

PROCEEDING BEFORE THE HONORABLE MICHAEL D. RILEY
INSURANCE COMMISSIONER OF THE
STATE OF WEST VIRGINIA

IN RE:
ERIE INSURANCE PROPERTY & CASUALTY COMPANY
ADMINISTRATIVE PROCEEDING
13-MC-THP-02002

AGREED ORDER ADOPTING REPORT OF
MARKET CONDUCT EXAMINATION, DIRECTING
CORRECTIVE ACTION AND ASSESSING PENALTY

NOW COMES; The Honorable Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Agreed Order which adopts the Report of Market Conduct Examination for the targeted examination of Erie Insurance Property & Casualty Company for the examination period ending December 31, 2013 based upon the following findings, to wit:

PARTIES

1. The Honorable Michael D. Riley, is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. Erie Insurance Property & Casualty Company was incorporated under the laws of the State of Pennsylvania on January 19, 1993. The Company is a wholly owned subsidiary of Erie Insurance Exchange.

3. In West Virginia, Erie Insurance Property & Casualty Company operates under the provisions of Chapter 33, of the West Virginia Code and is licensed for the lines of Casualty, Fire, Marine and Surety.

4. This Targeted Market Conduct Examination was instituted as result of the Final Order entered in Administrative Proceeding Number 13-THP-2034/13-AP-THP-02034. That Order concluded that Erie Insurance Property & Casualty Company violated W. Va. Code. R. §§ 114-14-6.1 and 114-14-6.3, which constitutes a violation W.Va. Code §§ 33-11-4(9)(c).

5. The purpose of this Targeted Market Conduct Examination was to investigate Erie Insurance Property & Casualty Company's claims handling practices in regard to third-party claims and to determine whether the actions of Erie Insurance Property & Casualty Company identified in the underlying Complainant's claim constitute a general business practice pursuant to W.Va. Code § 33-11-4a (e) and (f).

6. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record.

FINDINGS OF FACT

1. The Targeted Market Conduct Examination primarily focused on third-party claims handling practices with particular attention to the Company's investigation of claims and timeliness in the issuance of claim denials. The examination covered the period of operations ending December 31, 2013. The examination was conducted in accordance with W. Va. Code § 33-2-9(c) by examiners duly appointed by the Offices of the West Virginia Insurance Commissioner.

2. The Targeted Market Conduct Examination began on December 20, 2013 and concluded on March 7, 2014. The examination was conducted at the corporate offices of Erie Insurance Property & Casualty Company in Erie, Pennsylvania and at the Offices of the Insurance Commissioner in Charleston, West Virginia.

3. A total of thirteen (13) standards were reviewed during this examination. Of these thirteen (13) standards, the company was compliant or predominately compliant in eleven (11) standards and noncompliant in two (2) standards (G2 and G9), which primarily deal with failure to provide delay letters to claimants and failure to provide claimants with the appropriate contact information for the West Virginia Insurance Commissioner upon denial of claims.

4. The result of the Targeted Market Conduct Examination revealed two (2) violations of W.Va. Code R. §114-14-5.1 pertaining to contacting a claimant within fifteen (15) working days from the date of loss notice and one (1) violation of W. Va. Code R. §114-14-6.3 pertaining to denying a claim or making a written offer within ten (10) working days after completing its investigation. These violations did not occur with such frequency to fail the standard or be identified as non-compliant claims handling practices.

5. The result of the Targeted Market Conduct Examination also revealed twenty eight (28) violations of W. Va. Code R. §114-14-6.17 pertaining to the requirement that denial letters include contact information for the West Virginia Offices of the Insurance Commissioner and twenty three (23) violations of W. Va. Code R. § 114-14-6.7 pertaining to failure to properly issue delay letters. Sixteen (16) of the twenty-three (23) failures of W. Va. Code R. § 114-14-6.7 were attributable to a single claims adjuster, who is no longer employed with the Company. The frequency of these violations was sufficient to fail the standard and be identified as non-compliant claims handling practices. However, these violations were not directly related to the violations identified in Administrative Proceeding Number 13-THP02034/13-AP-THP-02034.

6. On April 16, 2014, the examiner filed with the Insurance Commissioner, pursuant to W. Va. Code § 33-2-9, a Report of Market Conduct Examination regarding the treatment of third-party claimants.

7. A true copy of the Report of Market Conduct Examination and this Agreed Order were sent to Erie Insurance Property & Casualty Company by certified mail, return receipt requested.

8. Erie Insurance Property & Casualty Company was notified that, pursuant to W. Va. Code §33-2-9(j) (2), it had thirty (30) days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner, or if it had no objections/submissions, it could elect to enter into this Agreed Order.

9. Erie Insurance Property & Casualty Company waives notice of administrative hearing, any and all rights to an administrative hearing, and to judicial review of this matter.

10. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such and incorporated in the next section.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter of, and the parties to, this proceeding. It is being conducted pursuant to, and in accordance with, W. Va. Code § 33-2-9.

2. The Insurance Commissioner is charged with the responsibility of verifying continued compliance with West Virginia Code and the West Virginia Code of State Rules by Erie Insurance Property & Casualty Company as well as all other provisions of regulation that Erie Insurance Property & Casualty Company is subjected to by virtue of

their Certificate of Authority to operate in the State of West Virginia.

3. Erie Insurance Property & Casualty Company has incurred violations of W. Va. Code R. § 114-14-6.17 pertaining to the requirement that claim denial letters include contact information for the West Virginia Offices of the Insurance Commissioner and W. Va. Code R. § 114-14-6.7 pertaining to failure to properly issue delay letters. The frequency of these violations was sufficient to be identified as non-compliant claims handling practices. The failure of Erie Insurance Property & Casualty Company to meet the standards related to W.Va. Code. R § 114-14-6.17 and W. Va. Code R. § 114-14-6.7 are not related to the findings contained in Administrative Proceeding Number 13-THP02034/13-AP-THP-02034.

4. The one (1) violation of W. Va. Code R. §114-14-6.3 pertaining to denying a claim or making a written offer within ten (10) working days after completing its investigation is related to the findings contained in Administrative Proceeding Number 13-THP02034/13-AP-THP-02034. However, this violation did not occur with such frequency as to constitute a finding of a general business practice as required by W.Va. Code § 33-11-4a(e) and (f). The Targeted Market Conduct Report did not reveal any violations of W.Va. Code R. § 114-14-6.1, which was also related to the findings contained in Administrative Proceeding Number 13-THP-02034/13-AP-THP-02034.

5. There does not appear to be any intentional or egregious conduct exhibited by Erie Insurance Property & Casualty Company in the examination findings.

6. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to W. Va. Code §33-2-9(j)(3)(A), following the review of the Report of

Market Conduct Examination, the examination work papers, and the response of Erie Insurance Property & Casualty Company thereto, if any, the Insurance Commissioner and Erie Insurance Property & Casualty Company have agreed to enter into this Agreed Order. The Parties have further agreed to the imposition of an administrative penalty against Erie Insurance Property & Casualty Company as set forth below.

It is accordingly **ORDERED** as follows:

(A) The attached Report of Market Conduct Examination of Erie Insurance Property & Casualty Company for the period ending December 31, 2013 is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner;

(B) It is **ORDERED** that Erie Insurance Property & Casualty Company will **CEASE AND DESIST** from failing to comply with the Statutes, Rules and Regulations of the State of West Virginia concerning any claims so handled in this State and more specifically the provisions enumerated herein this Order;

(C) It is further **ORDERED** that Erie Insurance Property & Casualty Company shall continue to monitor its Compliance with W. Va. Code R. §§ 114-14-6.7 and 114-14-6.17.

(D) It is further **ORDERED** that within thirty (30) days of the next regularly scheduled meeting of its Board of Directors, Erie Insurance Property & Casualty Company shall file with the West Virginia Insurance Commissioner, in accordance with W. Va. Code §33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this Agreed Order;

(E) It is further **ORDERED** that Erie Insurance Property & Casualty Company **SHALL FILE** a Corrective Action Plan which will be subject to the approval of the Insurance

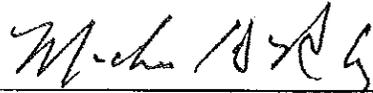
Commissioner. The Corrective Action Plan shall detail Erie Insurance Property & Casualty Company's changes to its procedures and/or internal policies to ensure compliance with the West Virginia Code and Rules and incorporate all recommendations of the Insurance Commissioner's examiners and address all violations specifically cited in the Report of Market Conduct Examination. The Corrective Action Plan outlined in this Order must be submitted to the Insurance Commissioner for approval within thirty (30) days of the entry date of this Agreed Order. Erie Insurance Property & Casualty Company shall implement reasonable changes to the Corrective Action Plan if requested by the Insurance Commissioner within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan. The Insurance Commissioner shall provide notice to Erie Insurance Property & Casualty Company if the Corrective Action Plan is disapproved and the reasons for such disapproval within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan.

(F) It is further **ORDERED** that Erie Insurance Property & Casualty Company shall ensure compliance with the West Virginia Code and the Code of State Rules. Erie Insurance Property & Casualty Company shall specifically cure those violations and deficiencies identified in the Report of Market Conduct Examination; and

(G) The Insurance Commissioner has determined and it has been **ORDERED** that Erie Insurance Property & Casualty Company shall pay an administrative penalty to the State of West Virginia in the amount of **TWELVE THOUSAND DOLLARS (\$12,000.00)** for non-compliance with the West Virginia Code as described herein. The payment of this administrative penalty is in lieu of any other regulatory penalty or remedy, and is due within **THIRTY (30)** calendar days upon execution of this order.

(H) It is finally ORDERED that all such statutory notices, administrative hearings and appellate rights are herein waived concerning this Report of Market Conduct Examination and Agreed Order. All such rights are preserved by the Parties regarding implementation or further action taken on such Order by the Commissioner against Erie Insurance Property & Casualty Company.

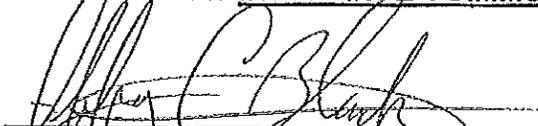
Entered this 16th day of June, 2014.



The Honorable Michael D. Riley
Insurance Commissioner

REVIEWED AND AGREED TO BY:

On behalf of the INSURANCE COMMISSIONER:


Jeffrey C. Black, Attorney Supervisor
Regulatory compliance and Enforcement

Dated: 6/11/14

On Behalf of Erie Insurance Property & Casualty Company

By: SEAN J. McLAUGHLIN
Print Name

Its: Executive Vice President, Secretary & General Counsel

Signature: Sean J. McLaughlin

Date: June 9, 2014

Report of Market Conduct Examination

As of December 31, 2013



Erie Insurance Property & Casualty Company
100 Erie Insurance Place
Erie, PA 16530

NAIC COMPANY CODE 26830
Examination Number WV014-M42

Table of Contents

FOREWORD..... 1
EXECUTIVE SUMMARY 1
PURPOSE AND SCOPE OF EXAMINATION 2
HISTORY AND PROFILE..... 3
METHODOLOGY..... 3
A. Company Operations & Management..... 4
B. Complaint Handling 5
G. Claims Practices 6
CONCLUSION..... 11
LIST OF RECOMMENDATIONS..... 13
EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT 14
EXAMINER'S AFFIDAVIT..... 15

April 16, 2014

The Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Commissioner Riley:

Pursuant to your instructions and in accordance with W. Va. Code §33-2-9, an examination has been made as of December 31, 2013 on

Erle Insurance Property & Casualty Company
100 Erle Insurance Place
Erle, PA 16530

hereinafter referred to as the "Company". The following report of the findings of this examination is herewith respectfully submitted.

FOREWORD

This is a report by test of company compliance with selected Standards contained in the National Association of Insurance Commissioners' (NAIC) *2013 Market Regulation Handbook* ("Handbook") and Standards approved by the West Virginia Offices of the Insurance Commissioner ("WVOIC") which are based on applicable West Virginia statutes and administrative rules, as referenced herein. Testing is based on guidelines contained in the Handbook. All tests applied are included in this report.

"Company" as used herein refers to Erle Insurance Property & Casualty Company. "WVOIC" as used herein refers to the West Virginia Offices of the Insurance Commissioner. "W.Va. Code St. R." as used herein refers to the West Virginia Code of State Rules. "W.Va. Code" as used herein refers to the West Virginia Code Annotated.

EXECUTIVE SUMMARY

The examination began December 20, 2013 and concluded on March 7, 2014. The examination was called as a result of the Final Order entered in Administrative Proceeding No. 13-THP-02034/13-AP-THP-02034. The Administrative Order concluded that the Company violated the following sections of the Unfair Claims Settlement Act by violating W.Va. Code §33-11-4(9)(c) and W. Va. Code St. R. §114-14-6.1 and 114-14-6.3. The Company failed to promptly conduct and diligently pursue a thorough, fair and objective investigation, and failed to deny the claim within (10) working days of completing its investigation. It is also a violation of W. Va. Code §33-11-4(9)(c), "failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies."

W. Va. Code §33-11-4a(e) & (f) imply that, upon any finding that a company committed an unfair claims settlement practice with respect to a third-party claimant, the Commissioner determines whether or not that the practice occurred with such frequency as to be construed as a general business practice of the Company. In this case, the Commissioner determined that the most efficient way to make this determination was through a targeted Market Conduct Examination. The examination primarily focused on third-party claims handling with particular attention to the Company's investigation of claims (Standard G2) and duty after investigation (Standard G3). Certain standards from the Company Operations and Management Section, and Complaint Handling Section of the *Market Regulation Handbook* were also included within this examination report. The result of the target market examination revealed one violation of the W. Va. Code or Regulations cited in Administrative Proceeding No. 13-THP-02034/13-AP-THP-02034 regarding denying a claim or making a written offer within ten (10) working days of completing its investigation per W. Va. Code St. R. §114-14-6.3 (Standard G3). The Company did not fall standard G3, and therefore no business practice was found. The Company was found to be in compliance with W. Va. Code St. R. §114-14-6.1, and no specific business practice was found relating that failure of that code section. However, due to violations of W. Va. Code St. R. §114-14-6.7, the Company failed Standard G2. Although not a primary focus of the examination, the Company failed Standard G9 by not complying with W. Va. Code St. R. 114-14-6.17, failing to include the West Virginia Offices of the Insurance Commissioner's contact information in claims denial notices.

A total of thirteen (13) standards were reviewed during this examination. Of these thirteen (13) standards, the Company was compliant or predominately compliant in eleven (11) and noncompliant in two (2) standards (G2 and G9), which primarily dealt with failure to provide delay letters to claimants and failure to provide claimants with the appropriate contact information for the West Virginia Insurance Commissioner upon denial of claims.

PURPOSE AND SCOPE OF EXAMINATION

Market conduct examiners with the WVOIC reviewed certain business practices of Erie Insurance. W. Va. Code §33-2-9 empowers the Commissioner to examine any entity engaged in the business of insurance. The findings in this report, including all work products developed in producing it, are the sole property of the WVOIC.

The purpose of this targeted examination was to determine the Company's compliance with West Virginia insurance laws relating to treatment of third party claimants. Examination information contained in this report should serve only these purposes. The conclusions and findings of this examination are public record.

The basic business areas that were reviewed and tested under this examination were:

- Company Operations and Management
- Complaint Handling
- Claims Practices

Each business area has standards that the examination measured. Some standards have specific statutory guidelines, others have specific company guidelines, and yet others have contractual guidelines. Since this was a targeted examination, only the standards, which were pertinent to the targeted examination or the treatment of third-party claimants, were examined.

The focus of the examination is on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions throughout its operations, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the result findings of the measurement and monitoring activities. The examination also determined whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are tested to verify the Company is in compliance with West Virginia statutes and rules. The examiners may not have discovered every unacceptable or non-compliant activity in which the Company is engaged. The failure to identify, comment on, or criticize specific Company practices does not constitute an acceptance of the practices by the West Virginia Offices of the Insurance Commissioner or its' designee.

HISTORY AND PROFILE

Erie Insurance Exchange was founded in 1925 by H.O. Hirt and O.G. Crawford. The two men had left their employment at Pennsylvania Indemnity Exchange when they saw an opportunity in insuring automobiles. Erie added fire insurance in 1940 and inland-marine insurance in 1954. It became a full-fledged multi-line company in 1961 when it added homeowners insurance, and added family life in 1967.

Erie Insurance Property and Casualty Company was incorporated under the laws of Pennsylvania on January 19, 1993. On May 24, 1993, the company became licensed as a full-line property and casualty insurer in Pennsylvania. The company is a wholly owned subsidiary of Erie Insurance Exchange.

Erie Insurance Property and Casualty Company principally writes in the state of West Virginia. The direct business is primarily private passenger automobile and homeowners insurance. Commercial lines products are oriented towards the small to medium size "main street" business and provide coverage such as commercial automobile and commercial multiple peril within the state of West Virginia. The company also writes standard workers compensation in other states.

Erie Insurance Property and Casualty Company operates under a 100% quota share arrangement with Erie Insurance Exchange whereby Erie Insurance Property and Casualty Company cedes its entire direct premium written to the Exchange and retains no underwriting risk.

Including West Virginia, Erie Insurance Property and Casualty Company is licensed in thirteen (13) and actively writes business in ten (10) jurisdictions.

METHODOLOGY

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") and West Virginia's applicable statutes and regulations. The examiners conducted file reviews and interviews of company management. This report is a report by tests.

Tests designed to measure the level of compliance with West Virginia's statutes, rules and regulations were applied to the files. All tests are described and the results displayed in this report.

In the results tables a "pass" response indicated compliance and a "fail" response indicates a failure to comply. The results of each test applied to a sample are reported separately.

The examiners used the NAIC standards of 7% error ratio on claims tests (93% compliance rate) and 10% error ratio on all other tests (90% compliance rate) to determine whether or not an apparent pattern or practice of being compliant, predominantly compliant, or non-compliant existed for any given test. Except as otherwise noted, all tests were conducted via random sample taken from a given population.

A. Company Operations & Management

The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates and is not based on sampling techniques, but rather the Company's structure. This review is not intended to duplicate a financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise. Well-run companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives, and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A7: Records are adequate, accessible, consistent and orderly and comply with state record retention. (NAIC Market Regulation Handbook Chapter 16, § A Standard 7)

Test Methodology:

- Are the records adequate and accessible?

Examiner Observations: Files are retained in accordance with state record retention requirements. Policy files contained all pertinent information from which to make an underwriting decision. Company is in the process of imaging all older files.

Examiner Recommendations: None

Results: Compliant

Standard A9: The Company cooperates on a timely basis with examiners performing the examinations. (NAIC Market Regulation Handbook Chapter 16, § A Standard 9)

Test Methodology:

- Did the Company provide records in a timely basis?

Examiner Observations: The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

Examiner Recommendations: None

Results: Compliant

B. Complaint Handling

Evaluations of the standards in this business area are based on Company responses to various information requests and the review of complaint files at the Company. In this business area, "complaints" include "grievances." W.Va. Code §33-11-4(10) requires the Company to "...maintain a complete record of all the complaints which it has received since the date of its last examination." The statute also requires that, "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint," the definition of a complaint is, "...any written communication primarily expressing a grievance."

Standard B1: All complaints are recorded in the required format on the company complaint register. (NAIC Market Regulation Handbook Chapter 16, § B Standard 1)

Test Methodology:

- Is the Company recording all complaints from both the consumer and the Commissioner's Office?
- Is the Company recording all complaints in a regulated complaint register? [*W. Va. Code §33-11-4(10)*]

Examiner Observations: The Company is recording all written complaints from the consumer, as well as those from the WVOIC. The record contains the required fields: the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Examiner Recommendations: None

Results: Compliant

Standard B2: The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders. (NAIC Market Regulation Handbook Chapter 16, § B Standard 2)

Test Methodology:

- Does the Company have complaint procedures in place, and are they sufficient to satisfactorily handle complaints?

- Does the Company have procedures in place to track responses to complaints? [W. Va. Code St. R. §114-14-5.2]

Examiner Observations: The Company has procedures in place. All complaints are logged. The process is to begin processing complaints within twenty-four hours and to provide a response within fifteen working days as required by W. Va. Code St. R. §114-14-5.2.

Examiner Recommendations: None

Results: Compliant

Standard B4: The time frame within which the company responds to complaints is in accordance with applicable statutes, rules, and regulations. (NAIC Market Regulation Handbook Chapter 16, § B Standard 4)

Test Methodology:

- Is the Company maintaining adequate documentation of complaints, as required by W. Va. Code §33-11-4(10)?
- Is the Company responding to complaints in a timely manner, as required by W. Va. Code §114-14-5.2?

Examiner Observations: The Company adequately documented complaints and responded in a timely manner, with one exception. One response to an Offices of the Insurance Commissioner's complaint (first party) was not replied to within fifteen (15) working days per W. Va. Code §114-14-5.2.

Examiner Recommendations: It is recommended that the Company reply to all complaint inquiries from the Offices of the Insurance Commissioner within fifteen (15) working days per W. Va. Code §114-14-5.2.

Results: The standard of compliance is 90%. The Company's handling practices were predominantly compliant.

Table B4 Results: Complaints Sample

Type	Population	Sample	Pass	Fall	Standard	Compliance
Complaints	76	76	75	1	90	99

G. Claims Practices

The evaluation of standards in this business area is based on Company responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the Company treats claimants and whether that treatment is in compliance with applicable statutes and rules.

Standard G1: The initial contact by the company with the claimant is within the required time frame. (NAIC Market Regulation Handbook Chapter 16, § G Standard 1)

Test Methodology:

- Was the claimant contacted within 15 working days (or mandated emergency order timeframe) from the date of the loss notice per W.Va. Code §33-11-4(9)(b) and W. Va. Code St. R. §114-14-5.1?

Examiner Observations: In one first party closed without payment claim and one paid claim, the Company did not contact the claimant within the required time frame.

Examiner Recommendations: It is recommended that all claimants be contacted within fifteen (15) working days upon receiving notification of a claim in accordance with W. Va. Code St. R. §114-14-5.1.

Results: The standard of compliance is 93%. The Company's claim handling practices were predominantly compliant.

The not applicable files for the paid claims sample were due to the fact that the claim was initiated via law suit; in those cases court rules and time frames generally take precedence. For the closed without payment claims, not applicable files were instances in which a reserve was initially established but no claim or demand for payment was actually filed with the company.

Table G1 Results: Claims Initial Contact Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Paid claims (3 rd party)	4,025	108	4	103	1	93	99
Claims closed w/o pmt (3 rd party)	1,266	108	31	76	1	93	99
TOTALS	5,291	216	35	179	2	93	99

Standard G2: Timely Investigations are conducted. (NAIC Market Regulation Handbook Chapter 16, § G Standard 2)

Test Methodology:

- Did the investigation commence within fifteen (15) working days of any claim filed per W. Va. Code St. R. §114-14-6.2 a?
- Did the Company promptly conduct and diligently pursue a thorough, fair and objective investigation and not unreasonable delay resolution by persisting in seeking information not reasonably required for or material to the resolution of the claim dispute per W. Va. Code St. R. §114-14-6.1?
- Is the investigation continuing more than 30 calendar days? If so, was a delay letter sent within 15 working days after the 30 calendar days per W. Va. Code St. R. §114-14-6.7?
- If the investigation continued, were subsequent delay letters sent with 45 calendar days per W. Va. Code St. R. §114-14-6.7?

Examiner Observations: All claim investigations commenced within the required fifteen working days. No unreasonable delays were found by the Company seeking information not necessary. In twenty-three (23) claims, the Company failed to properly issue delay letters in violation of W. Va. Code St. R. §114-14-6.7. Sixteen (16) of the twenty-three (23) failures of §114-14-6.7 were attributable to a single claims adjuster, who is no longer employed by the Company.

Examiner Recommendations: It is recommended that the Company comply with W. Va. Code St. R. §114-14-6.7 regarding notice of necessary delay in investigating claims. If the insurer needs more than thirty (30) calendar days from the date that a proof of loss from a first party claimant or notice of claim from a third-party claimant is received to determine whether a claim should be accepted or denied, it shall so notify the claimant in writing within fifteen (15) working days after the thirty-day period expires. If the investigation remains incomplete, the insurer shall provide written notification of the delay to the claimant every forty-five (45) calendar days thereafter until the investigation is complete.

Results: The standard of compliance is 93%. The Company's handling practices were non-compliant.

Table G2 Results: Claims Timely Investigation Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Paid claims (3 rd party)	4,025	108	4	96	8	93	92
Claims closed w/o pmt (3 rd party)	1,266	108	31	62	15	93	81
TOTALS	5,291	216	35	158	23	93	87

Standard G3: Claims are resolved in a timely manner. (NAIC Market Regulation Handbook Chapter 16, § G Standard 3)

Test Methodology:

- Did the Company deny the claim or make a written offer within ten (10) working days of completing its investigation per W. Va. Code St. R. §114-14-6.3?

Examiner Observations: The examiners found one closed without payment claim that the Company denied the claim sixty-nine (69) working days after completing its investigation, therefore failing the requirement of denying the claim within ten (10) working days of completing its investigation. This same claim also failed G2 with regard to issuing a delay letter per W. Va. Code St. R. §114-14-6.7.

Examiner Recommendations: It is recommended that the Company deny a claim or make a written offer within ten (10) working days of completing its investigation per W. Va. Code St. R. §114-14-6.3.

Results: The standard of compliance is 93%. The Company's handling practices were predominantly compliant.

Table G3 Results: Claims Resolution Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
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Paid claims (3 rd party)	4,025	108	4	104	0	93	100
Claims closed w/o pmt (3 rd party)	1,266	108	31	76	1	93	99
TOTALS	5,291	216	35	180	1	93	99

Standard G4: The Company responds to claim correspondence in a timely manner.
(NAIC Market Regulation Handbook Chapter 16, § G Standard 4)

Test Methodology:

- Did the Company reply to pertinent communications from a claimant which reasonable suggest that a response is needed per W. Va. Code St. R. §114-14-5.3 and W. Va. Code §33-11-4(9) (b)?

Examiner Observations: The examiners found no exceptions to the rule.

Examiner Recommendations: None

Results: The standard of compliance is 93%. The Company's handling practices were compliant.

Table G4 Results: Claims Correspondence Sample

Type	Population	Sample	N/A	Pass	Fall	Standard	Compliance
Paid claims (3 rd party)	4,025	108	4	104	0	93	100
Claims closed w/o pmt (3 rd party)	1,266	108	31	77	0	93	100
TOTALS	5,291	216	35	181	0	93	100

Standard G5: Claim files are adequately documented. (NAIC Market Regulation Handbook Chapter 16, § G Standard 5)

Test Methodology:

- Do the files contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed per W. Va. Code St. R. §114-14-3?
- Are the communications properly dated?

Examiner Observations: The examiners found no exceptions to the rule.

Examiner Recommendations: None

Results: The standard of compliance is 93%. The Company's handling practices were compliant.

Table G5 Results: Claims Documentation Sample

Type	Population	Sample	N/A	Pass	Fall	Standard	Compliance
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Paid claims (3 rd party)	4,025	108	4	104	0	93	100
Claims closed w/o pmt (3 rd party)	1,266	108	31	77	0	93	100
TOTALS	5,291	216	35	181	0	93	100

Standard G6: Claims are properly handled in accordance with policy provisions and applicable statutes, rules, and regulations. (NAIC Market Regulation Handbook Chapter 16, § G Standard 6)

Test Methodology:

- Does the claim handling meet West Virginia statutes and rules as applied to sales tax payment, correct payees, improper release of claims, and proper payment of non-disputed claims?
- Was coverage checked for proper application of deductible or appropriate exclusionary language?
- Were appropriate disclosures given when a claim bears the applicable statute of limitations?

Examiner Observations: The examiners found no exceptions to the rule.

Examiner Recommendations: None

Results: The standard of compliance is 93%. The Company's handling practices were compliant.

Table G6 Results: Claims Correspondence Sample

Type	Population	Sample	N/A	Pass	Fall	Standard	Compliance
Paid claims (3 rd party)	4,025	108	4	104	0	93	100

Standard G9: Denied and closed-without-payment claims are handled in accordance with policy provisions and state laws. (NAIC Market Regulation Handbook Chapter 16, § G Standard 9)

Test Methodology:

- Is the denial based upon specific policy provisions or exclusions?
- Is the claimant provided with a reasonable basis for the denial when required by statute or regulation per W. Va. Code St. R. §114-14-3?
- Is the claimant who is neither an attorney or represented by an attorney given written notice of that statute of limitation per W. Va. Code St. R. §114-14-6.12?
- Is the claimant given the option of contacting the Commissioner's Office and provided with its mailing address, telephone number, and web site address per W. Va. Code St. R. §114-14-6.17?

Examiner Observations: There was one (1) denied claim failing both aspects of the following provisions: violation of W. Va. Code St. R. §114-14-6.5 (State legal grounds for denial) and §114-14-6.17 (Option of contacting the Commissioner's Office). Additionally, please note that twenty-

seven (27) additional claims solely failed §114-14-6.17. Providing written notices, when required, of the statute of limitations was found to be in compliance.

Examiner Recommendations: It is recommended that the Company comply with the following:

- W. Va. Code St. R. §114-14-6.5: State the legal grounds for the claim denial.
- W. Va. Code St. R. §114-14-6.17: Provide contact information and the option to contact the Commissioner's Office.

Results: The standard of compliance is 93%. The Company's handling practices were non-compliant.

Table G9 Results: Claims Denied or Closed Without Payment Sample

Type	Population	Sample	N/A	Pass	Fall	Standard	Compliance
Claims closed w/o pmt (3 rd party)	1,266	108	31	49	28	93	64

Standard G10: Cancelled checks and drafts reflect appropriate claim handling practices. (NAIC Market Regulation Handbook Chapter 16, § G Standard 10)

Test Methodology:

- Do the checks include the correct payee and are they for the correct amount?
- That payment checks do not indicate the payment is "final" when such is not the case.
- That checks or drafts do not purport to release the insurer from total liability when such is not the case.

Examiner Observations: Checks were in the correct amount and included the correct payee. No exceptions were noted.

Examiner Recommendations: None

CONCLUSION

The targeted market examination revealed one violation of the W. Va. Code or Regulations cited in Administrative Proceeding No. 13-THP-02034/13-AP-THP-02034 regarding denying a claim or making a written offer within ten (10) working days of completing its investigation per W. Va. Code St. R. §114-14-6.3. The company did not fall the standard G3, and therefore no business practice was concluded.

Furthermore the examiners found no instances of violations under W. Va. Code St. R. §114-14-6.1 (also cited in Administrative Proceeding No. 13-THP-02034/13-AP-THP-02034), which is reflected in Standard G2; consequently no business practice with respect to that violation was concluded. However, the examination revealed twenty-three (23) violations of W. Va. Code St. R. §114-14-6.7 pertaining to no or untimely delay letters. These violations did occur with such frequency to fail the standard (G2).

Finally there were twenty-eight (28) violations of W. Va. Code St. R. §114-14-6.17 pertaining to denial letters including WVOIC contact information, and one violation of W. Va. Code St. R. §114-14-6.5 regarding stating the legal grounds for a claim denial. The frequency of these violations was sufficient to fail the standard (G9).

LIST OF RECOMMENDATIONS

Recommendation B4: It is recommended that the Company reply to all complaint inquiries from the Offices of the Insurance Commissioner within fifteen (15) working days per W. Va. Code §114-14-5.2.

Recommendation G1: It is recommended that all claimants be contacted within fifteen (15) working days upon receiving notification of a claim in accordance with W. Va. Code St. R. §114-14-5.1.

Recommendation G2: The Company shall issue delay letters in accordance with W. Va. Code St. R. §114-14-6.7.

Recommendation G3: It is recommended that the Company deny a claim or make a written offer within ten (10) working days of completing its investigation per W. Va. Code St. R. §114-14-6.3.

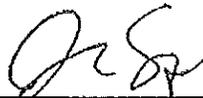
Recommendation G9: It is recommended that the Company comply with the following:

- W. Va. Code St. R. §114-14-6.5: State the legal grounds for the claim denial.
- W. Va. Code St. R. §114-14-6.17: Provide contact information and the option to contact the Commissioner's Office.

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Mark A. Hooker, CIE, CPCU, FLMI, MCM, CWCP, CCP, AIRC and Brad Beam, CWCP, MCM also participated in the examination.



John Stike, AIE, CPCU, MCM, CWCP, CIPA, APA, AU, AFI
Examiner-in-Charge

EXAMINER'S AFFIDAVIT

State of West Virginia

County of Kanawha

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

I, John Stike, being duly sworn, states as follows:

- 1. I have the authority to represent West Virginia in the examination of Erie Insurance Property & Casualty Company.
- 2. I have reviewed the examination work papers and examination report, and the examination of Erie Insurance Property & Casualty Company was performed in a manner consistent with the standards and procedures required by West Virginia.

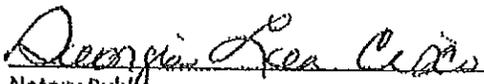
The affiant says nothing further.



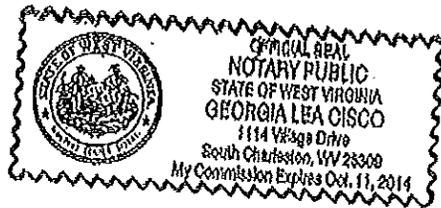
 John Stike, MCM, CWCP, CIPA, APA, AU, AFI
 Examiner-in-Charge

Subscribed and sworn before me by John Stike on this 16 day of April, 2014.

(SEAL)



 Notary Public



My commission expires on 10-11-2014 (date).



Erie
Insurance®

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June 9, 2014

Michael D. Riley
Insurance Commissioner
State of West Virginia
Offices of the Insurance Commissioner
P.O. Box 50540
Charleston, WV 25305-0540

Re: Market Conduct Examination Report of
Erie Insurance Property & Casualty Co. (NAIC #26830)
As of December 31, 2013
Examination Number WV014-M42

Dear Mr. Riley:

We are in receipt of your May 15, 2014 letter and the attached Report of Market Conduct Examination ("Report") and Agreed Order Adopting Report of Market Conduct Examination ("Order"). We agree with the findings stated in the Report and we do not wish to make a written submission or rebuttal.

Enclosed is the signed Order, along with the Corrective Action Plan and payment of \$12,000, required pursuant to Sections (E) and (G), respectively, of the Order. Further, pursuant to Section (D) of the Order, signed affidavits executed by each director of the Erie Insurance Property and Casualty Company stating under oath that they have received a copy of the Report and Order will be submitted by August 29, 2014, which is within 30 days following the next scheduled Board meeting of July 31, 2014.

I would like to thank the examiners for their help and expertise in completing this examination. If you have any questions, please feel free to contact me directly at (814) 870-2390.

Sincerely,

Rollin R. Swanson
Section Manager
Market Conduct Services

RRS/mkm

Enclosures

cc: T. Cavanaugh
cc: S. McLaughlin