permanent structures**, for each **occurrence**, even if this amount is greater than the amount of coverage shown on the Declarations Page. However, you must begin to repair or rebuild your **house** or **other permanent structures** within two years from the date of loss at the same location. If not, the maximum payable is the coverage limit shown for that location on the Declarations Page.

b. *Replacement Cost Coverage*

We will pay Replacement Cost when shown on the Declarations Page of this policy. Replacement Cost Coverage means that for a covered loss we will pay the **reconstruction cost** of your **house** or **other permanent structures**, up to the coverage limit shown for that location on your Declarations Page, for each **occurrence**. For a covered total loss we will pay the **reconstruction cost** up to the coverage limit shown for that location on your Declarations Page, for each **occurrence**, whether or not you actually rebuild your **house** or **other permanent structures**. The amount of coverage will be increased daily to reflect the current effect of inflation. At the time of a covered loss, your **house** and **other permanent structures** coverage will include any increase in the United States Consumer Price Index from the beginning of the Policy Period.

Your payment basis is subject to the following restriction. If at any time during the Policy Period, you are newly constructing your **house** or **other permanent structures**; constructing additions; or undergoing renovations equal to or in excess of the lesser of 10% of the **house** coverage limit or \$500,000, and/or it results in your moving out of the **house** for any period of time, the payment basis for your **house** or **other permanent structures** is the **reconstruction cost**, not to exceed the coverage limit for your **house** or **other permanent structures** shown on the Declarations Page. This limitation will not apply if we otherwise give our prior written consent.

We may increase the amount of coverage shown on the Declarations Page when the policy renews or when appraisals are conducted to reflect current costs and values.

Part II – PROPERTY, Section B., Amount of Coverage For Your **Contents**, Item a. ii. is deleted in its entirety.

Part II – PROPERTY, Section B., Deductible is deleted and replaced by the following:

Deductible

The deductible shown on the Declarations Page is the amount of a covered loss you will pay for each **occurrence**.

If more than one deductible applies to an **occurrence**, only the higher deductible will be applied.

Construction deductible. If at any time during the Policy Period, you are newly constructing your **house** or **other permanent structures**; constructing additions; or undergoing renovations equal to or in excess of the lesser of 10% of the **house** coverage limit or \$500,000, and/or it results in your moving out of the **house** for any period of time, a 5% construction special deductible will apply to each **occurrence** in lieu of a base deductible. This deductible applies to your **house**, **other permanent structures**, **contents**, and additional coverages. The dollar amount of this deductible is based on the **house** coverage limit shown on the Declarations Page for that location at the time of the loss. This deductible does not eliminate any other special deductibles that may apply. If the deductible waiver for large losses endorsement was selected, that endorsement will not apply. The construction deductible will not apply to the loss if we otherwise give our prior written consent.

Part II – PROPERTY, Section B., Special Limits of Liability, Item a. is deleted and replaced by the following:

Special limits of liability

- a. The limit shown for each of the following categories is the maximum we will pay for a covered loss to that type of **contents**. These special limits do not increase the amount of coverage of your **contents**.
 - i. Money, bank notes, bullion, gold other than goldware or gold-plated ware or silver other than silverware or silver-plated ware .
\$2,500
 - ii. **Watercraft**, including their outboard motors, equipment, and furnishings.
\$5,000
 - iii. Trailers.
\$5,000
 - iv. Grave markers and Mausoleums.
\$50,000

Part II – PROPERTY, Section B., Special Limits of Liability, Item b. is deleted and replaced by the following:

- b. The limit shown for each of the following categories is the maximum we will pay for a covered loss to that type of **contents** unless they are stored in a bank vault or bank safe deposit box, in which case we will pay up to the total amount for **contents** coverage listed in the policy for each **occurrence**. These special limits do not increase the amount of coverage of your **contents**.
 - i. Stamps & Coins. \$5,000
 - ii. Securities, accounts, evidences of debt, letters of credit, notes (other than bank notes), manuscripts, passports or tickets. \$5,000

Part II – PROPERTY, Section B., Special Limits of Liability, Item c. is deleted and replaced by the following:

- c. We will pay up to the total amount of **contents** coverage listed in the policy for each **occurrence for contents** in the following categories unless they are lost, misplaced or stolen, in which case we will only pay up to the limit shown below. These special limits do not increase the amount of coverage of your **contents**.
 - i. Jewelry, watches, precious stones or semi-precious stones, whether set or unset.
\$5,000
 - ii. Furs.
\$5,000
 - iii. Guns.
\$5,000

Part II – PROPERTY, Section C., Additional Living Expense is deleted and replaced by the following:

Additional Living Expense

If a covered loss makes your **residence** uninhabitable, we cover any reasonable increase in living expenses incurred by you to maintain your household's usual standard of living. Payment will continue for the shortest reasonable amount of time necessary to restore your **residence** to a habitable condition or for your household to permanently locate elsewhere. If your **residence** is under construction and you are living in the **residence** at the time of loss, additional living expenses will cease once you are restored to the condition you were just prior to the loss. We will not pay any interests for loans or increased policy premiums associated with the rebuilding of your home.

We will also pay reasonable expenses associated with the kenneling of your domestic animals only.

Coverage will not be limited by the expiration of this policy. Your deductible does not apply to this coverage.

Part II – PROPERTY, Section C., Fair Rental Value is deleted and replaced by the following:

Fair Rental Value

If you are not able to rent out your **residence**, or a part of your **residence**, that you usually rent to others because of a loss covered by this policy, we will pay the fair rental value for the reasonable amount of time necessary to restore your **residence**, or that part of your **residence**, to a habitable condition. Coverage will not be limited by the expiration of this policy. Your deductible does not apply to this coverage.

Part II – PROPERTY, Section C., **Landscaping** is deleted and replaced by the following:

Landscaping

We will pay up to 5% of the coverage limit for the **house** or, if **house** coverage is not available, 10% of the coverage limit for the **contents** at the **residence** at which the covered loss occurs, but no more than \$5,000 for any one tree, shrub or plant.

We will pay only for losses caused by:

- a. **Aircraft;**
- b. Fire, lightning or explosion;
- c. Riot or civil commotion;
- d. A vehicle not owned or operated by someone who lives at the **residence**; or
- e. Theft, attempted theft, vandalism or malicious mischief.

Part II – PROPERTY, Section C., Ensuing **Fungi** or Bacteria is deleted.

Part II – PROPERTY, Section C., Debris Removal is deleted and replaced by the following:

We will pay the reasonable expenses to remove debris of a covered loss and the property that caused that covered loss. Debris Removal includes removal of fallen trees which cause damage to covered property. We will also pay up to a total of \$1000 to remove trees from the **residence** if felled by the peril of windstorm, hail, weight of ice or snow or sleet when there is no damage to covered property.

Part II – PROPERTY, Section C., Back Up of Sewers and Drains is deleted and replaced by the following:

Back Up of Sewers and Drains

We will pay up to the coverage limits shown on the Declarations Page for physical loss or damage to property caused by:

- a. Water which backs up through sewers or drains on the **residence** premises. A sewer or drain is a pipe mechanically connected to the **residence** plumbing system, gutters or downspouts, or other drainage pipe located on the **residence** premises used to drain water and waste away from the **residence**.
- b. Water which overflows from a sump pump pit if such overflow results from the mechanical breakdown of the sump pump. This additional coverage is intended to cover damage caused by water that overflows the sump pit due to mechanical breakdown of the sump pump, but not damage caused by surface or groundwater before it enters the sump pit. This coverage does not apply to direct physical loss or damage of the sump pump or related equipment, which is caused by mechanical breakdown.

These payments do not increase the amount of your coverage.

Part II – PROPERTY, Section C., Property of Domestic Staff and Guests is deleted and replaced by the following:

Property of Domestic Staff and Guests

We cover the personal property of your domestic staff and guests while it is on the premises of any **residence** listed on the Declarations Page up to the **contents** coverage limit listed on the Declarations Page.

We also cover the personal property of your domestic staff while engaged in the service of an **insured person** away from any **residence** listed on the Declarations Page and while such property is in the physical custody of such **residence employee**. The coverage extended to **residence employees** shall be 10% of the **contents** limit listed on the declarations page, but in no event less than \$1,000. These payments do not increase the amount of your coverage.

Part II – PROPERTY, Section D., Pollution or Contamination is deleted and replaced by the following:

Pollution or Contamination

We do not cover any loss caused by the discharge, dispersal, seepage, migration or release or escape of pollutants. Nor do we cover the cost to extract pollutants from land or water, or the cost to remove, restore or replace polluted or contaminated land or water. However, if a loss by fire, smoke (other than smoke from agricultural smudging or industrial operations), explosion, collapse of a building, glass breakage or water not otherwise excluded ensues then the policy shall cover only such ensuing loss from contamination, pollution or waste. A "pollutant" is any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and "waste". A "contaminant" is an impurity resulting from the mixture of or contact with a foreign substance. "Waste" includes materials to be disposed of, recycled, reconditioned or reclaimed.

Part II – PROPERTY, Section D., **Fungi** or Bacteria is deleted and replaced by the following:

Fungi, Wet or Dry Rot or Bacteria

We do not cover any loss caused by the presence, growth, proliferation, spread or any activity of **fungi**, wet or dry rot, or bacteria. Including the cost to test for, monitor, clean up, move, remediate, contain, treat, detoxify, neutralize or in any way respond to, or assess the effects of **fungi**, wet or dry rot, or bacteria.

This exclusion does not apply to:

Ensuing **fungi**, wet or dry rot, or bacteria resulting from a covered loss unless another exclusion applies.

Part II – PROPERTY, Section D., Water or Ice Damage to Certain **Other Permanent Structures** is deleted and replaced by the following:

Water or Ice Damage to Certain Other Permanent Structures

We do not cover loss to certain **other permanent structures** caused by freezing, thawing, or the pressure or weight of water or ice, whether driven by wind or not. However, we do insure ensuing covered loss unless another exclusion applies. The **other permanent structures** to which this exclusion applies are swimming pools, fences, patios, pavements, foundations, retaining walls, wharves, docks, piers, or bulkheads.

Part II – PROPERTY, Section D., Motorized Land Vehicles is deleted and replaced by the following:

Motorized Land Vehicles

We do not cover any loss to motorized land vehicles. We also do not cover any theft or attempted theft of:

- a. Equipment that reproduces, receives or transmits sound; or
- b. Any other sound equipment, including but not limited to their accessories and antennas

in a motorized land vehicle if the equipment is permanently installed or removable from a housing unit permanently installed in the vehicle.

However, we do cover vehicles not subject to motor vehicle registration, which are:

- a. Used to service any **residence** you own or live at;
- b. Designed to assist the handicapped; or
- c. Designed for recreational use off public roads.

Part II – PROPERTY, Section D., Temperature or Dampness is deleted and replaced by the following:

Temperature or Dampness

We do not cover any loss caused by extremes of temperature, dampness or dryness of atmosphere to your **contents**. This exclusion does not apply to:

- a. Loss caused directly by rain, sleet, snow or hail; or
- b. Coverage provided under PART II - PROPERTY, Additional Coverage, Food Spoilage.

Part II – PROPERTY, Section D., Intentional Acts is deleted and replaced by the following:

Intentional Acts

An intentional act is one whose consequences could have been foreseen by a reasonable person.

We do not cover any loss caused by any intentional act committed:

- a. By or at the direction of the **insured person**; and
- b. With the intent to cause a loss.

However, coverage will extend to the interest of another **insured person** if it is determined through investigation that the other **insured person** did not participate in or have knowledge of the intentional act.

Part II – PROPERTY, Section D., Uninsured Owned Location is deleted in its entirety.

Part III – LIABILITY, Section C. Defense Coverage and Claim Expense, is deleted and replaced by the following:

C. Defense Coverage and Claim Expense

We will pay the costs to defend an **insured person** against any suit seeking covered **damages** for **personal injury** or **property damage**, even if the suit is false, fraudulent or groundless. You may choose counsel from a panel of firms selected by us. If a panel counsel is not established in the jurisdiction where the suit is brought, we reserve the right to select counsel. Any defense costs and claim expenses incurred by the company will not reduce the applicable limit of liability.

We may investigate, defend and settle any claim or suit at our discretion.

Additionally, we will pay:

1. All court costs and expenses on judgments assessed against any **insured person**;
2. Reasonable expenses incurred by an **insured person** at our request, including actual loss of earnings, or vacation time and other benefit loss up to \$500 a day, for assisting us in the investigation or defense of a claim or suit;
3. The cost of bail bonds required of an **insured person** because of a covered loss;
4. All premiums on bonds required in a suit we defend, but not for bond amounts more than the coverage amount (we need not apply for or furnish any bond);
5. All expenses incurred by us; and
6. Interest on the entire judgment which accrues after entry of the judgment and before we pay or tender, or deposit in court, that part of the judgment which does not exceed the amount of coverage.
7. All prejudgment interest awarded against an insured person on that part of the judgment we pay or offer to pay. We will not pay any prejudgment interest based on that period of time after we make an offer to pay the amount of coverage.

In jurisdictions where we are prevented from defending an **insured person** for a covered loss because of laws or other reasons, we will pay any expenses incurred with our prior written consent for the **insured person's** defense.

If execution on a judgment against the **insured person** or their personal representative is returned unsatisfied in an action brought to recover **damages** for injury sustained or for loss or damage incurred during the life of the policy or contract, then an action may be maintained against the insurer.

Our duty to defend any claim or suit arising out of a single **occurrence** ends when the amount we have paid in **damages** for that **occurrence** equals the Personal Liability Limit shown on the Declarations Page of this policy.

Part III – LIABILITY, Section D., Medical Payments to Others is deleted and replaced by the following:

Medical Payments to Others

Regardless of liability, we will pay the necessary **medical expenses** that are incurred or medically ascertained within three (3) years from the date of an accident causing **bodily injury** up to a total of \$10,000 for each person. This coverage does not apply to you or a **family member** and only applies to an accident that:

- a. Occurs to a person, at a **residence** with liability coverage listed on the Declarations Page, with permission from you or a **family member** to be there;
- b. Arises from a condition at a **residence**, or the ways immediately adjoining a **residence**, listed on the Declarations Page with liability coverage;
- c. Is caused by an animal owned by or in the care of an **insured person**;
- d. Is caused by an **insured person** or a **residence employee** in the course of his or her employment by an **insured person**; or
- e. Is sustained by a **residence employee** and arises out of and in the course of his or her employment by an **insured person**.

Part III – LIABILITY, Section E., Motorized Land Vehicles is deleted and replaced by the following:

Motorized Land Vehicles

Personal injury or **property damage** arising out of the ownership, maintenance, use, loading or unloading of any motorized land vehicle.

This exclusion does not apply to:

- a. Loss caused by **recreational motor vehicles** if the loss occurs on the **residence** premises;
- b. Motor vehicles kept in dead storage on the **residence** if the **personal injury** or **property damage** occurs on the **residence**; or
- c. **Bodily injury** to any **residence** employee arising out of and in the course of his employment by any **insured person**.

Part III – LIABILITY, Section E., **Aircraft** is deleted and replaced by the following:

Aircraft

Personal injury or **property damage** arising out of the ownership, maintenance, use, loading or unloading of any **aircraft**.

Part III – LIABILITY, Section E., **Watercraft** is deleted and replaced by the following:

Watercraft

Personal injury or **property damage** arising out of the ownership, maintenance, use, operation, loading or unloading of any **watercraft**:

- a. That is twenty-six (26) feet or more in length or fifty (50) or more horsepower and which is owned by an **insured person** or furnished or rented to an **insured person** for longer than thirty (30) days; or
- b. Used for any **business** or commercial purpose.

This exclusion does not apply if an insured owns a **watercraft** at the inception of the policy powered by any outboard motor(s), that total more than twenty-five (25) total horsepower and reports in writing to the company within forty-five (45) days after acquisition his intention to insure the outboard motor or combination of outboard motors. Nor does it apply to **bodily injury** or **property damage** occurring on the **residence** or **bodily injury** to any **residence** employee arising out of and in the course of his employment by any **insured person**.

Part III – LIABILITY, Section E., Discrimination is deleted and replaced by the following:

Discrimination

Personal Injury arising out of actual, alleged or threatened discrimination or harassment due to age, race, national origin, color, sex, creed, handicapped status, sexual preference or any other discrimination. This exclusion does not apply to **bodily injury**.

Part III – LIABILITY, Section E., Assessments is deleted and replaced by the following:

Assessments

Any assessment charged against an **insured person** as a member of an association, corporation or community of property owners. This exclusion does not apply to coverage provided under PART II – PROPERTY, Additional Coverage, Assessments.

Part IV – CONDITIONS, Your Duties is deleted in its entirety:

Part IV – CONDITIONS, Your Duties After a Loss, Item 6. is deleted and replaced by the following:

6. As often as we reasonably require:
 - a. Show the damaged property;
 - b. Provide us with records and documents we request; and
 - c. Submit to examination under oath.

Part IV – CONDITIONS, Your Duties After a Loss is amended to include the following:

11. Report any change in title, use, occupation, location, possession or exposures.

Part IV – CONDITIONS, Bankruptcy or Death is deleted and replaced by the following:

Bankruptcy or Death

The **insured person's** bankruptcy or insolvency, or the insolvency of the **insured person's** estate, shall not relieve us of any of our obligations. Further, if the **insured person** dies or becomes bankrupt or insolvent during the Policy Period, this policy, unless cancelled, will cover the **insured person's** legal representative.

In the event of death of the **insured person**, the definition of **insured person** is modified as follows:

The **insured person** shall mean:

1.
 - a. The spouse, if a resident of the household at the time of such death; and
 - b. The legal representative but only with respect to the premises and property of the deceased covered under this policy at the time of such death.
2. **Insured person** shall also include:
 - a. Any member of the deceased's household who was covered under this policy at the time of such death, but only while a resident of the insured premises; and
 - b. With respect to the property of the **insured person**, the person having proper temporary custody thereof but only until the appointment and qualification of the legal representative.

Part IV – CONDITIONS, Legal Action Against Us is deleted and replaced by the following:

Legal Action Against Us

No action shall be brought against us unless the **insured person** has complied with this policy's provisions, nor until final judgment or agreement has set the amount of the **insured person's** legal obligation with us. You also agree to bring any action against us within two (2) years after a loss occurs, but not until thirty (30) days after proof of loss has been filed and the amount of loss has been determined. No one has the right to join us in any action against any **insured person**.

Any person or organization or their legal representative who has secured such judgment or written agreement against the **insured person** shall be entitled to recover under this policy to the extent of the insurance afforded under this policy.

Part IV – CONDITIONS, Appraisals is deleted and replaced by the following:

Appraisals

If you and we fail to agree on the amount of loss, either party may make a written demand that each selects an independent appraiser. In this event, the parties must notify each other of their selection within twenty (20) days. The independent appraisers will select an umpire within fifteen (15) days. If an umpire is not agreed upon within that time, either party may request the umpire be selected by a judge. The independent appraisers will then appraise the loss and then submit any differences to the umpire. A decision in writing agreed to by the two appraisers or either of the appraisers and the umpire will determine the amount of loss. Each appraiser will be paid by the party that has selected him. You and we will share the expenses of the umpire equally.

If we make the written demand, then the **insured person** shall be reimbursed by us for the reasonable cost of the **insured person's** appraiser and the insured **person's** portion of the cost of the umpire.

Part IV – CONDITIONS, Other Insurance is deleted and replaced by the following:

Other Insurance

If a loss covered by this policy is also covered by other insurance, we will pay only the proportion of the loss that the limit of liability that applies under this policy bears to the total amount of insurance covering the loss. This condition does not include medical payments to others.

Part IV – CONDITIONS, Mortgage Clause is amended as follows:

The following paragraph is deleted:

"If your policy is cancelled or not renewed by us, the mortgagee will be notified in writing at least ten (10) days before the date cancellation or nonrenewal takes effect."

The following paragraphs are added:

If your policy is canceled by us, the mortgagee will be notified in writing at least ten (10) days before the date cancellation takes effect.

If your policy is not renewed by us, the mortgagee will be notified in writing at least thirty (30) days before the date nonrenewal takes effect.

We will mail the notice of cancellation or nonrenewal to the mortgagee by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service, showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

Part IV – CONDITIONS, Our Cancellation is deleted and replaced by the following:

Our Cancellation

To cancel this policy we must notify you in writing. We will mail the notice of cancellation to you at the last mailing address shown on the Declarations Page by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice. This notice will include the date the cancellation is to take effect and the reason for the cancellation. It shall also state that any excess premium will be automatically returned to the insured or as soon as possible after the cancellation takes effect. The unearned premium will be computed *pro rata* for the unexpired term of the policy.

We will mail the notice of cancellation to the mortgagee or other person shown by the policy to have an interest in any loss which may occur thereunder, by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

Nonpayment

When you have not paid the premium, we may cancel at any time by letting you know at least ten (10) days before the date cancellation takes effect.

Less than ninety (90) days

When this policy has been in effect for less than ninety (90) days and is not a renewal with us, we may cancel for any reason by letting you know at least ten (10) days before the date cancellation takes effect.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least thirty (30) days before the date cancellation takes effect.

Business or professional activities

When this policy includes business or professional activities conducted by an **insured person** at the **residence** we may cancel for the reasons stated below.

Nonpayment

When you have not paid the premium, we may cancel at any time by letting you know at least fifteen (15) days before the date cancellation takes effect.

Less than ninety (90) days

When this policy has been in effect for less than ninety (90) days and is not a renewal with us, we may cancel for any reason by letting you know at least forty-five (45) days before the date cancellation takes effect.

Ninety (90) days or more

When this policy has been in effect for ninety (90) days or more, or at any time if it is a renewal with us, we may cancel for one or more of the following reasons:

1. Conviction of a crime arising out of acts increasing the probability that a peril insured against will occur;
2. Discovery of fraud or material misrepresentation;
3. Willful or reckless acts or omissions increasing the probability that a peril insured against will occur as determined from a physical inspection of the **insured person's** premises; or
4. Physical changes in the property which result in the property becoming uninsurable as determined from a physical inspection of the **insured person's** premises.

This can be done by letting you know at least forty-five (45) days before the date cancellation takes effect.

Part IV – CONDITIONS, Nonrenewal is deleted and replaced with the following:

Nonrenewal

We may elect not to renew this policy. We may do so by delivering to you, or by mailing to you at your mailing address shown on the Declarations Page, written notice, together with our reasons for non-renewal, at least thirty (30) days before the expiration date of this policy. We will mail the non-renewal notice to you by registered or certified mail, or by certificate of mailing, for which we will obtain a written receipt from the United States Postal Service showing your name and address as shown on the Declarations Page. We will retain a copy of the notice.

If this policy is written for a policy period of less than one year, we agree that we will not refuse to renew except as of the expiration of the policy period coinciding with the end of an annual period commencing with the original effective date.

Business or professional activities

When this policy includes business or professional activities conducted by an **insured person** at the **residence** we may elect not to renew this policy. We may do so by delivering to you, or by mailing to you at your mailing address shown on the Declarations Page, written notice, together with our reasons for non-renewal, at least:

1. Fifteen (15) days before the expiration date of this policy when you have not paid the premium; or
2. Forty-five (45) days before the expiration date of this policy for all other reasons.

All other provisions of this policy apply.

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COMMONWEALTH OF VIRGINIA

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



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October 4, 2012

VIA UPS 2nd DAY DELIVERY

Allan L. Wadsworth
Manager, Regulatory Affairs
Law Department
Chartis U. S.
100 Connell Drive Suite 1
East Berkeley Heights, New Jersey 07922

Re: Market Conduct Examination
AIU Insurance Company (NAIC #19399)
Market Exam Period: September 1, 2009 – August 31, 2010

Dear Mr. Wadsworth:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of August 29, 2012. Based upon the Bureau's review of the company's letter, we are now in a position to conclude this examination. Enclosed is the final Market Conduct Examination Report of AIU Insurance Company (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, 38.2-604 B, 38.2-610 A, 38.2-1318, 38.2-1812, 38.2-1822, 38.2-1833, 38.2-1906 A, 38.2-1906 D, 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, 38.2-2114 C, 38.2-2118 and 38.2-2126 A of the Code of Virginia; and 14 VAC 5-400-30 and 14 VAC 5-400-70 A 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

COMMONWEALTH OF VIRGINIA

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COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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AIG Insurance Company has tendered to the Bureau of Insurance the settlement amount of \$31, 900.00 by its check numbered 90090370 and dated December 4, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 19, 2012

SCC CLERK'S OFFICE
INVESTMENT CONTROL CENTER

2012 DEC 19 A 11:02

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2012-00261

AIU INSURANCE COMPANY,

Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that AIU 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 provide the information required by the statute in the insurance policy; 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, 38.2-610 A, 38.2-2118, and 38.2-2126 A of the Code by failing to accurately provide the required notices to insureds; violated § 38.2-1318 of the Code by failing to provide convenient access to files, documents, and records; violated §§ 38.2-1812 and 38.2-1833 of the Code by paying commissions to agents/agencies that were not appointed by the Defendant; violated § 38.2-1822 A of the Code by knowingly permitting a person to act as an insurance agent without such person first obtaining a license in the manner and form prescribed by the Commission; 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

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§§ 38.2-2113 A, 38.2-2113 C, 38.2-2114 A, and 38.2-2114 C of the Code by failing to properly terminate insurance policies; and violated 14 VAC 5-400-30 and 14 VAC 5-400-70 A of the Commission's Rules Governing Unfair Claim Settlement Practices, 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 Thirty One Thousand Nine Hundred Dollars (\$31,900), waived its right to a hearing, agreed to comply with the corrective action plan set forth in its letters to the Bureau dated April 23, 2012, July 26, 2012, and August 29, 2012, and confirmed that restitution was made to fourteen (14) consumers in the amount of Fifty-nine Thousand Twelve Dollars and Twelve Cents (\$59,012.12).

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 AIU Insurance Company in settlement of the matter set forth herein is hereby accepted.

(2) This case is dismissed, and 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:
Allan L. Wadsworth, Manager, Regulatory Affairs, Law Department, Chartis U.S., 100 Connell Drive, Suite 1, East Berkeley Heights, New Jersey 07922; 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.

