**IN THE DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION STATE OF MISSOURI**

| | | |
|---|---|---|
| **In Re:** | ) | |
| | ) | |
| **AMERICAN CASUALTY COMPANY OF** | ) | **Market Conduct Examination** |
| **READING PA (NAIC#20427)** | ) | **Numbers 1104-38-TGT** |
| **CONTINENTAL CASUALTY COMPANY** | ) | **1104-39-TGT** |
| **(NAIC #20443)** | ) | **1104-40-TGT** |
| **NATIONAL FIRE INSURANCE COMPANY** | ) | **1104-41-TGT** |
| **OF HARTFORD (NAIC#20478)** | ) | **1104-42-TGT** |
| **TRANSCONTINENTAL INSURANCE COMPANY** | ) | **1104-43-TGT** |
| **(NAIC#20486)** | ) | |
| **TRANSPORTATION INSURANCE COMPANY** | ) | |
| **(NAIC#20494)** | ) | |
| **VALLEY FORGE INSURANCE COMPANY** | ) | |
| **(NAIC#20508)** | ) | |

## ORDER OF THE DIRECTOR

NOW, on this 3RD day of APRIL, 2014, Director John M. Huff, after consideration and review of the market conduct examination reports of American Casualty Company of Reading PA (NAIC #20427) (hereafter referred to as "American Casualty"), report number 1104-38-TGT, Continental Casualty Company (NAIC #20443) (hereafter referred to as "Continental"), report number 1104-39-TGT, National Fire Insurance Company of Hartford (NAIC #20478) (hereafter referred to as "National Fire"), report number 1104-40-TGT, Transcontinental Insurance Company (NAIC #20486) (hereafter referred to as "Transcontinental"), report number 1104-41-TGT, Transportation Insurance Company (NAIC #20494) (hereafter referred to as "Transportation"), report number 1104-42-TGT, and Valley Forge Insurance Company (NAIC #20508) (hereafter referred to as "Valley Forge") , report number 1104-43-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3) (a)[1] and the Stipulation of Settlement and Voluntary Forfeiture ("Stipulation"), does hereby adopt such reports as filed. After consideration and review of the

1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000 as amended.

Stipulation, reports, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such reports are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §374.205.3(4), §374.280, and §374.046.15. RSMo (Cum. Supp. 2012), is in the public interest.

IT IS THEREFORE ORDERED that American Casualty, Continental, National Fire, Transcontinental, Transportation, Valley Forge and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that American Casualty, Continental, National Fire, Transcontinental, Transportation, and Valley Forge shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place each Company in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that American Casualty shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $161,950 payable to the Missouri State School Fund.

IT IS FURTHER ORDERED that Continental shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $5,800 payable to the Missouri State School Fund.

IT IS FURTHER ORDERED that National Fire shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $2,800 payable to the Missouri State School Fund.

IT IS FURTHER ORDERED that Transportation shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $4,950 payable to the Missouri State School Fund.

IT IS FURTHER ORDERED that Valley Forge shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $9,450 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 3RD day of APRIL, 2014.

John M. Huff
Director

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APR 01 2014
MO. DEPT. OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

**IN THE DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION STATE OF MISSOURI**

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| **TRANSPORTATION INSURANCE COMPANY** | ) | |
| **(NAIC#20494)** | ) | |
| **VALLEY FORGE INSURANCE COMPANY** | ) | |
| **(NAIC#20508)** | ) | |

## STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter "the Division"), American Casualty Company of Reading PA (NAIC#20427) (hereinafter referred to as "American Casualty"), Continental Casualty Company (NAIC#20443) (hereinafter referred to as "Continental"), National Fire Insurance Company of Hartford (NAIC#20478) (hereinafter referred to as "National Fire"), Transcontinental Insurance Company (NAIC#20486) (hereinafter referred to as "Transcontinental"), Transportation Insurance Company (NAIC#20494) (hereinafter referred to as "Transportation"), and Valley Forge Insurance Company (NAIC#20508) (hereinafter referred to as "Valley Forge"), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, American Casualty, Continental, National Fire, Transcontinental,

Transportation and Valley Forge have been granted certificates of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, the Division conducted a Market Conduct Examination of American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge and prepared report number 1104-38-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In some instances, American Casualty failed to file with the Director large deductible, non-standard (individual risk) rated policies in violation of §287.947.1[1] and §287.310;

2. American Casualty failed to file with the Director its premium audit practice of applying a 1.50 or 3.00 premium factor to estimated payroll for insureds that failed to cooperate during final audit in violation of §287.947;

3. American Casualty applied an incorrect experience rating factor in violation of §287.947.1, §287.950 and §287.955;

4. American Casualty applied an incorrect schedule rating credit in violation of §287.947.1, §287.950, 20 CSR 500-4.100 (7) (D) 1 and 20 CSR 300-2.200;

5. American Casualty applied an incorrect terrorism rate in violation of §287.947.1 and §287.955.3;

6. In some instances, American Casualty failed to document applied schedule rating factors in violation of §287.937;

7. In some instances, Continental failed to file with the Director large deductible, non-standard (individual risk) rated policies in violation of §287.947.1 and §287.310;

9. Continental failed to file with the Director its premium audit practice of applying a 1.50 or 3.00 premium factor to estimated payroll for insureds that failed to cooperate during final audit in violation of §287.947;

10. Continental failed to document an applied Missouri contracting class premium credit in violation of §287.947.1, §287.950 and §287.955;

11. In some instances, Continental failed to document the basis for application of

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1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000, as amended.

scheduled rating credits or debits in violation of §287.937;

12. National Fire failed to file with the Director its premium audit practice of applying a 1.50 or 3.00 premium factor to estimated payroll for insureds that failed to cooperate during final audit in violation of §287.947;

13. In some instances, National Fire failed to document the basis for application of scheduled rating credits or debits in violation of §287.937;

14. In some instances, Transportation failed to file with the Director large deductible, non-standard (individual risk) rated policies in violation of §287.947.1;

15. Transportation failed to file with the Director its premium audit practice of applying a 1.50 or 3.00 premium factor to estimated payroll for insureds that failed to cooperate during final audit in violation of §287.947;

16. Transportation failed to document the basis for application of the Missouri contracting class premium credit in violation of §287.947.1, §287.950 and 20 CSR 300-2.200;

17. Transportation incorrectly assessed premium for a Foreign Voluntary Compensation exposure in violation of §287.947.1 and §287.950;

18. In some instances, Valley Forge failed to file with the Director large deductible, non-standard (individual risk) rated policies in violation of §287.947.1;

19. Valley Forge failed to file with the Director its premium audit practice of applying a 1.50 or 3.00 premium factor to estimated payroll for insureds that failed to cooperate during final audit in violation of §287.947;

20. In some instances, Valley Forge failed to document applied schedule rating factors in violation of §287.937;

21. In some instances, Valley Forge applied an incorrect experience rating factor in violation of §287.947.1, §287.950 and §287.955; and

22. Valley Forge incorrectly applied an NCCI class rate in violation of §287.947.1 and §287.955.

WHEREAS, American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge do not agree with certain findings in the examination, but the

issues raised during or subsequent to the examination have been resolved; and

WHEREAS, it is the position of American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge that this Stipulation of Settlement and Voluntary Forfeiture is a compromise of disputed facts and legal allegations and that the remedial action and payment of forfeiture is merely to resolved the Market Conduct Examinations investigation; and

WHEREAS, the Division, American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge have agreed to resolve the issues raised in the Market Conduct Examinations as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge agree to take remedial action bringing each into compliance with the statutes and regulations of Missouri and agree to maintain those remedial actions at all times, to reasonably assure that the errors noted in the examination report do not recur. Such remedial actions shall include, but not be limited to, the following:

1. American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge agree to file with the Director rating plans for all individually rated large deductible workers compensation insurance policies within 30 days of the effective date of the policy;

2. American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge agree that it will comply with NCCI rule 02-MO-2013 with respect to its practice of applying a premium factor to estimated payroll for insureds that fail to cooperate during final audit

C. **Compliance.** American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge agree to file documentation with the Division within 90 days of the entry of a final order of all remedial action taken to implement compliance with the terms of this stipulation.

D. **Voluntary Forfeiture.** American Casualty agrees, voluntarily and knowingly, to surrender and forfeit the sum of $161,950, such sum payable to the Missouri State School Fund, in accordance with §374.280. Continental agrees, voluntarily and knowingly, to surrender and forfeit the sum of $5,800, such sum payable to the Missouri State School Fund, in accordance with §374.280. National Fire agrees, voluntarily and knowingly, to surrender and forfeit the sum of $2,800, such sum payable to the Missouri State School Fund, in accordance with §374.280. Transportation agrees, voluntarily and knowingly, to surrender and forfeit the sum of $4,950, such sum payable to the Missouri State School Fund, in accordance with §374.280. Valley Forge agrees, voluntarily and knowingly, to surrender and forfeit the sum of $9,450, such sum payable to the Missouri State School Fund, in accordance with §374.280.

E. **Other Penalties.** The Division agrees that it will not seek penalties against American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge other than those agreed to in this Stipulation, for the conduct found in Market Conduct Examinations 1104-38-TGT, 1104-39-TGT, 1104-40-TGT, 1104-41-TGT, 1104-42-TGT and 1104-43-TGT.

F. **Waivers.** American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge, after being advised by legal counsel, do hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the above referenced Market Conduct Examinations.

G. **Non-Admission**. Nothing in this Stipulation shall be construed as an admission by American Casualty, Continental, National Fire, Transcontinental, Transportation and Valley Forge, this Stipulation of Settlement and Voluntary Forfeiture being part of a compromise settlement to resolve disputed factual and legal allegations arising out of the above referenced Market Conduct Examinations.

H. **Changes.** No changes to this stipulation shall be effective unless made in writing and agreed to by all signatories to the stipulation.

I. **Governing Law.** This Stipulation of Settlement and Voluntary Forfeiture shall be

governed and construed in accordance with the laws of the State of Missouri.

J. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation of Settlement and Voluntary Forfeiture.

K. **Effect of Stipulation.** This Stipulation of Settlement and Voluntary Forfeiture shall not become effective until entry of a Final Order by the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereinafter the "Director") approving this Stipulation.

L. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation of Settlement and Voluntary Forfeiture and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 4/3/14

Stewart Freilich
Senior Regulatory Affairs Counsel
Division of Insurance Market Regulation

DATED: 3/31/14

SVP and Chief Compliance Officer
American Casualty Company of Reading PA

DATED: 3/31/14

SVP and Chief Compliance Officer
Continental Casualty Company

DATED: 3/31/14

SVP and Chief Compliance Officer
National Fire Insurance Company of Hartford

DATED: 3/31/14

William H Machtele
SVP and Chief Compliance Officer
Transcontinental Insurance Company

DATED: 3/31/14

William H Machtele
SVP and Chief Compliance Officer
Transportation Insurance Company

DATED: 3/31/14

William H Machtele
SVP and Chief Compliance Officer
Valley Forge Insurance Company

# STATE OF MISSOURI
# DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

**FINAL MARKET CONDUCT EXAMINATION REPORT**
**Of the Property and Casualty Business of**

**Valley Forge Insurance Company**
**NAIC # 20508**

**MISSOURI EXAMINATION # 1104-43-TGT**

NAIC EXAM TRACKING SYSTEM # MO341-M66

**April 3,2014**

**Home Office**

**333 South Wabash**
**Chicago, IL 60604**

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## FOREWORD

This is a targeted market conduct examination report of Valley Forge Insurance Company (NAIC Code # 20508). This examination was conducted at the Company's branch office located in Chesterfield, Missouri.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products, or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- "Company" or "Valley Forge" refers to Valley Forge Insurance Company;
- "CNA" refers to CNA Financial Corporation;
- "CSR" refers to the Missouri Code of State Regulation;
- "DIFP" refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Director" refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- "Division" refers to the Department of Labor, Division of Workers' Compensation;
- "NAIC" refers to the National Association of Insurance Commissioners;
- "NCCI" refers to the National Council on Compensation Insurance, Inc., and;
- "RSMo" refers to the Revised Statutes of Missouri.

## SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2006, through May 31, 2011, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business: complaints and underwriting for workers compensation policies.

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark for underwriting and trade practices is 10%. The NAIC benchmark error rate for claims practices is seven percent (7%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

## COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

"Valley Forge Insurance Company (VFI) was incorporated on April 28, 1944 as American Aviation & General Insurance Company under the laws of the Commonwealth of Pennsylvania. On July 3, 1957, American Aviation & General Insurance Company changed its name to Valley Forge Insurance Company. Continental Casualty Company acquired the Company in 1963.

Financial control is held indirectly by Loews Corporation, a publicly traded corporation. At that time Loews acquired control of the CNA Financial Corporation, parent holding company of The Continental Corporation. Valley Forge Insurance Company is directly held by the original sponsor, American Casualty Company of Reading, Pennsylvania, a wholly-owned subsidiary of Continental Casualty Company. As of December 31, 2003, Continental Casualty Company is a wholly-owned subsidiary of The Continental Corporation, an insurance holding corporation domiciled in the State of New York."

The Company is licensed in all 50 states, District of Columbia and Puerto Rico.
Valley Forge currently operates in all the aforementioned jurisdictions. Its products are distributed primarily through independent agencies and brokerages.

The Company is licensed by the DIFP under Chapter 379, RSMo, to write property and casualty insurance in Missouri as set forth in its Certificate of Authority.

## EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of Valley Forge Insurance Company. The examiners found the following principal areas of concern:

- The Company failed to file three large deductible, non-standard (individual risk) rated policies that were identified through computer analysis.
- In 40 instances, Valley Forge's premium audit procedures resulted in an application of a payroll factor of 1.5 or 3.0 to estimated payroll, depending on market segmentation, for insureds that were uncooperative during the premium audit. These rating factors were not filed with the DIFP.
- In nine instances, the Company failed to document schedule rating factors regarding the basis for the scheduled debits or credits.
- In two instances, the Company applied incorrect experience modification factors, resulting in premium undercharges.
- In one instance, Valley Forge applied an incorrect class rate, resulting in a premium undercharge.

The examiners requested that the Company make refunds concerning underwriting premium overcharges and claim underpayments found for amounts greater than $5.00 during the examination if any were found.

Various non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

## EXAMINATION FINDINGS

### I. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to its own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is reviewed in accordance with 20 CSR 100-8.040 and the NAIC Market Regulation Handbook. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general practice contrary to the law. Error rates indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners requested the Company's underwriting and rating manuals for the line of business under review. This included all rates, guidelines, and rules that were in effect on the first day of the examination period and at any point during that period to ensure that the examiners could properly rate each policy reviewed.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

The examiners also requested a written description of significant underwriting and rating changes that occurred during the examination period for underwriting files that were maintained in an electronic format.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the Company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

**Workers Compensation Review**

Reviews are conducted to confirm that workers compensation carriers that issue large deductible, non-standard policies, in addition to traditional workers compensation policies, are in compliance with the rate filing requirements found in §§ 287.310, 287.947, RSMo.

Workers Compensation carriers are also evaluated to ensure total premiums are being reported as well as correct methods for determining assessments and remittance of the required second injury fund and administrative surcharges. The review includes carriers' deductible policy forms and rules for compliance with § 287.310 Subsection 4, RSMo, regarding the presumption that a net reporting plan is offered unless the insured elects a gross reporting plan.

NCCI statistical data is reviewed to analyze utilization of Individual Rate Premium Modification (IRPM), also known as schedule rating, in the form of applied debits or credits. Schedule rating is intended to be used to accurately rate an individual employer's business operation. Descriptions of the risk categories are to be based on loss-related factors that can be objectively determined.

## A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language was not ambiguous or misleading and was adequate to protect the insured.

The following are the results of the reviews:

1. The examiners discovered that Valley Forge failed to make a filing with the DIFP for three large deductible, non-standard (individual risk) rated policies as required. The individual files are detailed in Section B, Underwriting and Rating of this report.

   References: §§ 287.310 and 287.947.1, RSMo.

2. Valley Forge Insurance Company engaged in the premium audit practice of applying a 1.50 or 3.00 premium factor, depending on market segmentation, to estimated payroll for insureds that failed to cooperate during the audit. The Company failed to file these additional rating factors with the DIFP. The individual files are detailed in Section B, Underwriting and Rating of this report.

   Reference: §287.947.1, RSMo.

## B. Underwriting and Rating

The examiners reviewed applications for coverage that were issued, modified, or declined by the Company to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria.

The following are the results of the reviews:

### 1. Workers Compensation

| | |
|---|---|
| Field Size: | 2,015 |
| Sample Size: | 108 |
| Type of Sample: | Random |
| Number of Errors: | 52 |

The examiners discovered the following errors during this review.

1. Although not counted in the number of errors because the policies were not in the sample, a computer analysis revealed that Valley Forge failed to file three large deductible, non-standard (individual risk) rated policies with the DIFP as required.

| Policy Number | Effective Date |
|---|---|
| 2079969807 | 6/30/2007 |
| 2079969807 | 6/30/2008 |
| 2091217452 | 1/1/2007 |

References: §§ 287.310 and 287.947.1, RSMo.

2. The Company engaged in the premium audit practice of applying a 1.50 or 3.00 premium factor, depending on market segmentation, to estimated payroll for insureds that failed to cooperate during the audit. The Company failed to file with the DIFP the rates (additional factors) applied to the estimated payroll of uncooperative insureds. In 30 instances, Valley Forge initially applied these rates to estimated payroll of uncooperative insureds at premium audit.

| No | Policy Number | Effective Date |
|---|---|---|
| 1 | 2067241353 | 3/10/2006 |
| 2 | 2077202767 | 5/1/2006 |
| 3 | 2090605766 | 5/12/2006 |
| 4 | 2084418046 | 8/15/2006 |
| 5 | 2091785474 | 8/25/2006 |
| 6 | 2084439883 | 8/30/2006 |
| 7 | 2078575757 | 10/7/2006 |
| 8 | 2090937822 | 11/1/2006 |
| 9 | 2095609258 | 1/25/2007 |
| 10 | 2093684559 | 9/26/2008 |
| 11 | 4012280744 | 10/28/2008 |
| 12 | 4017507925 | 6/15/2009 |
| 13 | 2099994220 | 3/26/2009 |
| 14 | 4017037427 | 10/20/2009 |
| 15 | 4017633217 | 8/1/2009 |
| 16 | 4017949975 | 1/4/2010 |
| 17 | 4018045574 | 2/16/2010 |
| 18 | 4017346542 | 3/18/2010 |
| 19 | 4025920579 | 12/3/2010 |
| 20 | 4025110143 | 7/24/2010 |
| 21 | 4024061897 | 8/12/2010 |
| 22 | 4024992593 | 8/14/2010 |
| 23 | 2098074136 | 9/27/2010 |
| 24 | 4024445579 | 1/25/2011 |
| 25 | 4020885789 | 3/16/2011 |
| 26 | 4020753387 | 3/19/2011 |
| 27 | 2097650678 | 4/2/2011 |
| 28 | 3010016032 | 4/1/2011 |
| 29 | 4029440830 | 4/1/2011 |
| 30 | 4030678874 | 4/25/2011 |

Reference: §287.947.1, RSMo.

3. In nine instances, Valley Forge failed to document applied schedule rating factors regarding the basis for the scheduled debits or credits.

| No | Policy No | Effective Date |
|---|---|---|
| 1 | 1081723821 | 7/1/2009 |
| 2 | 2058100856 | 9/5/2006 |
| 3 | 2072512974 | 9/1/2007 |
| 4 | 2082883803 | 4/1/2006 |
| 5 | 2091784972 | 9/1/2006 |
| 6 | 2091060814 | 12/31/2006 |
| 7 | 4012789216 | 11/1/2009 |
| 8 | 2082572601 | 6/30/2008 |
| 9 | 2098127952 | 4/1/2011 |

References: §§ 287.937 and 20 CSR 300-2.200 (as replaced by 20 CSR 100-8.040).

4. In two instances, the Company incorrectly applied an experience modification factors, resulting in undercharges.

| Policy Number | Effective Date | Undercharge |
|---|---|---|
| 2083284995 | 4/2/2007 | $4,524 |
| 2091125080 | 1/1/2008 | 967 |
| | Total: | $5,491 |

References: §§ 287.947.1, 287.950, and 287.955, RSMo.

5. In one instance, Valley Forge incorrectly applied an NCCI class rate, resulting in undercharge of $186.

| Policy Number | Effective Date |
|---|---|
| 2091054463 | 1/1/2008 |

References: §§ 287.947.1 and 287.955, RSMo.

## C. Cancellations, Non-Renewals, Rescissions, and Declinations

The examiners reviewed policies that the carrier terminated at or before the scheduled expiration date of the policies and policies that were rescinded by the Company after the effective date of the policy.

The following are the results of the reviews:

### 1. Workers Compensation – Cancellations, Non-Renewals, & Declinations

| | |
|---|---|
| Field Size: | 47 |
| Sample Size: | 47 |
| Type of Sample: | Census |
| Number of Errors: | 0 |

The examiners discovered no errors during this review.

## II. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the Company.

The examiners verified the Company's complaint registry, dated January 1, 2006, through May 31, 2011. The registry contained no workers compensation complaints.

The examiners discovered no issues or concerns.

## III. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

### A. Criticism Time Study

| Calendar Days | Number of Criticisms | Percentage |
|---|---|---|
| Received w/in time-limit, incl. any extensions | 7 | 100% |
| Received outside time-limit, incl. any extensions | 0 | 0% |
| No Response | 0 | 0 % |
| Total | 7 | 100 % |

Reference: §374.205, RSMo and 20 CSR 100-8.040.

### B. Formal Request Time Study

| Calendar Days | Number of Requests | Percentage |
|---|---|---|
| Received w/in time-limit, incl. any extensions | 5 | 100% |
| Received outside time-limit, incl. any extensions | 0 | 0% |
| No Response | 0 | 0% |
| Total | 5 | 100% |

Reference: §374.205, RSMo and 20 CSR 100-8.040.

## EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of Valley Forge Insurance Company (NAIC #20508), Examination Number 1104-43-TGT. This examination was conducted by Gary Meyer, Gary Bird, and John Pfaender. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated June 20, 2013. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.

4/3/2014

Jim Mealer
Chief Market Conduct Examiner

Date