

MARKET CONDUCT EXAMINATION REPORT

OF

ERIE INSURANCE COMPANY

AND

ERIE INSURANCE EXCHANGE

AS OF

June 30, 2018

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

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA



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I, Gloria Warriner, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Erie Insurance Company and Erie Insurance Exchange as of June 30, 2018, conducted at the companies' office in Erie, PA is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2019-00153 finalizing this 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 19th of December 2019.

Examiner in Charge

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EXECUTIVE SUMMARY

The examination included a detailed review of Erie Insurance Company and Erie Insurance Exchange's (Erie) private passenger automobile and homeowner lines of business in Virginia for the period beginning January 1, 2018 and ending June 30, 2018. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance, statutory notices, agent licensing, complaint-handling, and information security practices.

This is the first Market Conduct Examination the Bureau of Insurance (Bureau) has performed on the Companies in the past 16 years. The 16-year span is due to the introduction of Market Analysis. During this time, the analysis of Erie's data did not generate enough anomalies for the companies' to be considered for a market conduct examination. In comparison to the prior examination the examiners noted a significant increase in violations and an overall lack of attention to detail.

The current examination revealed violations that were significant. There were 540 total violations in this Report. Of these 540 violations, it should be noted that the companies only had 27 violations in the area of terminations for both automobile and homeowners. The bulk of these violations were for terminating coverages after the underwriting period for reasons not permitted by the statute.

In contrast to the low number of termination violations the report revealed 350 rating and underwriting violations. These violations included the companies' failure to list all of the applicable forms on the declarations page, the companies' use of language that would exclude drivers (contrary to the statute), the companies' failure to include the effective time of coverage in the policy, the companies' displaying discounts that were not applicable, the companies' failure to file all rates and supplementary rating information with the Bureau prior to use, the companies' failure to use the rates and rules on file with

Bureau and the companies' failure to update the insured's credit information after three years.

In the area of claims there were 107 violations and six general business practices (GBP). There were two GBP in auto and four GBP in homeowners. The companies had violations that rose to the level of a GBP for failure to disclose all of the pertinent coverages to the insured in both auto and homeowners. Failure to offer the insured a fair and reasonable amount was a GBP in auto. The additional GBP's in homeowners were for failure to document claim files sufficiently, failure to adopt standards for prompt investigation of claims, and failure to make a prompt, fair, and equitable settlement. In addition to the GBP's there were eight occurrences where the companies' failed to comply with the provisions of the insurance policy by improper handling of uninsured motorist claims. There were also seven occurrences where the companies failed to comply with the provisions of the contract.

In the area of forms, each of the companies failed to have available for use two standard automobile policies. In addition, the companies failed to file all homeowners forms with the Bureau at least 30 days prior to using the forms.

The Corrective Action Plan (CAP) requested that the companies accurately enter all information on the declarations page, provide accurate and timely notices, use the rules and rates on file with the Bureau, file all rates and supplementary rating information with the Bureau prior to use, and delete all references to excluded drivers from all Virginia policies. The CAP also requested that the companies terminate policies only for the reasons permitted by the statute. In addition, the companies should document all claims files accurately, disclose all coverages applicable to the loss to the insured, offer an amount that is fair and reasonable, and implement standards for a prompt, fair, and equitable settlement. The CAP also requested that restitution of \$11,706.43 be made to 91 Virginia consumers.

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the private passenger automobile and homeowner lines of business written by Erie Insurance Company and Erie Insurance Exchange at their offices in Richmond, Virginia and Erie, Pennsylvania.

The examination commenced September 10, 2018 and concluded March 1, 2019. Brandon L. Ayers, Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby D. Hendrick, Daniel R. Koch, Melody S. Morrissette, Latitia L. Orange, and Gloria V. Warriner, examiners of the Bureau of Insurance, and Joyclyn M. Morton, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on January 26, 2018 and was assigned the Action Number of VA-VA097-16. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

COMPANY PROFILES*

Erie Insurance Company was incorporated September 11, 1972, under the laws of Pennsylvania and began business January 1, 1973. The company was organized as a companion carrier of Erie Insurance Exchange. The interinsurance reciprocal exchange (Erie Insurance Exchange), along with its attorney-in-fact, was organized and licensed on April 1, 1925, under the laws of Pennsylvania. It began business on April 20 1925. Organizers were two auto insurance salesmen, H.O. Hirt (1887-1982), who led ERIE for its first 50 years, and O.G. Crawford (1884-1961).

* Source: Best's Insurance Reports, Property & Casualty, 2017 Edition

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

GROUP CODE: 0213	EIC	EIE
NAIC Company Number	26263	26271
LICENSED IN VIRGINIA	3/7/1973	3/18/1955
LINES OF INSURANCE		
Accident and Sickness	X	X
Aircraft Liability	X	X
Aircraft Physical Damage	X	X
Animal	8/1/1979	8/1/1979
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery		X
Burglary and Theft	8/1/1979	X
Commercial Multi-Peril	X	X
Credit	7/25/2000	7/25/2000
Farmowners Multi-Peril	X	X
Fidelity	X	X
Fire	X	X
General Liability	8/1/1979	X
Glass	8/1/1979	X
Homeowners Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine	X	X
Surety	X	X
Water Damage	X	8/1/1979

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2017 for the lines of insurance included in this examination.* This business was developed through independent agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Erie Insurance Company		
Private Auto Liability	\$4,371,769	.14%
Private Auto Physical Damage	\$3,528,914	.15%
Homeowners Multi-Peril	\$63,745,734	2.98%
Erie Insurance Exchange		
Private Auto Liability	\$113,263,026	3.69%
Private Auto Physical Damage	\$84,799,978	3.61%
Homeowners Multi-Peril	\$61,674,767	2.88%

* Source: The 2017 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile and homeowner lines of business written in Virginia for the period beginning January 1, 2018 and ending June 30, 2018. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, agent licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance laws 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 in Virginia. The Other Law Violations portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the CAP identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

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

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

STATISTICAL SUMMARY

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

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

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

AREA	Population Sample Requested			FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
	EIC 26263	EIE 26271	TOTAL				
Private Passenger Auto							
New Business ¹	<u>649</u> 25	<u>10202</u> 25	<u>10,851</u> 50	40	0	40	100%
Renewal Business ²	<u>2092</u> 25	<u>78976</u> 25	<u>81,068</u> 50	41	0	41	100%
Co-Initiated Cancellations ³	<u>14</u> 6	<u>146</u> 13	<u>160</u> 19	18	0	7	39%
All Other Cancellations ⁴	<u>481</u> 6	<u>6035</u> 20	<u>6,516</u> 26	22	0	2	9%
Non-renewals ⁵	<u>55</u> 5	<u>616</u> 5	<u>671</u> 10	6	0	2	33%
Homeowner							
New Business	<u>9161</u> 40	<u>0</u> 0	<u>9,161</u> 40	40	0	26	65%
Renewal Business	<u>36369</u> 25	<u>30369</u> 25	<u>66,738</u> 50	50	0	32	64%
Co-Initiated Cancellations ⁶	<u>61</u> 10	<u>20</u> 5	<u>81</u> 15	16	0	9	56%
All Other Cancellations ⁷	<u>4627</u> 15	<u>2214</u> 15	<u>6,841</u> 30	25	0	2	8%
Non-renewals ⁸	<u>201</u> 10	<u>199</u> 10	<u>400</u> 20	10	0	0	0%
Claims							
Auto	<u>704</u> 28	<u>19669</u> 84	<u>20,373</u> 112	112	0	47	42%
Property ⁹	<u>3669</u> 51	<u>3299</u> 65	<u>6,968</u> 116	113	0	31	27%
Footnote ¹ - Ten policies were motorcycle policies and not reviewed.							
Footnote ² - Nine policies were motorcycle policies and not reviewed.							
Footnote ³ - One termination file was moved to the Insured Requested category and one termination file was moved to 1st 60							
Footnote ⁴ - Two nonpayment files were expirations and not reviewed. Three Insured Requested files were rewrites and not reviewed. One termination file was moved from Ovr60 to Insured Requested.							
Footnote ⁵ - One non-renewal file was a rewrite and not reviewed. Three non-renewal files were expirations and not reviewed.							
Footnote ⁶ - Two non-renewal files were moved to Co-Initiated Cancellation category. One termination file not reviewed.							
Footnote ⁷ - Three termination files were expirations and were not reviewed. Two Insured Requested terminations were rewrites and not reviewed.							
Footnote ⁸ - Two non-renewal files were moved to Co-Initiated Cancellation category. Eight non-renewal files were expirations and not reviewed.							
Footnote ⁹ - Three files were outside of the Scope of this exam.							

PART ONE – THE EXAMINERS’ OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$167.08 and undercharges totaling \$229.63. The net amount that should be refunded to insureds is \$167.08 plus six percent (6%) simple interest.

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The companies failed to specify accurate information in the insurance policy as required by the statute.
 - a. In 40 instances, the company failed to specify the effective time of coverage 12:01 a.m. on the declarations page.
 - b. In one instance, the company failed to include the garaging address in the declarations.
- (2) The examiners found 44 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.
- (3) The examiners found 11 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.

- (4) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to use the correct symbol.
 - c. In 40 instances, the company failed to use the correct rounding rule.

Automobile Renewal Business Policies

The examiners reviewed 41 new business policy files. During this review, the examiners found overcharges totaling \$345.05 and undercharges totaling \$335.38. The net amount that should be refunded to insureds is \$345.05 plus six percent (6%) simple interest.

- (1) The examiners found 47 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
- a. In 41 instances, the company failed to specify the effective time of coverage 12:01 a.m. on the declarations page.
 - b. In five instances, the company failed to list all of the forms applicable to the policy on the declarations page.
 - c. In one instance, the company failed to include the garaging address on the declarations page.
- (2) The examiners found 46 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, and conditions or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.
- (3) The examiners found nine violations of § 38.2-1906 A of the Code of Virginia. The

- company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct territory.
 - c. In 41 instances, the company failed to use the correct rounding rule.

Homeowner New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$57 and undercharges totaling \$3,959. The net amount that should be refunded to insureds is \$57 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written Notice of an Adverse Underwriting Decision (AUD).
- (2) The examiners found 28 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In 25 instances, the company failed to use the correct tier eligibility criteria.
 - c. In two instances, the company failed to use the correct base and/or final rates.

Homeowner Renewal Business Policies

The examiners reviewed 50 new business policy files. During this review, the examiners found overcharges totaling \$389 and undercharges totaling \$857. The net amount that should be refunded to insureds is \$389 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, and conditions or terms of the insurance policy. The company listed discounts on the declarations page that were not applicable to the policy.
- (2) The examiners found 25 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discount and/or surcharges.
 - b. In two instances, the company failed to use the correct territory.
 - c. In six instances, the company failed to use the correct tier eligibility criteria.
 - d. In one instance, the company failed to use the correct base and/or final rate.
 - e. In 13 instances, the company failed to use the correct public protection class.
 - f. In two instances, the company failed to correctly interpolate the premium for the risk.
- (3) The examiners found seven violations of § 38.2-2126 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three-year period.

TERMINATION REVIEW

The examiners requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes,

regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found six violations of § 38.2-2212 D of the Code of Virginia.
 - a. In two instances, the company cancelled the policy for a reason not permitted by the statute.
 - b. In two instances, the company cancelled the policy due to suspension or revocation of a driver's license that did not occur during the time period permitted by the statute.
 - c. In two instances, the company failed to obtain sufficient documentation from the insured verifying relocation to another state that would permit the company to cancel the policy.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

All Other Cancellations – Automobile PoliciesNONPAYMENT OF THE PREMIUM

The examiners reviewed 13 automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the address shown on the policy.

REQUESTED BY THE INSURED

The examiners reviewed nine automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals – Automobile Policies

The examiners reviewed six automobile non-renewals that were initiated by the company.

The examiners found one violation of § 38.2-2212 C of the Code of Virginia. The company refused to renew a motor vehicle policy solely because of two or fewer motor vehicle accidents within a three-year period when the accident was not caused either wholly or partially by the named insured, a resident of the same household, or other customary operator.

Other Law Violations

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

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

by the Virginia Motor Vehicle Code.

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The examiners reviewed five homeowner cancellations that were initiated by the company where the notice was mailed prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$19 and no undercharges. The net amount that should be refunded to insureds is \$19 plus six percent (6%) simple interest.

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 earned premium correctly.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The examiners reviewed 11 homeowner cancellations that were initiated by the company where the notice was mailed 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. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found eight 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.
- (2) The examiners found six violations of § 38.2-2114 C of the Code of Virginia.
 - a. In four instances, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
 - b. In two instances, the company failed to advise the insured of the possible availability of coverage through the Virginia Property Insurance Association (VPIA).

All Other Cancellations – Homeowner PoliciesNONPAYMENT OF THE PREMIUM

The examiners reviewed ten homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

In addition, the examiners reviewed 15 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found two occurrences where the company failed to abide by the provisions of the policy. The company failed to obtain advance notice of the insured's request cancel the policy.

Company-Initiated Non-renewals – Homeowner Policies

The examiners reviewed ten homeowner non-renewals that were initiated by the company.

The examiners found no violations in this area.

CLAIMS REVIEW**Private Passenger Automobile Claims**

The examiners reviewed 112 automobile claims for the period January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$486.58 and underpayments totaling \$10,428.17. The net amount that should be paid to claimants is \$10,428.17 plus six percent (6%) simple interest.

- (1) The examiners found seven violations of 14 VAC 5-400-30 C. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found 12 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to the insured.
 - a. In three instances, the company failed to disclose the physical damage deductible when the file indicated that the coverage was applicable to the loss.
 - b. In two instances, the company failed to disclose the Medical Expense Benefits (MEB) coverage when the file indicated the coverage was applicable to the loss.
 - c. In two instances, the company failed to disclose the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - d. In four instances, the company failed to disclose the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.
 - e. In one instance, the company failed to disclose the coverage for personal property when the file indicated the coverage was applicable to the loss.

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

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 15 calendar days to pertinent communications

- from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.
- (6) The examiners found 14 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In four instances, the company failed to pay the insured's UMPD claim properly when Collision and UMPD coverages applied to the claim.
 - b. In three instances, the company failed to pay the insured's rental benefits available under the UMPD and/or UIM coverage.
 - c. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's MEB coverage.
 - d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.

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

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

- by or on behalf of the company.
- (8) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- (9) The examiners found four 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.
- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (11) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (12) The examiners found 14 occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In four instances, the company failed to include the lienholder on the check.
 - b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of the policy.
 - c. In eight instances, the company failed to pay an Uninsured Motorist (UM) claim properly.

Homeowner Claims

The examiners reviewed 113 homeowner claims for the period of January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$18,791.10 and underpayments totaling \$242.49. The net amount that should be paid to claimants is \$242.49 plus six percent (6%) simple interest.

- (1) The examiners found nine violations of 14 VAC 5-400-30 C. 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 11 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to the insured.
 - a. In eight instances, the company failed to inform the insured of the benefits under the additional living expense coverage of the policy.
 - b. In two instances, the company failed to inform the insured of the replacement cost benefits under the personal property coverage of the policy.
 - c. In one instance, the company failed to inform the insured of the debris removal benefits under the additional coverages of the policy.

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

- (3) The examiners found two violations of 14 VAC 5-400-50 D. The company failed to provide reasonable assistance to an insured in the management of a claim.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (6) The examiners found one violation of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim. The company failed to pay the entire claim under the insured's replacement cost Personal Property Replacement Cost.
- (7) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

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

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

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

- (9) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The companies paid an insured more than the insured was entitled to receive under the terms of the policy.

FORMS REVIEW

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

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

Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The companies provided copies of 40 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found four violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use mandatory standard forms.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy FormsPOLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 164 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found three violations of § 38.2-317 A of the Code of Virginia. The company used a form which had not been filed with the Commission at least 30 days prior to its effective date.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

POLICY ISSUANCE PROCESS REVIEW

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

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

Automobile Policies

The companies provided six new business policies sent to the insureds on July 16, 2018. In addition, the companies provided six renewal business policies sent to the insureds on the June 30 and July 21, 2018.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by this statute. The company failed to include the effective time of coverage on the declarations page.
- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The declarations page included reference to driver exclusions.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by this statute. The company failed to include the effective time of coverage on the declarations page.
- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The declarations page included reference to driver exclusions.

Homeowner Policies

The company provided three new business policies sent to the insures on July 16, 2018. In addition, the company provided three renewal business policies sent to the insureds on June 20, July 7, and July 16, 2018.

NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the

- statute. The company listed forms on the declarations page that were not applicable to the policy.
- (2) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the “Important Information Regarding Your Insurance” notice.
 - (3) The examiners found three violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Financial Information Collection and Disclosure Practices notice to the applicant or insured.
 - (4) The examiners found three violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to flood.
 - (5) The examiners found three violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to earthquake.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

STATUTORY NOTICES REVIEW

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

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the company. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the company but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

The examiners found two violations of § 38.2-604 B of the Code of Virginia. The company's Notice of Information Collection and Disclosure Practices did not include all of the information required by this statute.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The company's Accident Point Surcharge notice did not contain all the information required by this statute.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The flood exclusion notice did not advise the insured that coverage is available through the insurer or the National Flood Insurance Program.
- (2) The examiners found two violations of § 38.2-2126 A 2 of the Code of Virginia. The company's Credit Adverse Action notice did not include all of the information required by the statute.

Other Notices

The company provided copies of 27 other notices that were used during the examination period.

The examiners found two violations of § 38.2-2114 C of the Code of Virginia. The company's Cancellation Notice failed to advise the insured of the right to request a review by the Commissioner of Insurance.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile and homeowner new business policies to verify the agent of record. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agency

The examiners found no violations in this area.

Agent

The examiners found no violations in this area.

COMPLAINT-HANDLING PROCESS REVIEW

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.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

The Bureau requested a copy of the company's Information Security Procedure that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The company provided their Information Security Procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims 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

Erie Insurance Company and
Erie Insurance Exchange shall:

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

Rating and Underwriting Review

Erie Insurance Company and
Erie Insurance Exchange 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 attached file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by listing all applicable forms,

- endorsements, the effective time of coverage, and the garaging address on the declarations page.
- (5) Remove all references to excluded drivers from the declarations page.
 - (6) Properly represent the discounts applicable to the policy on the declarations page.
 - (7) File all rates and supplementary rating information with the Bureau.
 - (8) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, symbols, tier eligibility, territory, public protection class, rounding rule, and base and/or final rates.
 - (9) Update insureds' credit information at least once every three years as required by § 38.2-2126 B of the Code of Virginia.

Termination Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and send refunds to the insureds or credit the insureds' account the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Calculate return premium according to the filed rules and policy provisions.
- (5) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 D of the

Code of Virginia.

- (6) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 A of the Code of Virginia.
- (7) Advise the insured of the right to request a review by the Commissioner of Insurance.
- (8) Advise the insured of the availability of insurance through the Virginia Property Insurance association (VPIA).
- (9) Obtain a written request when the insured requests cancellation of the policy.

Claims Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds in the amount of the underpayment as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded to the insureds'.
- (3) Complete and submit to the Bureau the attached file titled "Claim Overpayments 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) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD, Personal Property coverage, Medical Expense Benefit (MEB)

- coverage, additional living expense, building replacement cost benefits, Personal Property Replacement cost benefits, and Additional Coverages.
- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
 - (7) Adopt and implement reasonable standards for the prompt investigation of claims.
 - (8) Attempt, in good faith, to make prompt, fair, and equitable settlements of claims in which liability is reasonably clear.
 - (9) Make medical payments directly to the insured unless a valid assignment of benefits has been obtained.

Forms Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Have available for use all mandatory standard automobile forms as adopted by the Bureau.
- (2) File all homeowner forms with the Bureau at least 30 days prior to use.

Policy Issuance Process Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Specify accurate information in the policy by listing all applicable forms and the effective time of coverage on the declarations page.
- (2) Remove all reference to excluded drivers on the declarations page.
- (3) Provide the Important Information to Policyholders notice as required by the Code of Virginia.
- (4) Provide the Financial Information Collection and Disclosure Practices notice as

- required by the Code of Virginia.
- (5) Provide the Flood Exclusion notice as required by the Code of Virginia.
 - (6) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

Statutory Notices Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Develop the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (3) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (4) Develop a notice to advise the insured of the right to request a review by the Commissioner of Insurance.
- (5) Amend the property Credit Adverse Action notice to comply with § 38.2-2126 A 2 of the Code of Virginia.

PART THREE – EXAMINERS’ RECOMMENDATIONS

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

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- Provide the insured with a written notice of an Adverse Underwriting Decision when necessary.
- Verify the spelling of city names on the declarations page.
- Show the total policy premium on the amended declarations page.

Terminations

- Amend the policy language in AMBA1 by removing the word “may” as it is subjective.
- Nonrenew private passenger automobile policies only for those reasons permitted by § 38.2-2212 C of the Code of Virginia.
- Send the cancellation notice to the address listed on the policy. Send proper notice of cancellation to the insured.

Claims

- Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 15 calendar days of receipt.
- Provide reasonable assistance to an insured in the management of a claim.

- Make all claim denials in writing and keep a copy in the claim file.
- Provide a reasonable explanation for the basis of a claim denial.
- Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.
- Include the lienholder on checks where applicable.
- Pay no more than an insured is entitled to receive under the terms of the policy.
- Make claim payments under the correct coverage.

Policy Issuance Process

- List forms and notices separately on the declarations page.

Statutory Notices

- Remove the word “applicant” on notice PA0024VA-E 02.
- Replace the word “Comprehensive” with the correct coverage terminology of “Other Than Collision” on notice number UF-6854. (Ed. 7/17)
- Revise the following AUD notices to comply with § 38.2-610 A of the Code of Virginia: EIG6239VA 1214, EIG6209VA 1214, EIG6238VA 0116, and EIG6255VA 0116.

ACKNOWLEDGEMENT

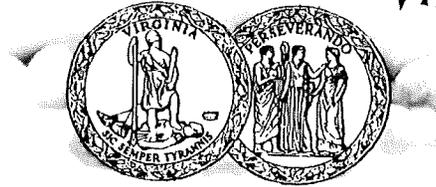
The Bureau acknowledges the officers' and employees' response to requests from the Bureau during the course of the examination.

Sincerely,

A handwritten signature in black ink, appearing to read "Gloria Warriner". The signature is fluid and cursive, with the first name being more prominent.

Gloria Warriner
Senior Insurance Market Examiner

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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March 14, 2019

VIA UPS 2nd DAY DELIVERY

Mandy Elder
Supervisor Conduct Market Services
Erie Insurance Exchange Group
100 Erie Insurance Place
Erie, PA 16530

RE: Erie Insurance Company (NAIC #26263)
Erie Insurance Exchange (NAIC #26271)
Market Conduct Examination
Examination Period: January 1, 2018 - June 30, 2018

Dear Ms. Elder:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of January 1, 2018 through June 30, 2018. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the Report and several technical reports that will provide you with the specific file references for the violations listed in the Report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the Report. Please provide a written response. The companies do not need to respond to any particular item with which they agree. If the companies disagree with an item or wish to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the companies provide written documentation to support their position. When the companies respond, please do not include any personal identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The companies should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the companies must provide a corrective action plan that addresses all of the issues identified in the examination, again using the same headings and numberings as are used in the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings and numbering for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

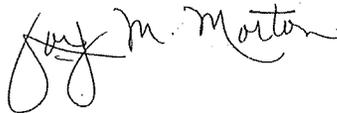
Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with their response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by April 19, 2019.

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

We look forward to your reply by April 19, 2019.

Sincerely,

A handwritten signature in cursive script that reads "Joy M. Morton".

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



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May 1, 2019

VIA BOX Account

Joy Morton, AMCM
Manager - Market Conduct Section
Property & Casualty Division
Virginia Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

RE: Erie Insurance Company (NAIC #26263)
Erie Insurance Exchange (NAIC #26271)
Market Conduct Examination
Examination Period: January 1, 2018 - June 30, 2018

Dear Ms. Morton:

As requested, enclosed is a revised copy of the above-referenced Companies' Response to the Preliminary Examination Report (Report) issued by the Bureau of Insurance (Bureau) on March 14, 2019 as a result of the market conduct examination.

As requested, the Response includes:

- Part 1: Written responses to the observation items the Companies disagree with.
- Part 2: Corrective action plans that address the issues the Companies agree with.
- Part 3: Responses to the recommendations.
- Restitution Spreadsheet: Details on the rating and terminations overcharges and claims underpayments identified by the Bureau.

Please note that the Response follows the same format as the Report and Exhibits were used when referencing personal identifiable or privileged information.

If you have any questions on our Response to the Report, please contact me directly. We look forward to receiving your response.

Sincerely,

Mandy Elder
Manager
Compliance Department

Enclosures

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$254.10 and undercharges totaling \$541.52. The net amount that should be refunded to insureds is \$254.10 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the overcharges amount cited by the Bureau. As referenced in Erie's Restitution Spreadsheet – Exhibit A, review sheets 1538748251, 1725838602, and 157354239 were withdrawn, resulting in a total overcharge amount of \$20.88. Additionally, the Company disagrees with the undercharge amount cited by the Bureau due to review sheet 1538058095. The Company provided further explanation and supporting documentation to review sheet 1538058095 on February 25, 2019 but did not receive a response from the examiner. RPA026, RPA036, RPA042, RPA044 and the Company's response to review sheet 1538058095 support a total undercharge amount of \$473.52.

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
 - a. In 40 instances, the company failed to specify the effective time of coverage 12:01 AM on the declarations page.
 - b. In one instance, the company failed to include the garaging address in the declarations.

Company Response: The Company has no record of receiving review sheet 1551126220

- (2) The examiners found 44 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.

Company Response: The Company disagrees with all 44 violations. The Company does not exclude drivers under our Virginia auto policies. The Company strongly contends that there is no evidence that a driver has been or is excluded under any policy reviewed during the exam via an endorsement, rider, or other policy/form language.

The general statement "Any applicable Named Driver Exclusion form has been provided to you by your Agent." listed on the Virginia Dec page is standard declarations language for ERIE auto policies and does not mean that an excluded driver exists on said policy.

The Company does not have a driver exclusion endorsement available for use in Virginia. In addition, the Company's systems are programmed to prohibit the exclusion of a driver on a Virginia policy in compliance with Virginia law. If the Company's systems did allow for the exclusion of a driver in Virginia, the name of the excluded driver and a form specifically used to exclude the driver would be listed on the Dec page, as this is the Company's standard practice in the states that allow for excluded drivers. As evidenced in the Virginia Dec pages provided during the examination, there were no excluded drivers or exclusion forms listed.

- (3) The examiners found 11 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 43 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In 40 instances, the company failed to use the correct rounding rule.

Automobile Renewal Business Policies

The examiners reviewed 41 new business policy files. During this review, the examiners found overcharges totaling \$453.96 and undercharges totaling \$291.57. The net amount that should be refunded to insureds is \$453.96 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the overcharges amounts noted by the Bureau due to the following:

- Review sheet 1141104068 is a premium undercharge of \$164.82, not an overcharge as noted. Please refer to the examiner's Response to this review sheet dated December 27, 2018.
- Review sheets 949877531 and 1667462465 were withdrawn. Review sheet 1738681792 is the only review sheet remaining regarding rating for RPA053. While the Company agrees to the violation cited in review sheet 1738681792, the Company disagrees with the amount of the undercharge noted. The Company calculates a premium undercharge amount of \$3.38. Please refer to RB Rating and UW Exhibit A_PPA_RPA053 for supporting documentation.

Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information, which also supports the total overcharge amount of \$289.14 and total undercharge amount of \$320.61.

(1) The examiners found 47 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.

a. In 41 instances, the company failed to specify the effective time of coverage 12:01 AM on the declarations page.

Company Response: The Company has no record of receiving review sheet 559531323.

b. In five instances, the company failed to list all of the forms applicable to the policy on the declarations page.

c. In one instance, the company failed to display the garaging address on the declarations page.

Company Response: The Company has no record of receiving review sheet 1983717853.

(2) The examiners found 46 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.

Company Response: The Company disagrees with all 46 violations. The Company does not exclude drivers under our Virginia auto policies. The Company strongly contends that there is no evidence that a driver has been or is excluded under any policy reviewed during the exam via an endorsement, rider, or other policy/form language.

The general statement "Any applicable Named Driver Exclusion form has been provided to you by your Agent." listed on the Virginia Dec page is standard declarations language for ERIE auto policies and does not mean that an excluded driver exists on said policy.

The Company does not have a driver exclusion endorsement available for use in Virginia. In addition, the Company's systems are programmed to prohibit the exclusion of a driver on a Virginia policy in compliance with Virginia law. If the Company's systems did allow for the exclusion of a driver in Virginia, the name of the excluded driver and a form specifically used to exclude the driver would be listed on the Dec page, as this is the Company's standard practice in the states that allow for excluded drivers. As evidenced in the Virginia Dec pages provided during the examination, there were no excluded drivers or exclusion forms listed.

(3) The examiners found nine violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.

(4) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.

- a. In three instances, the company failed to use the correct discounts and/or surcharges.
- b. In one instance, the company failed to use the correct territory.
- c. In 41 instances, the company failed to use the correct rounding rule.

Homeowner New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$57.00 and undercharges totaling \$4,010.00. The net amount that should be refunded to insureds is \$57.00 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the undercharges amount cited by the Bureau. The Company provided further explanation and supporting documentation to review sheet 718180310 on February 21, 2019 but did not receive a response from the examiner. Additionally, please refer to the examiner's response to review sheet 1943502716. These two review sheets support a total undercharge amount of \$3,957.90.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written Notice of an Adverse Underwriting Decision (AUD).
- (2) The examiners found 29 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In 25 instances, the company failed to use the correct tier eligibility criteria.
 - c. In three instances, the company failed to use the correct base and/or final rates.

Homeowner Renewal Business Policies

The examiners reviewed 50 new business policy files. During this review, the examiners found overcharges totaling \$376.00 and undercharges totaling \$857.00. The net amount that should be refunded to insureds is \$376.00 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed discounts on the declarations page that were not applicable to the policy.
- (2) The examiners found 25 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discount and/or surcharges.
 - b. In two instances, the company failed to use the correct territory.
 - c. In six instances, the company failed to use the correct tier eligibility criteria.
 - d. In one instance, the company failed to use the correct base and/or final rate.
 - e. In 13 instances, the company failed to use the correct public protection class.
 - f. In two instances, the company failed to correctly interpolate the premium for the risk.

- (3) The examiners found seven violations of § 38.2-2126 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three-year period.

TERMINATION REVIEW

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

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found six violations of § 38.2-2212 D of the Code of Virginia.
- a. In two instances, the company cancelled the policy for a reason not permitted by the statute.
 - b. In two instances, the company cancelled the policy due to suspension or revocation of a driver's license that did not occur during the time period permitted by the statute.
 - c. In two instances, the company failed to obtain sufficient documentation from the insured verifying relocation to another state that would permit the company to cancel the policy.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The examiners reviewed 13 automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the address shown on the policy.

REQUESTED BY THE INSURED

The examiners reviewed nine automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals – Automobile Policies

The examiners reviewed six automobile non-renewals that were initiated by the company.

The examiners found one violation of § 38.2-2212 C of the Code of Virginia. The company refused to renew a motor vehicle policy solely because of two or fewer motor vehicle accidents within a three-year period when the accident was not caused either wholly or partially by the named insured, a resident of the same household, or other customary operator.

Other Law Violations

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

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

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The examiners reviewed five homeowner cancellations that were initiated by the company where the notice was mailed prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$19.00 and no undercharges. The net amount that should be refunded to insureds is \$19.00 plus six percent (6%) simple interest.

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 earned premium correctly.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The examiners reviewed 11 homeowner cancellations that were initiated by the company where the notice was mailed 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. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found eight 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.
- (2) The examiners found six violations of § 38.2-2114 C of the Code of Virginia.
 - a. In four instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Company Response: Disagree. There are three instances, not four (review sheets 1829570484, 275223506, and 439899515).
 - b. In two instances, the company failed to advise the insured of the possible availability of coverage through the Virginia Property Insurance Association.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The examiners reviewed ten homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

In addition, the examiners reviewed 15 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found two occurrences where the company failed to abide by the provisions of the policy. The company failed to obtain advance notice of the insured's request cancel the policy.

Company-Initiated Non-renewals – Homeowner Policies

The examiners reviewed ten homeowner non-renewals that were initiated by the company.

The examiners found no violations in this area.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 112 automobile claims for the period January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$878.58 and underpayments totaling \$18,609.89. The net amount that should be paid to

claimants is \$18,609.89 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the underpayments amount cited by the Bureau due to the following:

- **Review sheet 1535547371:** The Company disagrees that restitution is owed due to the insured's lack of support and response to the Company's multiple attempts to receive documentation for the cell phone. Please refer to Claims_Exhibit A_PPA_1535547371 for supporting documentation.
- **Review sheet 1234194181:** The Company disagrees that restitution is owed as the Company issued a fair and reasonable payment prior to the Bureau's review of the claims file. Please refer to Claims_Exhibit B_PPA_1234194181 for documentation supporting that the Company issued payment in the amount of the estimate less the deductible.
- **Review sheet 808876707:** The Company disagrees that restitution is owed as the insured advised he did not wish to pursue a personal effects claim. Please refer to Claims_Exhibit C_PPA_808876707 for supporting documentation.
- **Review sheet 532471526:** The Company disagrees with the restitution amount noted. Please refer to the examiner's response to this review sheet, dated September 21, 2018, which supports a \$7.96 underpayment.
- **Review sheet 1608022821:** The Company disagrees with the restitution amount noted. Please refer to the examiner's response to this review sheet, dated February 4, 2019, which supports a \$475 underpayment.
- **Review sheet 752845318:** The Company disagrees with the restitution amount noted as the medical payments totaled \$1,152.75. Please refer to Claims_Exhibit D_PPA_752845318 for supporting documentation.
- **Review sheet 686073576:** The Company disagrees with the restitution amount noted as the death benefit limit is \$5,000. Please refer to Claims_Exhibit E_PPA_686073576 for supporting documentation.

Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information which supports the total underpayment of \$14,257.69.

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

Company Response: The Company has no record of receiving review sheet 1008322177.

- (2) The examiners found 12 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages or provisions of an insurance policy to the insured.
- a. In three instances, the company failed to disclose the physical damage deductible when the file indicated that the coverage was applicable to the loss.
 - b. In two instances, the company failed to disclose the Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - c. In two instances, the company failed to disclose the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - d. In four instances, the company failed to disclose the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.
 - e. In one instance, the company failed to disclose the coverage for personal property when the file indicated the coverage was applicable to the loss.

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

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 15 calendar days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.
- (6) The examiners found 17 violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In four instances, the company failed to pay the insured's UMPD claim properly when Collision and/or UMPD coverages applied to the claim.
 - b. In two instances, the company failed to pay the insured's rental benefits, available under the UMPD coverage and/or UIM coverage.

Company Response: The Company has no record of receiving review sheet 1432028504.

- c. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- e. In one instance, the company failed to pay the insured's Collision or Other Than Collision claim properly.

Company Response: The Company disagrees with review sheet 1234191481. Per the Company's responses dated September 5, 2018 and September 12, 2018, the Company paid a fair and reasonable amount in accordance with 14 VAC 5-400-70 D as evidenced by the estimate provided. Please refer to Claims_Exhibit B_PPA_1234194181 for documentation supporting that the Company issued payment in the amount of the estimate less the deductible, and this payment was issued on June 27, 2018, prior to the Bureau's review of the claims file.

- f. In three instances, the company failed to pay the claim in accordance with the policy provisions under the insured's additional benefits coverage.

Company Response: Disagree. There should be two instances listed, not three (review sheets 1535547371 and 808876707).

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

- (7) The examiners found four violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- (8) The examiners found one violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- (9) The examiners found four 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.
- (10) The examiners found three violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (11) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.
- (12) The examiners found 15 occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In four instances, the company failed to include the lienholder on the check.
- b. In three instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.

Company Response: The Company has no record of receiving review sheet 220874839.

- c. In eight instances, the company failed to pay an Uninsured Motorist (UM) claim properly.

Homeowner Claims

The examiners reviewed 113 homeowner claims for the period of January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$18,731.10 and underpayments totaling \$2,242.47. The net amount that should be paid to claimants is \$2,242.47 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the overpayment amount cited by the Bureau. As evidenced by review sheets 841906173 and 1537190464, the overpayments totaled \$18,791.10.

Additionally, the Company disagrees with the underpayment amount cited by the Bureau due to the following:

- **Review sheet 1905631467: The Company disagrees that restitution is owed as there were no food costs incurred and the insured advised that she did not wish to pursue a claim for increased electric usage. Please refer to Claims_Exhibit F_HO_1905631467 for supporting documentation.**
- **Review sheet 1810228386: The Company disagrees that restitution is owed due to the insured's lack of response to the Company's multiple attempts to discuss ALE coverage. Please refer to Claims_Exhibit G_HO_1810228386 for supporting documentation.**
- **Review sheet 902882558: The Company disagrees that restitution is owed as the insured advised there were no ALE expenses to claim. Please refer to Claims_Exhibit H_HO_902882558 for supporting documentation.**

Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information which supports the total underpayment amount of \$142.50.

- (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 11 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages or provisions of an insurance policy to the insured.
 - a. In eight instances, the company failed to inform the insured of the benefits under the additional living expense coverage of the policy.
 - b. In two instances, the company failed to inform the insured of the replacement cost benefits under the personal property coverage of the policy.

- c. In one instance, the company failed to inform the insured of the debris removal benefits under the additional coverages of the policy.

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

- (3) The examiners found two violations of 14 VAC 5-400-50 D. The company failed to provide reasonable assistance to an insured in the management of his claim.
- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (6) The examiners found four violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim.
 - a. In three instances, the company failed to pay the entire claim under the insured's Additional Living Expense coverage.
 - b. In one instance, the company failed to pay the entire claim under the insured's replacement cost Personal Property Replacement Cost.

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

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

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

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

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

FORMS REVIEW

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

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In

addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 40 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found four violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use mandatory standard forms.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 164 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found three violations of § 38.2-317 A of the Code of Virginia. The company used a form which had not been filed with the Commission at least 30 days prior to its effective date.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

POLICY ISSUANCE PROCESS REVIEW

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

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

Automobile Policies

The companies provided six new business policies sent to the insureds on July 16, 2018. In addition, the companies provided six renewal business policies sent to the insureds on the June 30, 2018 and July 21, 2018.

NEW BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information as in the insurance policy required by this statute. The company failed to include the effective time of coverage on the declarations page.
- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The company attempted to exclude a driver contrary to the statute.

Company Response: The Company disagrees with all 6 violations. The Company does not exclude drivers under our Virginia auto policies. The Company strongly contends that there is no evidence that a driver has been or is excluded under any policy reviewed during the exam via an endorsement, rider, or other policy/form language.

The general statement "Any applicable Named Driver Exclusion form has been provided to you by your Agent." listed on the Virginia Dec page is standard declarations language for ERIE auto policies and does not mean that an excluded driver exists on said policy.

The Company does not have a driver exclusion endorsement available for use in Virginia. In addition, the Company's systems are programmed to prohibit the exclusion of a driver on a Virginia policy in compliance with Virginia law. If the Company's systems did allow for the exclusion of a driver in Virginia, the name of the excluded driver and a form specifically used to exclude the driver would be listed on the Dec page, as this is the Company's standard practice in the states that allow for excluded drivers. As evidenced in the Virginia Dec pages provided during the examination, there were no excluded drivers or exclusion forms listed.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information as in the insurance policy required by this statute. The company failed to include the effective time of coverage on the declarations page.
- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The company attempted to exclude a driver contrary to the statute.

Company Response: The Company disagrees with all 6 violations. The Company does not exclude drivers under our Virginia auto policies. The Company strongly contends that there is no evidence that a driver has been or is excluded under any policy reviewed during the exam via an endorsement, rider, or other policy/form language.

The general statement "Any applicable Named Driver Exclusion form has been provided to you by your Agent." listed on the Virginia Dec page is standard declarations language for ERIE auto policies and does not mean that an excluded driver exists on said policy.

The Company does not have a driver exclusion endorsement available for use in Virginia. In addition, the Company's systems are programmed to prohibit the exclusion of a driver on a Virginia policy in compliance with Virginia law. If the Company's systems did allow for the exclusion of a driver in Virginia, the name of the excluded driver and a form specifically used to exclude the driver would be listed on the Dec page, as this is the Company's standard practice in the states that allow for excluded drivers. As evidenced in the Virginia Dec pages provided during the examination, there were no excluded drivers or exclusion forms listed.

Homeowner Policies

The company provided three new business policies sent to the insures on July 16, 2018. In addition, the company provided three renewal business policies sent to the insureds on June 20, 2018, July 7, 2018 and July 16, 2018.

NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company listed forms on the declarations page that were not applicable to the policy.
- (2) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the "Important Information Regarding Your Insurance" notice.
- (3) The examiners found three violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Financial Information Collection and Disclosure Practices notice to the applicant or insured.
- (4) The examiners found three violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to flood.
- (5) The examiners found three violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to earthquake.

Company Response: While the Company agrees that the forms identified in paragraphs 2-5 were inadvertently not provided in the documents the Company sent for our Policy Issuance Responses to the Bureau, it is our routine practice to

provide all forms to policyholders as evidenced by the asterisk shown on the declarations page. The Company confirmed to the Bureau during the exam that all applicable forms were issued to the policyholders in question.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

STATUTORY NOTICES REVIEW

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

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

The examiners found two violations of § 38.2-604 B of the Code of Virginia. The companies' Notice of Information Collection and Disclosure Practices did not include all of the information required by this statute.

Company Response: Disagree. § 38.2-604 C allows for a short form notice in lieu of a long form notice. The Company provides the short form notice for homeowners policies in form UF-A207 under the heading: Insurance Information Practices (See Notices_Exhibit A_UF-A207). For auto policies the notice is provided under form UF-6854 under the heading: Notice of Insurance Information Practice (See Notices_Exhibit B_UF-6854). These forms accompany policies upon initial issuance and at renewal. The Company provided these forms in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The companies' Accident Point Surcharge notice did not contain all the information required by this statute.

Company Response: Disagree. As stated in our prior response to review sheet 1334124904, the Company does notify the Insured of their right to appeal the assignment of a surcharge to the Commissioner on page 3 of form UF6854 and further refers them to their declarations page. This was acknowledged by the examiner on September 27, 2018.

The insured's declarations page includes details related to the event that triggered the surcharge. While the Company is agreeable to revising its process to include the notice and details of the surcharge in one location, the Company contends that all information required by § 38.2-1905 A of the Code of Virginia is met with the Company's current process and respectfully requests these violations be removed.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The flood exclusion notice did not advise the insured that coverage is available through the insurer or the National Flood Insurance Program.

Company Response: While the Company believes that its current form adheres to § 38.2-2125 of the Code of Virginia, the Company will review and update the notice accordingly.

- (2) The examiners found two violations of § 38.2-2126 A of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all of the information required by the statute.

Company Response: Disagree. The information required under § 38.2-2126 A (1) is included in form UF-A207. This notice contains the necessary and required language found under § 38.2-2126A (1) and is provided at both new policy issuance and policy renewal. (See Notices_Exhibit A_UF-A207). This form was provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018.

Other Notices

The company provided copies of 27 other notices that were used during the examination period.

The examiners found two violations of § 38.2-2114 C of the Code of Virginia. The company's Cancellation Notice failed to advise the insured of his right to request a review by the Commissioner of Insurance.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile and homeowner new business policies to verify the agent of record. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agency

The examiners found no violations in this area.

Agent

The examiners found no violations in this area.

COMPLAINT-HANDLING PROCESS REVIEW

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.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

The Bureau requested a copy of the companies' Information Security Procedure that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their Information Security Procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims 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

Erie Insurance Company and
Erie Insurance Exchange shall:

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

Rating and Underwriting Review

Erie Insurance Company and
Erie Insurance Exchange 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.

Company Response: The Company has reviewed the errors and is in the process of issuing refunds or credits for the overcharges we agree with. Please refer to Erie Restitution Spreadsheet – Exhibit A for additional information on the refund amounts we disagree with.

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

Company Response: The Company will include 6% simple interest in the amount refunded or credited to the insureds for the overcharges we agree with. Please refer to Erie Restitution Spreadsheet – Exhibit A for additional information on the refund amounts we disagree with.

- (3) Complete and submit to the Bureau the enclosed file titled “Rating Overcharges Cited during the Examination.” By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

Company Response: The Company has reviewed the overcharges within the Erie Restitution Spreadsheet and is in the process of issuing refunds or applying credits for the overcharges we agree with. An updated Erie Restitution Spreadsheet will be submitted once all refunds or credits have been issued.

- (4) Specify accurate information in the policy by listing all applicable forms, endorsements and the effective time of coverage on the declarations page.

Company Response: The Company is in the process of updating its declaration page accordingly.

- (5) Remove all references to excluded drivers from the declarations page.

Company Response: As stated in our response to the examiner’s observations, the Company strongly contends that it does not and has not excluded a driver on a Virginia private passenger auto policy. While the Company is agreeable to updating its Virginia declarations page to remove the general language regarding exclusions, the Company respectfully requests that this corrective action plan be moved to a recommendation.

- (6) Properly represent the discounts applicable to the policy on the declarations page.

Company Response: A correction will be made to only print the anti-theft discount on the declarations page when the policy has “Other than Collision” coverage under the policy. The Company anticipates this will be corrected by the end of the third quarter of 2019.

- (7) Provide the insured with a written notice of an Adverse Underwriting Decision when necessary.

Company Response: The Company maintains that the above violation is an isolated finding and respectfully requests that the corrective action be removed from the Report as it does not meet the NAIC error threshold. The Company does and will continue to provide an Adverse Underwriting Action notice when necessary.

- (8) File all rates and supplementary rating information with the Bureau.

Company Response: The Company filed the supplementary information to address the issues identified during the exam in our SERFF #ERAP-131701163 (eff. 3/1/19) filing. All remaining rules, rates and supplementary rating information will be updated to accurately reflect our practices as referenced in applicable review sheets and will be filed with the Bureau by October 31, 2019. Included with the updates and as requested by the examiner, will be the Company's practice of not updating the PPC codes after policy inception.

- (9) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, application of surcharge points, symbols, tier eligibility, territory, public protection class, rounding rule, and base and/or final rates.

Company Response: The Company filed the supplementary information to address the issues identified during the exam in our SERFF #ERAP-131701163 (eff. 3/1/19) filing. All remaining rules, rates and supplementary rating information will be updated to accurately reflect our practices as referenced in applicable review sheets and will be filed with the Bureau by October 31, 2019. Included with the updates and as requested by the examiner, will be the Company's practice of not updating the PPC codes after policy inception.

- (10) Provide the Credit Adverse Action notice as required by § 38.2-2126 A of the Code of Virginia.

Company Response: As evidenced by review sheets 1403550194, 1536778581 and 1826183643 being withdrawn and no violations under 38.2-2126 A being listed in the report under *Underwriting & Rating*, no corrective action plan is required. As such, we respectfully request that this corrective action plan be removed from the Report.

Termination Review

Erie Insurance Company and
Erie Insurance Exchange shall:

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

Company Response: The Company has reviewed the error and has issued a refund for the overcharge.

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

Company Response: The Company included 6% simple interest in the amount refunded to the insured for the overcharge.

- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

Company Response: The Company has reviewed the overcharge within the Erie Restitution Spreadsheet and issued a refund.

- (4) Calculate return premium according to the filed rules and policy provisions.

Company Response: Effective October 2018, the Company ensured that all returned premium is being calculated as specified by its filed rules and rates.

- (5) Obtain valid proof of mailing the cancellation notice to the insured and lienholder.

Company Response: It is the Company's practice to obtain valid proof of mailings for company-initiated cancellation notices. As the Company did not receive violations for not obtaining valid proof of mailings, no corrective action plan is required and the Company respectfully requests that this corrective action plan be removed from the Report.

- (6) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 D of the Code of Virginia.

Company Response: The Company is in the process of updating its Underwriting Procedures Manual and will communicate/reinforce to underwriting staff the importance of documenting and maintaining the applicable reports that are the basis for termination action being taken by underwriting.

- (7) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 A of the Code of Virginia.

Company Response: The Company will communicate/reinforce to underwriting staff the importance of adhering to § 38.2-2114 A of the Code of Virginia.

- (8) Advise the insured of the right to request a review by the Commissioner of Insurance.

Company Response: The Company confirmed that the above violations were the result of manual human error and not a systematic issue. The Company will communicate/reinforce its expectations and procedures for selecting the appropriate forms when performing manual entry work.

- (9) Advise the insured of the availability of insurance through the Virginia Property Insurance association (VPIA).

Company Response: The Company confirmed that the above violations were the result of manual human error and not a systematic issue. The Company will communicate/reinforce its expectations and procedures for selecting the appropriate forms when performing manual entry work.

- (10) Obtain a written request when the insured requests cancellation of the policy.

Company Response: The Company does not require the insured to provide a written request to cancel under its policy provisions as previously discussed with the Bureau during the exam. However, in light of the examiner's concerns, as stated in the Company's February 28, 2019 response to the Bureau's Recommendation review sheet 1551293194, the Company will communicate the importance of documenting and maintaining documentation of the insured's request to cancel to its Virginia independent agents.

- (11) Send the cancellation notice to the address listed on the policy. Send proper notice of cancellation to the insured.

Company Response: The Company maintains that the above violation was an isolated finding and respectfully requests that the corrective action be removed from the Report as it does not meet the NAIC error threshold.

Claims Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds in the amount of the underpayment as of the date the error first occurred.

Company Response: The Company has reviewed the errors and has issued refunds for the Claims underpayments we agree with. Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information on the refunds amounts we disagree with.

- (2) Include six percent (6%) simple interest in the amount refunded to the insureds'.

Company Response: The Company included 6% simple interest in the amount refunded to the insureds for the Claims underpayments we agree with. Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information on the refunds amounts we disagree with.

- (3) Complete and submit to the Bureau the enclosed file titled "Claim Overpayments 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.

Company Response: The Company has reviewed the claims underpayments within the Erie Restitution Spreadsheet – Exhibit A and issued refunds for the Claims underpayments we agree with. An updated Erie Restitution Spreadsheet will be submitted once all refunds have been issued.

- (4) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.

- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD, Personal Property coverage, Medical Expense coverage, additional living expense, building replacement cost benefits, Personal Property Replacement cost benefits, and Additional Coverages.

- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.

- (7) Adopt and implement reasonable standards for the prompt investigation of claims.

- (8) Attempt, in good faith, to make prompt, fair, and equitable settlements of claims in which liability is reasonably clear.

- (9) Make medical payments directly to the insured unless a valid assignment of benefits has been obtained.

Company Response to No's 4-9 above: To address the claims handling violations noted by the Virginia Bureau of Insurance, the Company has and will continue to reinforce compliance with regulatory requirements and Company expectations through verbal and written communications with Virginia claims handlers. Specifically, during the course of the examination, the Company communicated examples of the noted violations and corrective actions to applicable claims handlers on September 24, 2018 and December 18, 2018. In addition, the Company will conduct a formal training during the third quarter of 2019 for all applicable claims handlers training using specific claim examples noted during the examination. Further, the Company will continue to reinforce the claims handling requirements and expectations through monthly file audits. During these audits, supervisors will pay particular attention to the deficiencies noted during the examination and will provide ongoing feedback to the claims handlers.

Forms Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Have available for use all mandatory standard automobile forms as adopted by the Bureau.

Company Response: The Company is in the process of preparing Reinstatement of Insurance and Suspension of Insurance forms.

- (2) File all homeowner forms with the Bureau at least 30 days prior to use.

Company Response: The Company will review its established guidelines with applicable staff and ensure it files all homeowner forms with the Bureau at least 30 days prior to use.

Policy Issuance Process Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Specify accurate information in the policy by listing all applicable forms and the effective time of coverage on the declarations page.

Company Response: The Company is in the process of updating its declaration page accordingly.

- (2) Remove all reference to excluded drivers on the declarations page.

Company Response: As stated in our response to the examiner's observations, the Company strongly contends that it does not and has not excluded a driver on a Virginia private passenger auto policy. While the Company is agreeable to updating its Virginia declarations page to remove the general language regarding exclusions, the Company respectfully requests that this corrective action plan be moved to a recommendation.

- (3) Provide the Important Information to Policyholders notice as required by the Code of Virginia.

Company Response: While the Company agrees that the referenced form was inadvertently not provided in the documents the Company sent for our Policy Issuance Responses to the Bureau, it is our routine practice to provide all forms to policyholders. The Company confirmed to the Bureau during the exam that all applicable forms were issued to the policyholders in question. The Important Information to Policyholders required under VA law (38.2-305B) for home policies is provided in form UF-A207 under the Contact Information heading. For auto policies the required notice is provided in form UF-6854 under the heading Important Information for Virginia Policyholder heading. (See Notices_Exhibit A_UF-A207 and Notices_Exhibit B_UF-6854). These forms were provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018. It has been the Company's practice that the required notice is provided with both new business and renewal policies. Therefore, no corrective action plan is required.

- (4) Provide the Financial Information Collection and Disclosure Practices as required by the Code of Virginia.

Company Response: While the Company agrees that the referenced form was inadvertently not provided in the documents the Company sent for our Policy Issuance Responses to the Bureau, it is our routine practice to provide all forms to policyholders. The Company confirmed to the Bureau during the exam that all applicable forms were issued to the policyholders in question. The Financial Information Collection and Disclosure Practices notice under 38.2-604.1 is provided to policyholders with new business and renewal policies under form number UF-4839 for both home and auto policies. (See Notices_ Exhibit C_UF-4839), which was provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018. It has been the Company's practice that the required notice is provided with both new business and renewal policies. Therefore, no corrective action plan is required.

- (5) Amend the Flood Exclusion notice to comply with the information required by the Code of Virginia.

Company Response: While the Company believes that its current form adheres to § 38.2-2125 of the Code of Virginia, the Company will review and update the notice accordingly.

- (6) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

Company Response: While the Company agrees that the referenced form was inadvertently not provided in the documents the Company sent for our Policy Issuance Responses to the Bureau, it is our routine practice to provide all forms to policyholders. The Company confirmed to the Bureau during the exam that all applicable forms were issued to the policyholders in question. Therefore, no corrective action plan is required.

- (7) Provide the insured notice of the option to purchase coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Company Response: As the Company did not receive violations for not providing this notice and there are no violations listed in the Report, no corrective action plan is required. As such, we respectfully request that this corrective action plan be removed from the Report.

Statutory Notices Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.

Company Response: As noted in the Company's response to the examiner's observations, 38.2-604C allows for a short form notice in lieu of a long form notice. The Company provides the short form notice for homeowners policies in form UF-A207 under the heading: Insurance Information Practices (See Notices_Exhibit A_UF-A207). For auto policies the notice is provided under form UF-6854 under the heading: Notice of Insurance Information Practice (See Notices_Exhibit B_UF-6854). These forms were provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018. It has been the Company's practice that the required notice is provided with both new business and renewal policies. Therefore, no corrective action plan is required and the Company respectfully requests that this be removed from the Report.

- (2) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.

Company Response: As noted in the Company's response to the examiner's observations, the Company contends that § 38.2-1905 A of the Code of Virginia is met with the Company's current process. While the Company is agreeable to updating its declarations page and surcharge notice to address the Bureau's concerns, the Company respectfully requests this corrective action plan be moved to a recommendation.

- (3) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.

Company Response: While the Company believes that its current form adheres to § 38.2-2125 of the Code of Virginia, the Company will review and update the notice accordingly.

- (4) Develop a notice to advise the insured of his right to request a review by the Commissioner of Insurance.

Company Response: The Company does have a notice to advise the insured of his right to request a review by the Commissioner of Insurance, which is in form EIG6209VA, for Company and Exchange non-renewals and cancellations. (See Notices_Exhibit D_EIG6209VA). These forms were provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018. However, the Company acknowledges that the cancellation notice references “non-renewal” laws and will revise the notice to reference “cancellation” laws.

- (5) Amend the property credit disclosure notice to comply with § 38.2-2126 A of the Code of Virginia.

Company Response: As noted in the Company’s response to the observations, the notice required under 38.2-2126A is provided with both new business and renewal policies for homeowners policies. The Company provides the required notice with homeowners policies in form UF-A207 under the heading: Insurance Information Practices (See Notices_Exhibit A_UF-A207). This form was provided in our responses to the initial Notices data requests submitted to the Bureau on July 16, 2018. Therefore, no corrective action plan is required and the Company respectfully requests that this be removed from the Report.

PART THREE – EXAMINERS’ RECOMMENDATIONS

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

RECOMMENDATIONS

We recommend that the companies take the following actions:

Homeowners Rating

- Verify the spelling of city names on the declarations page.
- Show the total policy premium on the amended declarations page.

Company Response: The Company acknowledges the Bureau’s recommendations and is in the process of updating the declarations page accordingly.

Terminations

- Amend the policy language in AMBA1 by removing the word “may” as it is subjective.
- Non-renew private passenger automobile policies only for those reasons permitted by § 38.2-2212 C of the Code of Virginia.

Company Response: The Company acknowledges the Bureau’s recommendations and will revise its policy language in AVMB1 as previously discussed with the Bureau in Recommendation review sheets 1552789826 and 1544713425.

Claims

- Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 15 calendar days of receipt.
- Provide reasonable assistance to an insured in the management of his claim.
- Make all claim denials in writing and keep a copy in the claim file.
- Provide a reasonable explanation for the basis of a claim denial.
- Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.
- Include the lienholder on checks where applicable.
- Pay an insured no more than he or she is entitled to receive under the terms of the policy.
- Make claim payments under the correct coverage.

Company Response: The Company acknowledges the Bureau’s recommendations and, during third quarter 2019, will deliver a general refresher on the Virginia Unfair Claims Practices to all Virginia claims handlers, which will include redistribution of a compliance job aid.

Policy Issuance Process

- List forms and notices separately on the declarations page.

Company Response: The Company acknowledges the Bureau’s recommendation and is in the process of updating its declaration page accordingly.

Statutory Notices

- Remove the word “applicant” on notice PA0024VA-E 02.
- Replace the word “Comprehensive” with the correct coverage terminology of “Other Than Collision” on notice number UF-6854. (Ed. 7/17)
- Revise the following AUD notices to comply with 38.2-610 A of the Code of Virginia: EIG6239VA 1214, EIG6209VA 1214, EIG6238VA 0116, and EIG6255VA0 116.

Company Response: The Company acknowledges the Bureau’s recommendation and is in the process of updating its notices accordingly.

COMMONWEALTH OF VIRGINIA

SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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VIA EMAIL DELIVERY

July 3, 2019

Mandy Elder
Supervisor Conduct Market Services
Erie Insurance Exchange Group
100 Erie Insurance Place
Erie, PA 16530

RE: Market Conduct Examination
Erie Insurance Company (NAIC#26263)
Erie Insurance Exchange (NAIC#26271)
Examination Period: January 1, 2018 – June 30, 2018

Dear Ms. Elder:

The Bureau of Insurance (Bureau) has reviewed the Companies' May 1, 2019 response to the Preliminary Market Conduct Report (Report) of Erie Insurance Company and Erie Insurance Exchange (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

RATING AND UNDERWRITING

Automobile New Business Policies

The overcharge amount for RPA002, review sheet R&UNBPPA-1538748251, has been revised to \$2.98.

The undercharge amount for RPA003 remains the same. The Company provided a response to RPA003 review sheet R&UNBPPA-1538058095; the rating spreadsheet that was provided by the company did not match the total premium on the declarations page in the policy file. The rating spreadsheet showed a premium total of \$1517.00 and the premium on the declarations page showed a premium of \$701.00. The rating spreadsheet provided by the company shows BI/PD/OTC/COLL/UMBI/UMPD coverages however the coverages on the declarations are for only BI/PD/UMBI/UMPD. The undercharge remains the same.

The overcharge amount for RPA013, review sheet R&UNBPPA-1725838602, has been revised to \$2.87.

The overcharge amount on the restitution spreadsheet for RPA017, review sheet R&UNBPPA-108664078, has been revised to \$5.86.

The overcharge amount for RPA026, review sheet R&UNBPPA-1558637436, has been revised to \$4.60.

The overcharge amount for RPA036, review sheets R&UNBPPA-1296253492 and R&UNBPPA-2038314362, has been revised to \$86.72.

The undercharge amount for RPA042, review sheets R&UNBPPA-1940383768 and R&UNBPPA-305209198 remain at \$114.35.

The undercharge amount for RPA044, review sheet R&UNBPPA-154825406, has been revised to \$78.00.

(1b) Attached is review sheet R&UNBPPA-1551126220, RPA029.

(2) The violations cited in this section remain in the Report. The statement on the declarations page that "Any Named Driver Exclusion form has been provided by your agent", infers that there are named driver exclusion forms. As § 38.2-2204 of the Code of Virginia prohibits named driver exclusions. In an audit process all inferences of the Companies' processes must be investigated. Any indication that drivers are, were or may be excluded is a violation. We are unable to confirm that no drivers were excluded, because we don't know what documents were given to the insured by the agent. The violations cited are for the Companies' misrepresentation of the benefits, advantages, conditions or terms of the insurance policy, as driver exclusions are not permitted in Virginia the statement on the declarations page is a misrepresentation to consumers. The Company's statement regarding potential excluded drivers should be removed from the Virginia declarations pages.

Automobile Renewal Business Policies

The restitution spreadsheet has been revised to reflect an undercharge of \$164.82 for RPA096, review sheet R&URBPPA-1141104068.

The net undercharge for RPA053 has been amended to reflect withdrawal of review sheets R&URBPPA-949877531 and R&URBPPA-1667462465. The remaining review sheet R&URBPPA-1738681792 has been revised to reflect an undercharge of \$3.38.

(1a) Attached is review sheet R&URBPPA-559531323, RPA073

(1c) Attached is review sheet R&URBPPA-1983717853, RPA052.

- (2) The violations cited in this section remain in the Report. The statement on the declarations page that "Any Named Driver Exclusion form has been provided by your agent", infers that there are named driver exclusion forms. As § 38.2-2204 of the Code of Virginia prohibits named driver exclusions. In an audit process all inferences of the Companies' processes must be investigated. Any indication that drivers are, were or may be excluded is a violation. We are unable to confirm that no drivers were excluded, because we don't know what documents were given to the insured by the agent. The violations cited are for the Companies' misrepresentation of the benefits, advantages, conditions or terms of the insurance policy, as driver exclusions are not permitted in Virginia the statement on the declarations page is a misrepresentation to consumers. The Company's statement regarding potential excluded drivers should be removed from the Virginia declarations pages.

Homeowner New Business Policies

The undercharge amount of \$52.00 for RHO024, review sheet R&UNBHO-718180310, has been withdrawn.

The undercharge amount for RHO036, review sheet R&UNB-1943502716, remains at \$3.00.

- (2c) After further review, the violation for RHO024 has been withdrawn from the Report.

TERMINATIONS

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

- (2a) The Report has been revised to reflect three instances.

CLAIMS

Private Passenger Automobile

The Restitution shown for Review Sheet ClaimVehPPA1535547371, CPA009 remains in the Report. The notes do not reflect that the Company attempted to reach the insured via US Mail. The Company should send the insured a letter and if the Company is still unable to reach the insured report the \$500 underpayment to the Treasurer of Virginia-Unclaimed Property Division.

The restitution for Review Sheet ClaimVehPPA-1234194181, CPA026 has been withdrawn.

The restitution for Review Sheet ClaimVehPPA-808876707, CPA038 has been withdrawn.

The restitution for Review Sheet ClaimVehPPA-532471526, CPA043 has been amended to a net undercharge of \$7.96.

The restitution for Review Sheet ClaimVehPPA-1608022821 was not the only restitution bearing review sheet on CPA056. The net undercharge is amended to \$675.00. There is a \$475.00 underpayment for the Medical Expenses Benefits (MEB) payment and a \$200 underpayment for the Uninsured Motorist Property Damage (UMPD) deductible.

The restitution for Review Sheet ClaimVehPPA-752845318, CPA075 has been amended to \$1,152.75

The restitution for Review Sheet ClaimVehPPA-686073576, CPA085 remains in the restitution spreadsheet. There is \$5,000 coverage provided as a death benefit. The Company should provide a complete accounting of all payments made on this claim, as it appears there may have been payments made since the Bureau initially reviewed this file.

The total underpayment has been amended to show \$16,402.69.

- (1) Attached is review sheet ClaimVehPPA-1008322177, CPA026. This Review Sheet replaced ClaimVehPPA-1311260572 for consistency in Report writing.
- (6b) Attached is review sheet ClaimVehPPA-1432028504, CPA056. This Review Sheet replaced ClaimVehPPA-826758830 for consistency in Report writing.
- (6e) After further review, CPA026, review sheet ClaimVehPPA-1234191481, has been withdrawn from the Report. The company provided the estimate of repair which verified the payment.
- (6f) The Report has been amended to reflect one instance in this section.
The violation for CPA038, review sheet ClaimVehPPA-808876707, has been withdrawn from the Report based on the insured's wish not to pursue the loss.
- (10) The violation for Review Sheet ClaimVehPPA-2022518929, CPA028 has been withdrawn from the Report.
- (12b) After further review the violation and corresponding underpayment for Review Sheet ClaimVehPPA-220874839, CPA028 has been withdrawn from the Report.

Homeowner Claims

The Report has been amended to reflect total overpayment as shown in Review Sheets ClaimPropHO-841906173 and ClaimPropHO-1537190464 as \$18,791.10. The total underpayment is \$242.49.

- (6a) The violation for CHO044, Review Sheet ClaimPropHO-1905631467, has been withdrawn from the Report. The Company provided documentation that the insured did not incur additional living expenses (ALE).
The violation for CHO073, Review Sheet ClaimPropHO-1810228386, remains in the Report. The Company should send the insured written correspondence advising the insured to contact the Company for possible reimbursement of ALE.

The violation for CHO097, Review Sheet ClaimPropHO-902882558, has been withdrawn from the Report. The company provided documentation that the insured did not incur ALE.

Automobile New Business Policy Issuance

- (2) The violations cited in this section remain in the Report. The statement on the declarations page that "Any Named Driver Exclusion form has been provided by your agent", infers that there are named driver exclusion forms. As § 38.2-2204 of the Code of Virginia prohibits named driver exclusions. In an audit process all inferences of the Companies' processes must be investigated. Any indication that drivers are, were or may be excluded is a violation. We are unable to confirm that no drivers were excluded, because we don't know what documents were given to the insured by the agent. The violations cited are for the Companies' misrepresentation of the benefits, advantages, conditions or terms of the insurance policy, as driver exclusions are not permitted in Virginia the statement on the declarations page is a misrepresentation to consumers. The Company's statement regarding potential excluded drivers should be removed from the Virginia declarations pages.

Automobile Renewal Business Policy Issuance

- (2) The violations cited in this section remain in the Report. The statement on the declarations page that "Any Named Driver Exclusion form has been provided by your agent", infers that there are named driver exclusion forms. As § 38.2-2204 of the Code of Virginia prohibits named driver exclusions. In an audit process all inferences of the Companies' processes must be investigated. Any indication that drivers are, were or may be excluded is a violation. We are unable to confirm that no drivers were excluded, because we don't know what documents were given to the insured by the agent. The violations cited are for the Companies' misrepresentation of the benefits, advantages, conditions or terms of the insurance policy, as driver exclusions are not permitted in Virginia the statement on the declarations page is a misrepresentation to consumers. The Company's statement regarding potential excluded drivers should be removed from the Virginia declarations pages.

Homeowner New Business Policy Issuance

- (2) These violations remain in the Report. During the May 18, 2018 conference call the Company was informed that violations created in the Policy Issuance area of the exam would not be removed. In addition, the data call manual that was signed by the Company states the following: Verify that everything that was in the policy's envelope to the insured is sent to the Bureau of Insurance or copied and sent to the Bureau. If required notices, forms, and other information are not included as part of the mailings provided to the Bureau of Insurance, we will assume that the information was not sent to the insureds.
- (3) These violations remain in the Report. During the May 18, 2018 conference call the Company was informed that violations created in the Policy Issuance area of the exam would not be removed. In addition, the data call manual that was signed by the Company states the following: Verify that everything that was in the policy's envelope to the insured is sent to the Bureau of Insurance or copied and sent to the Bureau. If

required notices, forms, and other information are not included as part of the mailings provided to the Bureau of Insurance, we will assume that the information was not sent to the insureds.

- (4) These violations remain in the Report. During the May 18, 2018 conference call the Company was informed that violations created in the Policy Issuance area of the exam would not be removed. In addition, the data call manual that was signed by the Company states the following: Verify that everything that was in the policy's envelope to the insured is sent to the Bureau of Insurance or copied and sent to the Bureau. If required notices, forms, and other information are not included as part of the mailings provided to the Bureau of Insurance, we will assume that the information was not sent to the insureds.
- (5) These violations remain in the Report. During the May 18, 2018 conference call the Company was informed that violations created in the Policy Issuance area of the exam would not be removed. In addition, the data call manual that was signed by the Company states the following: Verify that everything that was in the policy's envelope to the insured is sent to the Bureau of Insurance or copied and sent to the Bureau. If required notices, forms, and other information are not included as part of the mailings provided to the Bureau of Insurance, we will assume that the information was not sent to the insureds.

General Statutory Notices

These violations remain in the Report. The Company responded in part "§ 38.2-604 C allows for a short form notice in lieu of a long form notice." While this statement is accurate, § 38.2-604 C, 4, requires the Company to provide the long form notice upon request. The long form notice must be available if requested by an insured and must be in compliance with § 38.2-604 B.

Statutory Vehicle Notices

These violations remain in the Report. Section 38.2-1905 A of the Code of Virginia states "Any insurer increasing a premium or charging points as a result of a motor vehicle accident shall notify the named insured in writing **and in the same notification shall inform the named insured that he may appeal the decision....**" The emphasis should be on "in the same notification"; the Company's practice of using two different notices (Virginia-Notice to Policyholders, UF-6854 and the policyholder's Declarations Page) does not comply with the statute.

Statutory Property Notices

- (2) The violation for NSP007 remains in the Report for the Credit Adverse Action notice, UF2547 9/10. This notice is subject to the requirements of § 38.2-2126 A 2 of the Code of Virginia, not subsection A 1. The Companies' response referenced notice UF-A207, this notice does not pertain to the statute under review. The Companies' initially provided a copy of UF2547 9/10 that complied with the appropriate statute. However, the Companies' policy files for RHO005, RHO021 and RHO023 included a copy of UF2547 9/10 that did not comply with the statute. A copy of the notice for RHO005 is

enclosed. This notice is missing one paragraph that states, "Certain elements of your financial history are used to develop an insurance score. The primary factors that influenced your score are available upon request." After further review, the Report has been corrected to reference and describe the requirements of § 38.2-2126 A 2 of the Code of Virginia.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (5) The Company's statement regarding potential excluded drivers should be removed from their Virginia declarations pages.
- (7) After further review, this item has been withdrawn from Corrective Action Plan (CAP). The Report has been renumbered to reflect this change.
- (8) The filing referenced by the Companies only addressed private passenger auto rules and rates. Please confirm that the Companies will submit any necessary homeowner filing revisions by October 31, 2019, as well.
- (9) As the Companies are not updating the Public Protection Classification (PPC) with each renewal the Companies must maintain evidence of the PPC at the time the policy was issued. During the examination the Companies were unable to produce evidence that the PPC used was on file at new business.
- (10) After further review, the Report has been corrected to reference and describe the requirements of § 38.2-2126 B of the Code of Virginia, instead of subsection A in CAP. The Companies should provide a response to this revised item.

Termination Review

- (5) This item has been withdrawn from the CAP. The Report has been renumbered to reflect this change.
- (11) This item has been from the CAP and moved to the Recommendations Section of the Report.

Policy Issuance Review

- (2) The Company should remove the excluded driver statement from their Virginia declarations pages.
- (3-4) The Company should ensure that all accurate notices are provided to insured's when issuing new or renewal business policies.
- (5) The Company should provide a copy of the updated notice.
- (6) The Company should ensure that all accurate notices are provided to insured's when issuing new or renewal business policies.
- (7) This item has been removed from the CAP.

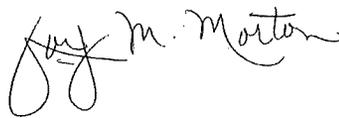
Statutory Notices Review

- (1) The Bureau acknowledges that the Company is providing the short form notice as required by § 38.2-604 C, however, the Company must have available for use the long form notice.
- (2) The Company should make the amendments to the Point Surcharge notice as required by § 38.2-1905 A of the Code of Virginia.
- (5) After further review, the Report has been amended to reference the requirements of § 38.2-2126 A 2 of the Code of Virginia.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports, Restitution Spreadsheet and any review sheets withdrawn, added or altered as a result of this review.

Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by July 25, 2019.

Sincerely,



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

Enclosures

Joy Morton

From: Barris, Destiny <Destiny.Barris@ERIEInsurance.com>
Sent: Thursday, July 25, 2019 4:51 PM
To: Joy Morton; Elder, Mandy
Cc: Gloria Warriner; Solomon, Kelly
Subject: RE: Bureau's Response

Importance: High

Good afternoon, Joy!

We have uploaded ERIE's Response to the Revised Preliminary Report to the BOX account in a folder titled "2019_07_25 ERIE Response to Revised Preliminary Report".

Please note I was receiving upload errors and as a result, uploaded some duplicates. I apologize for any confusion this may cause. Additionally, I attempted to view the documents after I uploaded them to ensure they uploaded properly. However, I was also receiving errors doing that. I recall that we had a similar issue with our prior upload as well, but Gloria seemed to be able to open the documents. Please let me know as soon as possible if you have any issues.

Thank you and have a great weekend!

Destiny Barris, MS, MCM

Compliance Consultant - Market Conduct Services / Compliance Department / 814.870.3317



Above all in service since 1925

From: Joy Morton <Joy.Morton@scc.virginia.gov>
Sent: Wednesday, July 3, 2019 10:14 AM
To: Elder, Mandy <Mandy.Elder@erieinsurance.com>; Barris, Destiny <Destiny.Barris@ERIEInsurance.com>
Cc: Gloria Warriner <Gloria.Warriner@scc.virginia.gov>
Subject: Bureau's Response

Mandy:

Attached is the Bureau's response to the companies' response. Also enclosed are technical reports for detailed information on the items cited in the written report, a revised restitution spreadsheet and any review sheets that have changed since your response.

Should you have any questions please feel free to contact me.

Joy Morton, AMCM
BUI-Manager
Property and Casualty Division
Market Conduct Section
(804)371-9540
Joy.morton@scc.virginia.gov

PART ONE - THE EXAMINERS' OBSERVATIONS

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

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$167.08 and undercharges totaling \$297.63. The net amount that should be refunded to insureds is \$167.08 plus six percent (6%) simple interest.

Company Response: The Company agrees with the overcharges amount of \$167.08 cited by the Bureau. However, as referenced in Erie's Restitution Spreadsheet – Exhibit A, which was prepared by the Bureau, the total amount that should be refunded to insureds is \$113.46, plus six percent (6%) simple interest due to the Bureau's refund threshold.

The Company also notes the following:

- An overcharge amount of \$2.98 for RPA001, review sheet R&UNBPPA-1538748251, was referenced in the Bureau's 7/3/19 Response. This review sheet was withdrawn; therefore, the Company believes the Bureau is referring to R&UNBPPA-731310131, which the Company agrees with.
- An overcharge amount of \$2.87 for RPA013, review sheet R&UNBPPA-1725838602, was referenced in the Bureau's 7/3/19 Response. This review sheet was withdrawn; therefore, the Company believes the Bureau is referring to R&UNBPPA-1474955022, which the Company agrees with.

- An overcharge amount of \$4.60 for RPA026, review sheet R&UNBPPA-1558637436, was referenced in the Bureau's 7/3/19 Response. The Company did not receive R&UNBPPA-1558637436 until the issuance of the Revised Preliminary Report. The original undercharge for RPA026 was issued under review sheet R&UNBPPA-1538397536, which is identical to this review sheet. The Company respectfully requests the Bureau provide a withdrawn review sheet R&UNBPPA-1538397536, which was re-written to review sheet R&UNBPPA-1558637436. Additionally, the Company disagrees that this is an overcharge. Review sheet R&UNBPPA-1558637436 cites an undercharge, which the Company agrees with.

Further, the Company disagrees with the undercharges amount cited by the Bureau. Specifically, the Company disagrees with the Bureau's 7/3/19 Response regarding review sheet R&UNBPPA-1538058095 as the premiums and coverages on the rating worksheet matched the declarations page. Specifically, the rating worksheet provided with the Company's original response did not show a premium amount of \$1517 and different coverages; it showed a premium amount of \$701 and the appropriate coverages for this policy. Please refer to NB Rating and UW Exhibit B_PPA_RPA003 for supporting documentation of an undercharge amount of \$26.67.

The Company also notes the following:

- An undercharge amount of \$78.00 for RPA044, review sheet R&UNBPPA-154825406, was referenced in the Bureau's 7/3/19 Response. The Company believes the Bureau is referring to R&UNBPPA-1548258406, which the company agrees with.

These Responses and the New Business Rating and Underwriting Undercharge Report issued by the Bureau support the total undercharge amount of \$229.63.

- (1) The examiners found 41 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
 - a. In 40 instances, the company failed to specify the effective time of coverage 12:01 AM on the declarations page.
 - b. In one instance, the company failed to include the garaging address in the declarations.
- (2) The examiners found 44 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.
- (3) The examiners found 11 violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In two instances, the company failed to use the correct symbol.
 - b. In 40 instances, the company failed to use the correct rounding rule.

Company Response: This should be referenced as subsection (c) not (b).

Automobile Renewal Business Policies

The examiners reviewed 41 new business policy files. During this review, the examiners found overcharges totaling \$345.05 and undercharges totaling \$335.38. Proposed PPC code and Credit history responses The net amount that should be refunded to insureds is \$345.05 plus six percent (6%) simple interest.

Company Response: The Company agrees with the overcharges amount of \$345.05 cited by the Bureau. However, as referenced in Erie's Restitution Spreadsheet – Exhibit A, which was prepared by the Bureau, the total amount that should be refunded to insureds is \$304.24, plus six percent (6%) simple interest due to the Bureau's refund threshold.

- (1) The examiners found 47 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute.
 - a. In 41 instances, the company failed to specify the effective time of coverage 12:01 AM on the declarations page.
 - b. In five instances, the company failed to list all of the forms applicable to the policy on the declarations page.
 - b. In one instance, the company failed to include the garaging address on the declarations page.

Company Response: This should be referenced as subsection (c) not (b).

- (2) The examiners found 46 violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The declarations page included information that misrepresented the policy provisions.
- (3) The examiners found nine violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 45 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In three instances, the company failed to use the correct discounts and/or surcharges.
 - b. In one instance, the company failed to use the correct territory.
 - c. In 41 instances, the company failed to use the correct rounding rule.

Homeowner New Business Policies

The examiners reviewed 40 new business policy files. During this review, the examiners found overcharges totaling \$57.00 and undercharges totaling \$3,959.00. The net amount that should be refunded to insureds is \$57.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured a written Notice of an Adverse Underwriting Decision (AUD).
- (2) The examiners found 28 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In one instance, the company failed to use the correct discounts and/or surcharges.
 - b. In 25 instances, the company failed to use the correct tier eligibility criteria.
 - c. In two instances, the company failed to use the correct base and/or final rates.

Homeowner Renewal Business Policies

The examiners reviewed 50 new business policy files. During this review, the examiners found overcharges totaling \$389.00 and undercharges totaling \$857.00. The net amount that should be refunded to insureds is \$389.00 plus six percent (6%) simple interest.

Company Response: The Company agrees with the overcharges amount of \$389.00 cited by the Bureau. However, as referenced in Erie's Restitution Spreadsheet – Exhibit A, which was prepared by the Bureau, the total amount that should be refunded to insureds is \$376.00, plus six percent (6%) simple interest due to the Bureau's refund threshold.

- (1) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company listed discounts on the declarations page that were not applicable to the policy.

- (2) The examiners found 25 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In one instance, the company failed to use the correct discount and/or surcharges.
 - b. In two instances, the company failed to use the correct territory.
 - c. In six instances, the company failed to use the correct tier eligibility criteria.
 - d. In one instance, the company failed to use the correct base and/or final rate.
 - e. In 13 instances, the company failed to use the correct public protection class.
 - f. In two instances, the company failed to correctly interpolate the premium for the risk.
- (3) The examiners found seven violations of § 38.2-2126 B of the Code of Virginia. The company failed to update the insured's credit information at least once in a three- year period.

TERMINATION REVIEW

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

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed prior to the 60th day of coverage in the initial policy period. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The examiners reviewed nine automobile cancellations that were initiated by the company where the notice was mailed on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy. During this review, the examiners found

no overcharges and no undercharges.

- (1) The examiners found six violations of § 38.2-2212 D of the Code of Virginia.
 - a. In two instances, the company cancelled the policy for a reason not permitted by the statute.
 - b. In two instances, the company cancelled the policy due to suspension or revocation of a driver's license that did not occur during the time period permitted by the statute.
 - c. In two instances, the company failed to obtain sufficient documentation from the insured verifying relocation to another state that would permit the company to cancel the policy.
- (2) The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the insured.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The examiners reviewed 13 automobile cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found one violation of § 38.2-2212 E of the Code of Virginia. The company failed to send the cancellation notice to the address shown on the policy.

REQUESTED BY THE INSURED

The examiners reviewed nine automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

Company-Initiated Non-renewals – Automobile Policies

The examiners reviewed six automobile non-renewals that were initiated by the company.

The examiners found one violation of § 38.2-2212 C of the Code of Virginia. The company refused to renew a motor vehicle policy solely because of two or fewer motor vehicle accidents within a three-year period when the accident was not caused either wholly or partially by the named insured, a resident of the same household, or other customary operator.

Other Law Violations

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

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

Company-Initiated Cancellations – Homeowner Policies

NOTICE MAILED PRIOR TO THE 90TH DAY OF COVERAGE

The examiners reviewed five homeowner cancellations that were initiated by the company where the notice was mailed prior to the 90th day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$19.00 and no undercharges. The net amount that should be refunded to insureds is \$19.00 plus six percent (6%) simple interest.

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 earned premium correctly.

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

The examiners reviewed 11 homeowner cancellations that were initiated by the company where the notice was mailed 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. During this review, the examiners found no overcharges and no undercharges.

(1) The examiners found eight 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.

- (2) The examiners found six violations of § 38.2-2114 C of the Code of Virginia.

Company Response: The Company respectfully requests that the Report be revised to reflect five instances due to the Bureau recognizing 2(a) below as having only three instances in its 7/3/19 Response.

- a. In four instances, the company failed to advise the insured of his right to request a review by the Commissioner of Insurance.

Company Response: The Company respectfully requests that the Report be revised to reflect three instances as stated in the Bureau's 7/3/19 Response.

- b. In two instances, the company failed to advise the insured of the possible availability of coverage through the Virginia Property Insurance Association.

All Other Cancellations – Homeowner Policies

NONPAYMENT OF THE PREMIUM

The examiners reviewed ten homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

REQUESTED BY THE INSURED

In addition, the examiners reviewed 15 homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

The examiners found two occurrences where the company failed to abide by the provisions of the policy. The company failed to obtain advance notice of the insured's request cancel the policy.

Company-Initiated Non-renewals – Homeowner Policies

The examiners reviewed ten homeowner non-renewals that were initiated by the company.

The examiners found no violations in this area.

CLAIMS REVIEW

Private Passenger Automobile Claims

The examiners reviewed 112 automobile claims for the period January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$486.58 and underpayments totaling \$16,402.69. The net amount that should be paid to claimants is \$16,402.69 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the underpayments amount cited by the Bureau due to the following:

- **ClaimVehPPA_1535547371:** The Company continues to disagree that restitution is owed. The Company also disagrees with the Bureau's 7/3/19 Response that the Company should pay the full available personal effects coverage to the Department of the Treasury's Unclaimed Property Division.

The Company adjuster explained available coverage and requested that the insured send a receipt to substantiate the loss, which the insured agreed to do. This request was consistent with the Company's duty to substantiate the claim and the insured's duty to cooperate and provide receipts under Part E of his policy. The adjuster has since made repeated attempts via phone and email to obtain documentation to substantiate the claim, with no further response by the insured. Without the insured's cooperation, which is required under the policy, the

Company cannot determine whether a loss in fact occurred or what amount of payment is reasonable. However, as requested by the Bureau and as the Company's final attempt to settle the claim, the Company sent a letter by U.S. mail on 7/12/19 to the insured asking if he wishes to pursue the claim.

Please refer to Claims_Exhibit I_PPA_1535547371 for additional details and a copy of the final letter sent to the insured.

- **ClaimVehPPA-686073576: The Company is not disputing that restitution was owed under the death benefit coverage. Rather, the Company is disputing the amount of restitution that was owed under the death benefit coverage at the time of the Bureau's review. As previously stated, the death benefit limit is \$5,000, which was exhausted with the payment of \$5,000 in September 2018; however, as referenced in Exhibit A – Restitution Spreadsheet, the Bureau listed the underpayment as \$6,645 instead of \$5,000.**

As requested in the Bureau's 7/3/19 Response, attached as Claims_Exhibit J_PPA_686073576 is the medical payments log for the respective claimant. The log reflects that the medical expense coverage limits were exhausted with the payment of additional expenses claimed in December 2018.

Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information which supports the total underpayments amount of \$14,257.69.

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

to the claim.

- (2) The examiners found 12 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages or provisions of an insurance policy to the insured.
 - a. In three instances, the company failed to disclose the physical damage deductible when the file indicated that the coverage was applicable to the loss.
 - b. In two instances, the company failed to disclose the Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - c. In two instances, the company failed to disclose the Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.
 - d. In four instances, the company failed to disclose the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM) when the file indicated the coverage was applicable to the loss.
 - e. In one instance, the company failed to disclose the coverage for personal property when the file indicated the coverage was applicable to the loss.

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

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 15 calendar days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found one violation of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for the denial in its written denial of the claim.
- (6) The examiners found 15 violations of 14 VAC 5-400-70 D. The company failed to offer

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

- a. In four instances, the company failed to pay the insured's UMPD claim properly when Collision and UMPD coverages applied to the claim.
- b. In three instances, the company failed to pay the insured's rental benefits, available under the UMPD and/or UIM coverage.
- c. In five instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.
- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- e. In one instance, the company failed to pay the insured's Collision or Other Than Collision claim properly.

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

- (7) The examiners found four violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.
- (8) The examiners found one violation of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.
- (9) The examiners found four 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.
- (10) The examiners found two violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.
- (11) The examiners found one violation of § 38.2-2201 B of the Code of Virginia. The company

failed to obtain a statement from an insured authorizing the company to make payments directly to the medical provider.

- (12) The examiners found 14 occurrences where the company failed to comply with the provisions of the insurance policy.
- a. In four instances, the company failed to include the lienholder on the check.
 - b. In two instances, the company paid an insured more than the insured was entitled to receive under the terms of his policy.
 - c. In eight instances, the company failed to pay an Uninsured Motorist (UM) claim properly.

Homeowner Claims

The examiners reviewed 113 homeowner claims for the period of January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$18,791.10 and underpayments totaling \$242.49. The net amount that should be paid to claimants is \$242.49 plus six percent (6%) simple interest.

Company Response: The Company continues to disagree that restitution is owed under Review Sheet ClaimPropHO-1810228386. The Company evidently explained ALE coverage to the insured and advised the insured to keep receipts. The insured submitted a hotel bill receipt for a two-night stay in the amount of \$148.08 for reimbursement under the available ALE coverage, which was paid by the Company in March 2018, prior to the Bureau's review. The insured did not pursue any additional expenses as a result of the claim.

However, as requested by the Bureau and as the Company's final attempt to settle the claim, the Company sent a letter by U.S. mail on 07/12/19 to the insured asking if he wishes to pursue a claim for any additional expenses he may have incurred. Please refer to

Claims_Exhibit K_HO_1810228386 for supporting documentation.

Please also refer to the Erie Restitution Spreadsheet – Exhibit A, which supports the total underpayments amount of \$142.50.

(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 11 violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages or provisions of an insurance policy to the insured.

a. In eight instances, the company failed to inform the insured of the benefits under the additional living expense coverage of the policy.

b. In two instances, the company failed to inform the insured of the replacement cost benefits under the personal property coverage of the policy.

c. In one instance, the company failed to inform the insured of the debris removal benefits under the additional coverages of the policy.

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

(3) The examiners found two violations of 14 VAC 5-400-50 D. The company failed to provide reasonable assistance to an insured in the management of his claim.

- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found one violation of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (6) The examiners found two violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim.
 - a. In one instance, the company failed to pay the entire claim under the insured's Additional Living Expense coverage.

Company Response: Upon further review of the Company's claims file, the Company disagrees with Review Sheet ClaimPropHO-1810228386. The Company evidently explained ALE coverage to the insured and advised the insured to keep receipts. The insured submitted a hotel bill receipt for a two-night stay in the amount of \$148.08 for reimbursement under the available ALE coverage, which was paid by the Company in March 2018, prior to the Bureau's review. The insured did not pursue any additional expenses as a result of the claim.

See Claims_Exhibit K_HO_1810228386 Receipt_Payment_Letter.

- b. In one instance, the company failed to pay the entire claim under the insured's replacement cost Personal Property Replacement Cost.
- (7) The examiners found eight violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. These findings occurred with such frequency as to indicate a general business practice.
- (8) The examiners found eight violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to attempt, in good faith, to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear. The company unreasonably delayed the settlement of a claim. These findings occurred with such frequency as to indicate a general business practice.
- (9) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company paid an insured more than he/she was entitled to receive under the terms of his/her policy.

FORMS REVIEW

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

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

the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 40 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found four violations of § 38.2-2220 of the Code of Virginia. The company failed to have available for use mandatory standard forms.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

Homeowner Policy Forms

POLICY FORMS USED DURING THE EXAMINATION PERIOD

The companies provided copies of 164 forms that were used and/or available for use during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found three violations of § 38.2-317 A of the Code of Virginia. The company used a form which had not been filed with the Commission at least 30 days prior to its effective date.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

POLICY ISSUANCE PROCESS REVIEW

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

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

Automobile Policies

The companies provided six new business policies sent to the insureds on July 16, 2018. In addition, the companies provided six renewal business policies sent to the insureds on the June 30, 2018 and July 21, 2018.

NEW BUSINESS POLICIES

(1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company

failed to specify accurate information as in the insurance policy required by this statute.

The company failed to include the effective time of coverage on the declarations page.

- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The declarations page included reference to driver exclusions.

RENEWAL BUSINESS POLICIES

- (1) The examiners found six violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information as in the insurance policy required by this statute.

The company failed to include the effective time of coverage on the declarations page.

- (2) The examiners found six violations of § 38.2-502 1 of the Code of Virginia. The company issued a motor vehicle policy that did not provide coverage to the named insured and any other person using or responsible for the use of the motor vehicle. The declarations page included reference to driver exclusions.

Homeowner Policies

The company provided three new business policies sent to the insureds on July 16, 2018. In addition, the company provided three renewal business policies sent to the insureds on June 20, 2018, July 7, 2018 and July 16, 2018.

NEW BUSINESS POLICIES

- (1) The examiners found three violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy as required by the statute. The company listed forms on the declarations page that were not applicable to the policy.

- (2) The examiners found three violations of § 38.2-305 B of the Code of Virginia. The company failed to provide the "Important Information Regarding Your Insurance" notice.

- (3) The examiners found three violations of § 38.2-604.1 A of the Code of Virginia. The company failed to provide the Financial Information Collection and Disclosure

Practices notice to the applicant or insured.

- (4) The examiners found three violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to flood.
- (5) The examiners found three violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the notice advising the insured that the policy does not include loss due to earthquake.

RENEWAL BUSINESS POLICIES

The examiners found no violations in this area.

STATUTORY NOTICES REVIEW

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

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle and property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

The examiners found two violations of § 38.2-604 B of the Code of Virginia. The companies' Notice of Information Collection and Disclosure Practices did not include all of the information required by this statute.

Company Response: The Company continues to disagree with these violations. In response to the Bureau's 7/3/19 Response, the Company has a long form notice, UF-2261, available if requested by an insured. Please refer to Notices_ Exhibit E_UF-2261.

Statutory Vehicle Notices

The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The companies' Accident Point Surcharge notice did not contain all the information required by this statute.

Statutory Property Notices

- (1) The examiners found two violations of § 38.2-2125 of the Code of Virginia. The flood exclusion notice did not advise the insured that coverage is available through the insurer or the National Flood Insurance Program.
- (2) The examiners found two violations of § 38.2-2126 A of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all of the information required by the statute.

Company Response: The Company respectfully requests that the Report be amended to reference the requirements of § 38.2-2126 "A 2" of the Code of Virginia as referenced in the Bureau's 7/3/19 Response.

Other Notices

The company provided copies of 27 other notices that were used during the examination period.

The examiners found two violations of § 38.2-2114 C of the Code of Virginia. The company's Cancellation Notice failed to advise the insured of his right to request a review by the Commissioner of Insurance.

LICENSING AND APPOINTMENT REVIEW

A review was made of the private passenger automobile and homeowner new business policies to verify the agent of record. In addition, the agent or agency to which each company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

Agency

The examiners found no violations in this area.

Agent

The examiners found no violations in this area.

COMPLAINT-HANDLING PROCESS REVIEW

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.

PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW

The Bureau requested a copy of the companies' Information Security Procedure that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The companies provided their Information Security Procedures.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the guidelines contained in the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling. Any error ratio above this threshold for claims 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

Erie Insurance Company and
Erie Insurance Exchange shall:

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

Rating and Underwriting Review

Erie Insurance Company and
Erie Insurance Exchange shall:

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

Company Response: The Company has completed the "Rating Overcharges Cited during the Examination" Spreadsheet.

- (4) Specify accurate information in the policy by listing all applicable forms, endorsements, the effective time of coverage and the garaging address on the declarations page.
- (5) Remove all references to excluded drivers from the declarations page.
- (6) Properly represent the discounts applicable to the policy on the declarations page.
- (7) File all rates and supplementary rating information with the Bureau.

Company Response: As requested in the Bureau's 7/3/19 Response, the Company confirms that necessary private passenger auto and homeowner filing revisions will be submitted by October 31, 2019.

- (8) Use the rules and rates on file with the Bureau. Particular attention should be given to the use of filed discounts, surcharges, symbols, tier eligibility, territory, public protection class, rounding rule, and base and/or final rates.

Company Response: The Company disagrees with the Bureau's 7/3/19 Response which stated "During the examination the Companies were unable to produce evidence that the PPC used was on file at new business." There were only two policies that had remaining PPC codes violations and the reason for the violations was due to the Bureau's conclusion that the codes were incorrect, not the failure of maintaining the PPC code pages on file. Further, since the Company maintains the PPC code pages on file indefinitely, no corrective action is needed in this regard.

- (9) Provide the Credit Adverse Action notice as required by § 38.2-2126 A of the Code of Virginia.

Company Response: Although this CAP was not revised to reference and describe the requirements of § 38.2-2126 "B" of the Code of Virginia as stated in the Bureau's 7/3/19 Response, the Company is actively evaluating the best approach to correct the issue. The Company will recalculate the Claim Decrement

when the credit score is updated every 3 years, which is the preferred corrective action, but is in system testing to determine the feasibility. Alternatively, if this option is not feasible, the Company will remove credit from the Claim Decrement component altogether.

Termination Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and send refunds to the insureds or credit the insured's account 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 insured's account.
- (3) Complete and submit to the Bureau the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

Company Response: The Company has completed the "Termination Overcharges Cited during the Examination" Spreadsheet.

- (4) Calculate return premium according to the filed rules and policy provisions.
- (5) Obtain valid proof of mailing the cancellation notice to the insured and lienholder.

Company Response: The Company respectfully requests the Bureau remove this item from the CAP as stated in the Bureau's 7/3/19 Response.

- (6) Cancel private passenger automobile policies when the notice is mailed after the 59th day of coverage only for those reasons permitted by § 38.2-2212 D of the Code of Virginia.
- (7) Cancel a policy insuring an owner-occupied dwelling when the notice is mailed after the 89th day of coverage only for those reasons permitted by § 38.2-2114 A of the Code of

Virginia.

- (8) Advise the insured of the right to request a review by the Commissioner of Insurance.
- (9) Advise the insured of the availability of insurance through the Virginia Property Insurance association (VPIA).
- (10) Obtain a written request when the insured requests cancellation of the policy.

Claims Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds in the amount of the underpayment as of the date the error first occurred.

Company Response: The Company has reviewed the errors and is in the process of issuing refunds for the Claims underpayments we agree with. Please refer to the Erie Restitution Spreadsheet – Exhibit A for additional information on the refunds amounts we disagree with.

- (2) Include six percent (6%) simple interest in the amount refunded to the insureds'.
- (3) Complete and submit to the Bureau the enclosed file titled "Claim Overpayments 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.

Company Response: The Company has reviewed all underpayments and is in the process of issuing refunds to those that we agree with. An updated Erie Restitution Spreadsheet will be submitted once all refunds have been issued.

- (4) Document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- (5) Document the claim file that all applicable coverages have been discussed with the insured. Particular attention should be given to deductibles, rental benefits under UMPD, Personal Property coverage, Medical Expense coverage, additional living expense,

building replacement cost benefits, Personal Property Replacement cost benefits, and Additional Coverages.

- (6) Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- (7) Adopt and implement reasonable standards for the prompt investigation of claims.
- (8) Attempt, in good faith, to make prompt, fair, and equitable settlements of claims in which liability is reasonably clear.
- (9) Make medical payments directly to the insured unless a valid assignment of benefits has been obtained.

Forms Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Have available for use all mandatory standard automobile forms as adopted by the Bureau.
- (2) File all homeowner forms with the Bureau at least 30 days prior to use.

Policy Issuance Process Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Specify accurate information in the policy by listing all applicable forms and the effective time of coverage on the declarations page.
- (2) Remove all reference to excluded drivers on the declarations page.
- (3) Provide the Important Information to Policyholders notice as required by the Code of Virginia.
- (4) Provide the Financial Information Collection and Disclosure Practices notice as required

by the Code of Virginia.

- (5) Provide the Flood Exclusion notice as required by the Code of Virginia.

Company Response: As requested in the Bureau's 7/3/19 Response, the updated flood exclusion notice is attached as Notices_Exhibit F_UF-A302_UF-2750 and will be implemented for new and renewal policies effective 10/1/2019. Please note that the Company does not reference contacting the "insurer" because the Company does not write flood insurance, and this was recognized by the Bureau during the exam.

- (6) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

- (7) Provide the insured notice of the option to purchase coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.

Company Response: The Company respectfully requests the Bureau remove this item from the CAP as stated in the Bureau's 7/3/19 Response.

Statutory Notices Review

Erie Insurance Company and
Erie Insurance Exchange shall:

- (1) Develop the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.

Company Response: As stated in the Company's response to the examiner's observations, the Company continues to disagree with the violations and the Bureau's 7/3/19 Response as the Company has a long form notice, UF-2261, available if requested by an insured (Notices_Exhibit E_UF-2261). Therefore, no corrective action is needed and the Company respectfully requests that this corrective action plan be removed from the Report.

- (2) Amend the Accident Point Surcharge notice to comply with § 38.2-1905 A of the Code of Virginia.
- (3) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (4) Develop a notice to advise the insured of his right to request a review by the Commissioner of Insurance.
- (5) Amend the property credit disclosure notice to comply with § 38.2-2126 A of the Code of Virginia.

Company Response: The Company will update form UF2547 to include the paragraph referenced in the Bureau's 7/3/19 Response; however, the Company requests that the CAP be amended to reflect the requirements of § 38.2-2126 "A 2" as stated in the Bureau's 7/3/19 Response.

PART THREE – EXAMINERS’ RECOMMENDATIONS

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

RECOMMENDATIONS

We recommend that the companies take the following actions:

Rating and Underwriting

- Provide the insured with a written notice of an Adverse Underwriting Decision when necessary.
- Verify the spelling of city names on the declarations page.
- Show the total policy premium on the amended declarations page.

Terminations

- Amend the policy language in AMBA1 by removing the word “may” as it is subjective.
- Non-renew private passenger automobile policies only for those reasons permitted by § 38.2-2212 C of the Code of Virginia.
- Send the cancellation notice to the address listed on the policy. Send proper notice of cancellation to the insured.

Claims

- Acknowledge correspondence that reasonably suggests a reply is expected from insureds and claimants within 15 calendar days of receipt.
- Provide reasonable assistance to an insured in the management of his claim.
- Make all claim denials in writing and keep a copy in the claim file.
- Provide a reasonable explanation for the basis of a claim denial.

- Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds and claimants.
- Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.
- Include the lienholder on checks where applicable.
- Pay an insured no more than he or she is entitled to receive under the terms of the policy.
- Make claim payments under the correct coverage.

Policy Issuance Process

- List forms and notices separately on the declarations page.

Statutory Notices

- Remove the word “applicant” on notice PA0024VA-E 02.
- Replace the word “Comprehensive” with the correct coverage terminology of “Other Than Collision” on notice number UF-6854. (Ed. 7/17)
- Revise the following AUD notices to comply with 38.2-610 A of the Code of Virginia: EIG6239VA 1214, EIG6209VA 1214, EIG6238VA 0116, and EIG6255VA0 116.

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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September 17, 2019

VIA E-MAIL DELIVERY

Mandy Elder
Supervisor Conduct Market Services
Erie Insurance Exchange Group
100 Erie Insurance Place
Erie, PA 16530

RE: Market Conduct Examination
Erie Insurance Company, NAIC #26263
Erie Insurance Exchange, NAIC #26271
Examination Period: January 1, 2018 – June 30, 2018

Dear Ms. Elder:

The Bureau of Insurance (Bureau) has reviewed the Companies' July 26, 2019 response to the Preliminary Market Conduct Report (Report) of Erie Insurance Company and Erie Insurance Exchange (Companies). The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings, or items that have changed in the Report. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

RATING AND UNDERWRITING

Automobile New Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the Companies report any restitution less than \$5 to the Virginia Escheatment Program.

The \$2.98 overcharge applies to RPA002.

Based upon additional information provided by the company, the undercharge amount for RPA003 has been revised to \$26.67.

A copy of the withdrawn review sheet for RPA026 is attached.

(4b) The Report has been amended to show the second subsection "b" is amended to "c."

Automobile Renewal Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

(1b) The Report has been amended to show the second subsection "b" is amended to "c."

Homeowner New Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

Homeowner Renewal Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

TERMINATIONS

NOTICE MAILED AFTER THE 89TH DAY OF COVERAGE

(2a) The Report includes six violations of § 538.2-2114 C. There are four violations for failure to advise the insured of a right to have the termination reviewed by the Commissioner of Insurance. Further, the Report includes two violations for failure to advise the insured of the availability of other insurance through the VPIA.

CLAIMS

Private Passenger Automobile

(6) The Company responded to CPA075 on the restitution spread sheet that "The Company is in the process of issuing payment and will submit revised restitution spreadsheet once all refunds have been issued." The Company should make the cited restitution to the insured.

- (6c) The restitution for CPA085, has been amended to \$1,170.48 to reflect the interest incurred. The Company should provide the Bureau with the file revisions as it appears payments have been made since the conclusion of the exam.
- (7e) After further review, the violation for CPA009, has been withdrawn from the Report.

Homeowner

- (6a) After further review, the violation for CHO073, has been withdrawn from the Report.
- (6b) The Restitution Spreadsheet has been amended to include an underpayment for CHO072.

General Statutory Notices

The Bureau acknowledges that the Companies have developed a notice that complies with § 38.2-604 B of the Code of Virginia. The Companies did not provide this notice with the completed Data Call, nor during the examination process, or with its response to the Preliminary Market Conduct Report.

Statutory Property Notices

- (2) This item has been corrected to reference § 38.2-2126 A 2 of the Code of Virginia for the Credit Adverse Action notice.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (8) It is not clear which two of the 13 public protection classification (PPC) violations the Companies have referenced in their response. The Companies have chosen to only use the PPCs initially determined at new business and not use the updated PPC for renewal policies; however, this does not match the Companies' current filed rules. The Bureau recommends that the Companies take corrective action to amend their filed rules to reflect the Companies' practice. The Bureau further recommends that the Companies retain adequate documentation of the PPC determined at inception to be able to confirm accuracy of the PPC at renewal.
- (9) This item has been corrected to reference § 38.2-2126 B of the Code of Virginia to update an insured's credit information at least once every three years as required by the statute.

Termination Review

- (5) This item has been withdrawn from the CAP. The Report has been renumbered to reflect this change.

Claims

- (3) The Companies should make the outstanding restitution as indicated in the revised Restitution Spreadsheet attached.

Policy Issuance Review

- (7) This item has been removed from the CAP.

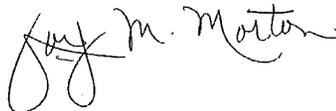
Statutory Notices Review

- (1) The Companies have now provided a notice that complies with § 38.2-604 B of the Code of Virginia.
- (2) The Companies should provide a revised Accident Point Surcharge notice that complies with § 38.2-1905 A of the Code of Virginia.
- (3) The Companies should provide a revised notice that includes the insured's right to request a review by the Commissioner of Insurance.
- (4) The Companies should provide the revised notice UF2547 that complies with § 38.2-2126 A 2 of the Code of Virginia.
- (5) This item has been corrected to reference § 38.2-2126 A 2 of the Code of Virginia for the property Credit Adverse Action notice.

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised version of the Report, technical reports, Restitution Spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review.

Once we have received and reviewed the Companies' responses to these items, we will be in a position to make a settlement offer. We look forward to your response by October 4, 2019.

Sincerely,



Joy M. Morton
Manager
Market Conduct Section
Property and Casualty Division
(804) 371-9540
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JMM/pgh
Attachments



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October 4, 2019

VIA BOX

Joy Morton, AMCM
Manager - Market Conduct Section
Property & Casualty Division
Virginia Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

RE: Erie Insurance Company (NAIC #26263)
Erie Insurance Exchange (NAIC #26271)
Market Conduct Examination
Examination Period: January 1, 2018 - June 30, 2018

Dear Ms. Morton:

Attached is the above-referenced Companies' Response to the Revised Preliminary Examination Report (Report) issued by the Bureau of Insurance (Bureau) on September 17, 2019 as a result of the market conduct examination.

Please note that the attached Response follows the same format as the Report.

If you have any questions on our Response to the Report, please contact me directly. We look forward to receiving your response.

Sincerely,

Mandy Elder
Manager
Compliance Department

Enclosure

PART ONE – EXAMINER’S OBSERVATIONS

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the Companies report any restitution less than \$5 to the Virginia Escheatment Program.

Company Response: In lieu of reporting any restitution less than \$5 to the Virginia Escheatment program, the Company has issued refunds and/or credits to the insureds for amounts less than \$5. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

Automobile Renewal Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

Company Response: In lieu of reporting any restitution less than \$5 to the Virginia Escheatment program, the Company has issued refunds and/or credits to the insureds for amounts less than \$5. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

Homeowner New Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

Company Response: There are no restitution amounts less than \$5 for Homeowner New Business policies. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

Homeowner Renewal Business Policies

All overcharges have been included in the revised Restitution spreadsheet dated September 17, 2019. Due to the expense to issue individual checks, the Bureau recommends that the companies report any restitution less than \$5 to the Virginia Escheatment Program.

Company Response: In lieu of reporting any restitution less than \$5 to the Virginia Escheatment program, the Company has issued refunds and/or credits to the insureds for amounts less than \$5. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

CLAIMS REVIEW

Homeowner Claims

The examiners reviewed 113 homeowner claims for the period of January 1, 2018 through June 30, 2018. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$18,791.10 and underpayments totaling \$242.49. The net amount that should be paid to claimants is \$242.49 plus six percent (6%) simple interest.

Company Response: The Company disagrees with the underpayments amount totaling \$242.49. Review sheet ClaimPropHO-1810228386 was withdrawn with the Bureau's 9/17/19 Response, which supports a total underpayments amount of \$142.50. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

Private Passenger Automobile

- (6c) The restitution for CPA085, has been amended to \$1,170.48 to reflect the interest incurred. The Company should provide the Bureau with the file revisions as it appears payments have been made since the conclusion of the exam.

Company Response: The Company provided the Bureau with the updated payment log and documentation in its 7/25/19 Response to the Revised Preliminary Report. Additionally, the Company has issued payment for the interest amount of \$1,170.48. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

STATUTORY NOTICES REVIEW

General Statutory Notices

The Bureau acknowledges that the Companies have developed a notice that complies with § 38.2-604 B of the Code of Virginia. The Companies did not provide this notice with the completed Data Call, nor during the examination process, or with its response to the Preliminary Market Conduct Report.

Company Response: The Company acknowledges that it inadvertently did not provide the Bureau with a copy of its UF-2261 long form notice during the exam and, as a result, accepts the two violations. However, the Company would like to clarify that its UF-2261 form is a well-established long form notice that, as evidenced by the edition date on the form, was most recently updated in 2017, which was prior to receiving notice of this exam. As evidenced by the information provided, Form UF-2261 was created prior to the 2018 Market Conduct Exam.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

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

Company Response: The Company has reviewed the errors and has issued refunds and/or credits for the overcharges. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

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

Company Response: The Company included 6% simple interest in the amount refunded and/or credited to the insureds for the overcharges. Please refer to Erie's completed Restitution Spreadsheet – Exhibit A.

- (3) Complete and submit to the Bureau the enclosed file titled "Rating Overcharges Cited during the Examination." By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.

Company Response: The Company has completed the "Rating Overcharges Cited during the Examination" Spreadsheet. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

- (8) It is not clear which two of the 13 public protection classification (PPC) violations the Companies have referenced in their response. The Companies have chosen to only use the PPCs initially determined at new business and not use the updated PPC for renewal policies; however, this does not match the Companies' current filed rules. The Bureau recommends that the Companies take corrective action to amend their filed rules to reflect the Companies' practice. The Bureau further recommends that the Companies retain adequate documentation of the PPC determined at inception to be able to confirm accuracy of the PPC at renewal.

Company Response: As stated in the Company's 4/19/19 Response to the Preliminary Report, the rules and rates filings will be updated to include the Company's practice of not updating the PPC codes after policy inception. Additionally, as stated in the Company's 7/25/19 Response to the Revised Preliminary Report, the Company maintains the PPC code pages on file indefinitely, so no corrective action is needed in this regard.

Claims Review

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds in the amount of the underpayment as of the date the error first occurred.

Company Response: The Company has reviewed the errors and has issued refunds for all underpayments in the “Claim Overpayments Cited During the Examinations” spreadsheet except for CHO073. This review sheet was withdrawn with the Bureau’s 9/17/19 Response but was not removed from the spreadsheet. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

- (2) Include six percent (6%) simple interest in the amount refunded to the insureds’.

Company Response: The Company included 6% simple interest in the amount refunded to the insureds for the Claims underpayments. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

- (3) Complete and submit to the Bureau the enclosed file titled “Claim Overpayments 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.

Company Response: The Company has reviewed the errors and has issued refunds for all underpayments in the “Claim Overpayments Cited During the Examinations” spreadsheet except for CHO073. This review sheet was withdrawn with the Bureau’s 9/17/19 Response but was not removed from the spreadsheet. Please refer to the completed Erie Restitution Spreadsheet – Exhibit A.

Statutory Notices Review

- (1) The Companies have now provided a notice that complies with § 38.2-604 B of the Code of Virginia.

Company Response: As stated in the Company’s response to the examiner’s observations, the Company would like to clarify that its UF-2261 form is a well-established long form notice that, as evidenced by the edition date on the form, was most recently updated in 2017, which was prior to receiving notice of this exam. As evidenced by the information provided, Form UF-2261 was created prior to the 2018 Market Conduct Exam. Therefore, no corrective action is/was needed, and the Company respectfully requests that this corrective action plan be removed from the Report.

- (2) The Companies should provide a revised Accident Point Surcharge notice that complies with § 38.2-1905 A of the Code of Virginia.

Company Response: The Bureau’s concern was not with the verbiage of the Company’s Surcharge Notice; instead the concern was where it was located as it was a separate form that was included in the declarations packet and did not immediately follow the surchargeable accident details within the declarations pages. To address the concerns, the Company has revised the declarations pages to provide the Surcharge Notice immediately beneath the applicable surcharge details rather than in a separate document. Please refer to Notices_ Exhibit G_ Surcharge Declarations for a declarations page example.

- (3) The Companies should provide a revised notice that includes the insured’s right to request a review by the Commissioner of Insurance.

Company Response: The content of this Corrective Action Plan refers to #4 in the Report, not #3.

As stated in the Companies’ 4/19/19 Response to the Preliminary Report, the Company does have a notice that includes the insured’s right to request a review by the Commissioner of Insurance, which is in form EIG6209VA, for Company and Exchange non-renewals and cancellations, which were provided during the exam. However, the Company has revised its notice to include references to “cancellation or nonrenewal laws”. Please refer to Notices_ Exhibit H_ EIG6209VA.

- (4) The Companies should provide the revised notice UF2547 that complies with § 38.2-2126 A 2 of the Code of Virginia.

Company Response: The content of this Corrective Action Plan refers to #5 in the Report, not #4.

Please refer to Notices_ Exhibit I_ UF2547 for the corrected Property Notice UF2547.

Joy Morton

From: Barris, Destiny <Destiny.Barris@ERIEInsurance.com>
Sent: Tuesday, October 22, 2019 9:21 AM
To: Joy Morton; Elder, Mandy
Cc: Gloria Warriner
Subject: RE: Market Conduct Report

Good morning, Joy!

Please see the Company's Responses below.

****This email and the company's response will become a part of the published report.****

- It is my understanding that you have spoken with Phyllis Oates, the personal lines rates and forms manager and that she has advised you that you cannot continue using the protection classes from inception throughout the life of the policy. Please provide the company's corrective action plan for revising the public protection class on renewal policies.

COMPANY RESPONSE: In discussions with Phyllis Oates, she advised that we must use the protection class codes (PPC) that are currently filed. She went on to explain that if PPC Codes are not being filed, then it is acceptable to maintain the last filed PPC Code for the remainder of the life of the policy, without a need for further updates. The Company is diligently working on formulating a new corrective action plan and expects to submit a formal corrective action plan to the Bureau by November 7, 2019, if not sooner.

- The point surcharge notice provided with your response, is this only an example?

COMPANY RESPONSE: Yes. In an effort to protect personal information, we produced a system example.

- When the notice actually apply does the person's name fill in this space?

COMPANY RESPONSE: Yes.

- Will the violation information fill in this space or will the insured be directed to the rating information statement to decipher the code?

COMPANY RESPONSE: As shown in the second paragraph of the notice, the insured is referred to UF-6854 for a full list of abbreviations.

- Will this box only appear on the declarations page when a surcharge applies or does this notice appear on every declarations page?

COMPANY RESPONSE: This will only appear when a surcharge applies to the policy.

Please let us know if you have any additional questions or concerns.

Thank you and have a great day!

Destiny Barris, MS, MCM

Compliance Consultant - Market Conduct Services / Compliance Department / 814.870.3317



Above all in SERVICE - since 1925

From: Joy Morton <Joy.Morton@scc.virginia.gov>
Sent: Thursday, October 17, 2019 4:13 PM
To: Barris, Destiny <Destiny.Barris@ERIEInsurance.com>; Elder, Mandy <Mandy.Elder@erieinsurance.com>
Cc: Gloria Warriner <Gloria.Warriner@scc.virginia.gov>
Subject: Market Conduct Report

****This email and the company's response will become a part of the published report.****

Destiny:

We are close to closing the report but I have a couple of questions.

- It is my understanding that you have spoken with Phyllis Oates, the personal lines rates and forms manager and that she has advised you that you cannot continue using the protection classes from inception throughout the life of the policy. Please provide the company's corrective action plan for revising the public protection class on renewal policies.
- The point surcharge notice provided with your response, is this only an example?
- When the notice actually apply does the person's name fill in this space?
- Will the violation information fill in this space or will the insured be directed to the rating information statement to decipher the code?
- Will this box only appear on the declarations page when a surcharge applies or does this notice appear on every declarations page?

We can issue the pre-settlement letter once these questions have been answered.

Joy Morton, AMCM
BOL-Manager
Property and Casualty Division
Market Conduct Section
(804)371-9540
Joy.morton@scc.virginia.gov

Disclaimer

This message (and any attachments) is confidential and is intended only for the addressee(s). This message may contain information that is protected by one or more legally recognized privileges. If the reader of this message is not the intended recipient, I did not intend to waive, and I do not waive, any legal privilege or the confidentiality of the message. If you receive this message in error, please notify me immediately by return e-mail and delete this message from your computer and network without saving it in any manner. The unauthorized use, dissemination, distribution, or reproduction of this message, including attachments, is prohibited and may be unlawful.

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

October 25, 2019

VIA E-MAIL DELIVERY

Mandy Elder
Supervisor Conduct Market Services
Erie Insurance Exchange Group
100 Erie Insurance Place
Erie, PA 16530

RE: Market Conduct Examination
Erie Insurance Company (NAIC #26263)
Erie Insurance Exchange (NAIC #26271)
Examination Period: January 1, 2018 – June 30, 2018

Dear Ms. Elder:

The Bureau of Insurance (Bureau) has concluded its review of the companies' responses of April 19, May 1, October 4, 2019 and the companies' e-mail of October 22, 2019. Based upon the Bureau's review of the companies' correspondence, we are now in a position to conclude this examination. Attached is the final Market Conduct Examination Report of Erie Insurance Company and Erie Insurance Exchange (Report).

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

Sections 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-604.1 A, 38.2-604 B, 38.2-610 A, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2114 A, 38.2-2114 C, 38.2-2125, 38.2-2126 A, 38.2-2126 B, 38.2-2129, 38.2-2201 B, 38.2-2212 C, 38.2-2212 D, 38.2-2212 E, and 38.2-2220 of the Code of Virginia; and 14 VAC 5-400-30 C, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

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

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

Sincerely,

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

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

JMM/pgh
Attachment



Erie
Insurance®

Home Office • 100 Erie Insurance Place • Erie, Pennsylvania 16530 • 814.870.2000
Toll free 1.800.458.0811 • Fax 814.870.3126 • www.erieinsurance.com

November 13, 2019

VIA FedEx Overnight

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

RE: Erie Insurance Company (NAIC #26263)
Erie Insurance Exchange (NAIC #26271)
Market Conduct Examination Settlement Offer
Ecase/Docket Number: INS-2019-00153

Dear Ms. Nichols

This will acknowledge receipt of the Bureau of Insurance's letter dated November 4, 2019 concerning the above referenced matter.

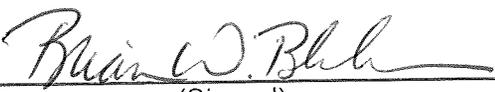
We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A, 38.2-305 B, 38.2-317 A, 38.2-502 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-604.1 A, 38.2-604 B, 38.2-610 A, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2114 A, 38.2-2114 C, 38.2-2125, 38.2-2126 A, 38.2-2126 B, 38.2-2129, 38.2-2201 B, 38.2-2212 C, 38.2-2212 D, 38.2-2212 E, and 38.2-2220 of the Code of Virginia, and 14 VAC 5-400-30 C, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$75,300.
2. We agree to comply with the corrective action plan set forth in the companies' letter of April 19, May 1, July 25, and October 4, 2019 and the companies' e-mail of October 22, 2019.
3. We confirm that restitution was made to 90 consumers for \$14,919.63 in accordance with the companies' letters of April 19, May 1, July 25, and October 4, 2019 and the companies' e-mail of October 22, 2019.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

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

Sincerely,

Erie Insurance Company
Erie Insurance Exchange



(Signed)

Brian Bolash

Senior Vice President, Secretary and
General Counsel



(Date)

Enclosure

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

Erie Insurance Company and Erie Insurance Exchange have tendered to the Bureau of Insurance the settlement amount of \$75,300 by their check numbered 7210007957 and dated November 14, 2019, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, DECEMBER 19, 2019

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2019 DEC 19 P 2: 29

191230061

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2019-00153

ERIE INSURANCE COMPANY, and
ERIE INSURANCE EXCHANGE,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination conducted by the Bureau of Insurance ("Bureau"), it is alleged that Erie Insurance Company and Erie Insurance Exchange (collectively, the "Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), in certain instances 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; § 38.2-317 A of the Code by issuing insurance policies or endorsements without having filed such policies or endorsements with the Commission at least thirty days prior to their effective date, §§ 38.2-305 B, 38.2-604 B, 38.2-604.1 A, 38.2-610 A, 38.2-1905 A, 38.2-2125, 38.2-2126 A, and 38.2-2129 of the Code by failing to accurately provide the required notices to insureds; § 38.2-502 (1) of the Code by failing to accurately represent insurance policy benefits and conditions; § 38.2-1906 A of the Code by failing to file all rates and supplementary rate information with the Commission; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; §§ 38.2-2114 A, 38.2-2114 C, 38.2-2212 C, 38.2-2212 D, and 38.2-2212 E of the Code by failing to properly terminate insurance policies; § 38.2-

2126 B of the Code by failing to update the insured's credit information at least once every three years; § 38.2-2220 of the Code by failing to use forms in the precise language of the standard forms previously filed and adopted by the Commission; and §§ 38.2-510 A 3, 38.2-510 A 6, and 38.2-2201 B of the Code, and 14 VAC 5-400-30 C, 14 VAC 5-400-40 A, and 14 VAC 5-400-70 D 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 a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendants have been advised of the right to a hearing in this matter whereupon the Defendants, without admitting or denying any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have agreed to comply with the corrective action plan outlined in company correspondence dated April 19, 2019, May 1, 2019, July 25, 2019, October 4, 2019, and October 22, 2019; have confirmed that restitution was made to 90 consumers in the amount of Fourteen Thousand Nine Hundred Nineteen Dollars and Sixty-three Cents (\$14,919.63); have tendered to the Treasurer of Virginia the sum of Seventy-five Thousand Three Hundred Dollars (\$75,300); and have waived the right to a hearing.

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

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

Accordingly, IT IS ORDERED THAT:

(1) The offer of the Defendants in settlement of the matter set forth herein is hereby accepted.

(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: Mandy Elder, Manager, Compliance Department, Erie Insurance Group, 100 Erie Insurance Place, Erie, Pennsylvania 16530; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Rebecca Nichols.