



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

MARKET CONDUCT
EXAMINATION REPORT

OF

**SPINNAKER INSURANCE COMPANY
BEDMINSTER, NJ**

As of: March 25, 2025
Issued: May 6, 2025

**BUREAU OF MARKET ACTIONS
PROPERTY & CASUALTY DIVISION**



PENNSYLVANIA INSURANCE DEPARTMENT
EXAMINATION VERIFICATION

I, _____, _____ from
(Name of Examiner) (Title of Examiner)

_____ certify that I was the Examiner-In-Charge of the Report of
(Name of Vendor/Department)

Examination of _____ made as of _____.
(Name of Examined Company) (Date)

The last date of examination file review was _____ and the written Report
(Date)

of Examination was reviewed and accepted by the _____
(Chief of Market Conduct Examiner)

on _____.
(Date)

I have reviewed the completed written Report of Examination and certify that the facts and figures recited
therein are true and accurate, according to the records, documents and other evidence obtained during the
course of the examination.

(Examiner-in Charge)

(Name of Vendor/Department)

(Address of Vendor/Department)

Joshua Gotwalt
(Examiner in Charge Signature)

(Date)

IN ORDER TO SATISFY SECTION 40 P.S. § 323.5(b), THAT PROVIDES FOR NO LONGER THAN
SIXTY (60) DAYS FROM THE COMPLETION OF THE EXAMINATION, THE EXAMINER IN
CHARGE SHALL FILE WITH THE DEPARTMENT A VERIFIED WRITTEN REPORT OF
EXAMINATION UNDER OATH.

Spinnaker Insurance Company (Property)

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this __3rd__ day of _July__, 2023, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate David J. Buono, Jr., Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Michael Humphreys
Insurance Commissioner

duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Spinnaker Insurance Company, and maintains its address at 1 Pluckemin Way, Suite 102, Bedminster, NJ 07921.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2023 through December 31, 2023.
- (c) On March 25, 2025, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on April 24, 2025.
- (e) The Market Conduct Examination of Respondent revealed violations of the following:

- (i) All findings and conclusions in the Examination Report, which is attached hereto, are hereby incorporated into this Consent Order

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of 40 P.S. §310.71 are punishable by the following, under (40 P.S. §310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.
- (c) Respondent's violations of 40 P.S. §§1171.5(a)(9), 1171.5(a)(9)(ii), and 1171.5(a)(10)(iii) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):

- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act, or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00).
 - (ii) for each method of competition, act, or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (e) Respondent's violations of 31 Pa. Code §§146.3, 146.6, and 146.7(a)(1) are punishable under Sections 1 through 5 and Section 9 of the Unfair Insurance Practices Act (40 P.S. §§1171.1 – 1171.5 and 1171.9):
 - (i) cease and desist from engaging in the prohibited activity.
 - (ii) suspension or revocation of the license(s) of Respondent.

- (f) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act, or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00).
- (ii) for each method of competition, act, or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall pay Thirty-Five Thousand Dollars (\$35,000.00) in settlement of all violations contained in the Report.
- (c) Payment of this matter shall be made at <https://www.bpp.ob.pa.gov/Customer>.
Instructions on how to do this are provided in the attached cover letter to this order.
Payment must be made no later than thirty (30) days after the date of this Order.
- (d) To determine Respondent's compliance with the full and timely implementation of all recommendations in the Examination Report, the Department may inquire with

the Respondent about its implementation of the Recommendations no earlier than twelve (12) months from the date of this Order.

- (e) Respondent shall share the Examination Report and this Order with each of its directors and submit affidavits executed by each of its directors, stating under oath that they have received a copy of the Examination Report and this Order. Such affidavits shall be submitted within thirty (30) days of the date of this Order.
- (f) Respondent shall comply with all recommendations contained in the attached Report.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

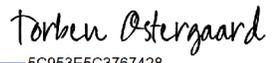
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: SPINNAKER INSURANCE COMPANY
Respondent

Signed by:

5C953E5C3767428...

President/Vice President

Signed by:

5A4B8F816F64475...

Secretary/Treasurer



DAVID J. BUONO
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination of Spinnaker Insurance Company, hereinafter referred to as “Company”, was conducted at the Pennsylvania Insurance Department beginning April 10, 2024. There was no onsite portion of the exam.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to “error ratio.” This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company, during the examination is hereby acknowledged.

The following examiners participated in this examination and in preparation of this Report.

Paul Towsen, MCM
Market Conduct Division Chief
Pennsylvania Insurance Department

Joshua Gotwalt, MCM
Market Conduct Examiner II, EIC
Pennsylvania Insurance Department

Ryan Sellers
Examiner
Regulatory Insurance Advisors, LLC

LeAnn Crow
Examiner
Regulatory Insurance Advisors, LLC

Cara Phillips
Examiner
Regulatory Insurance Advisors, LLC

Mike Woolbright
Examiner
Regulatory Insurance Advisors, LLC

Holly Blanchard
Examiner
Regulatory Insurance Advisors, LLC

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Spinnaker Insurance Company, at the Pennsylvania Insurance Department, located in Harrisburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act of 1921 and covered the experience period of January 1, 2023, through December 31, 2023, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Property
Underwriting - Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, declinations, and rescissions.
2. Rating - Proper use of all classification and rating plans and procedures.
3. Claims
4. Complaints
5. Producers
6. Underwriting Practices and Procedures
7. Forms
8. Data Integrity

III. COMPANY HISTORY

Spinnaker Insurance Company (“Company”) was formed in Illinois as American General Indemnity Company on July 28, 1986, to write credit life, guaranteed asset protection, collateral protection, and involuntary unemployment insurance. In 2006, the Company exited credit business and entered into a 100% indemnity agreement with AEGON. The Company went into runoff in 2009. In 2012, the Company was sold to White Mountain Solutions Holding Company and changed its name to Woodridge Insurance Company. The Company continued in runoff and wrote no new business. In 2015, Sojourner Holding Company acquired the Company, and the Company changed its name to Spinnaker Insurance Company. Under Sojourner, the Company started writing admitted insurance products through Program Administrators, focusing almost exclusively on short-tail business with an emphasis on homeowners, renters, and small commercial business. In 2020, the Company was acquired by the Hippo Group of Companies. Hippo Holdings Inc., a publicly traded company, is the Company’s Ultimate Controlling Person. Today, the Company continues to write business through Program Administrators, focusing almost exclusively on short-tail business.

LICENSING

Spinnaker Insurance Company’s last Certificate of Authority to write business in the Commonwealth was issued on April 1, 2023. Spinnaker Insurance Company is licensed to transact personal property insurance business in all 50 states (except Utah) and the District of Columbia. The Company’s 2023 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$14,677,540. Premium volume related to the areas of this review were: Homeowners Multiple Peril \$9,332,677.

IV. UNDERWRITING

A. Personal Property

1. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 6,081 property policies, which were nonrenewed during the experience period, 100 files were selected for review. The property policies consisted of homeowners and tenant homeowners. All 100 files requested were received and reviewed. The 33 violations noted were based on 33 files, resulting in an error ratio of 33%.

The following findings and concern were noted.

33 Violations 40 P.S. §1171.5(a)(9)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent

statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. The Company failed to provide a valid reason for nonrenewal for the 33 files noted.

General Violation 40 P.S. §1171.5(a)(9)(ii)

The Company issued a notice of cancellation following an insured request. The notice that was issued did not provide the proper number of days mailing notice prior to the cancellation effective date. *Note:* When an insured has requested the cancellation of a policy, a notice of cancellation is sent to the insured. A notice of cancellation has requirements that must be met. A confirmation of cancellation does not have requirements and is a more suitable form for confirming an insured request of cancellation.

CONCERN: In some cases of the Tenant Homeowner samples the company is sending a cancellation notification following a nonpayment nonrenewal stating the policy has been cancelled as requested by the

policyholder. The cancellation notification title should be changed to reflect Confirmation of Cancellation for Nonpayment.

2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 6,285 Property Midterm Cancellations reported during the experience period, 100 files were selected for review. The property policies consisted of homeowners, tenant homeowners, and Condominium. All 100 files selected were received and reviewed. The 32 violations noted were based on 19 files, resulting in an error ratio of 19%.

The following findings were noted:

19 Violations 31 Pa. Code §59.6(6)

States that if the reason is a substantial change or increase in the hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it was due. The Company failed to identify the amount and date premium due where the reason is non-payment of premium for the 19 files noted.

13 Violations 40 P.S. §1171.5(a)(9)(ii)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless a written notice of the cancellation or refusal to renew is received by the insured either at the address shown in the policy or at a forwarding address. (ii) - State the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company issued a cancellation notice for nonpayment that did not provide 30 days mailing notice prior to the cancellation effective date for the 13 files noted.

General Violation 40 P.S. §1171.5(a)(9)(ii)

The Company issued a notice of cancellation following an insured request. The notice that was issued did not provide the proper number of days mailing notice prior to the cancellation effective date. *Note:* When an insured has requested the cancellation of a policy, a notice of cancellation is sent to the insured. A notice of cancellation has requirements that must be met. A confirmation of cancellation does not have requirements and is a more suitable form for confirming an insured request of cancellation.

3. 60-Day Cancellations

A 60-day cancellation is any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide a 30-day mailing notice of the termination.

From the universe of 2,228 property policies, which were cancelled in the first 60 days of new business, 100 files were selected for review. The property policies consisted of homeowners, tenant homeowners, and condominium. All 100 files requested were received and reviewed. The one violation noted was based on one file, resulting in an error ratio of 1%.

The following findings were noted:

1 Violation 31 Pa. Code §59.9(b)

The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel a policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company issued a notice of cancellation that did not provide 30 days mailing notice prior to the cancellation effective date for the file noted.

General Violation 40 P.S. §1171.5(a)(9)(ii)

The Company issued a notice of cancellation following an insured request. The notice that was issued did not provide the proper number of days mailing notice prior to the cancellation effective date. *Note:* When an insured has requested the cancellation of a policy, a notice of cancellation is sent to the insured. A notice of cancellation has requirements that must be met. A confirmation of cancellation does not have requirements and is a more suitable form for confirming an insured request of cancellation.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 539 property policies which were declined by the Company during the experience period, 75 files were selected for review. All 75 files requested were received and reviewed. The property policies consisted of homeowners and condominium. There were no violations noted.

5. Rescissions

A rescission is any policy which was void ab initio by the Company.

The primary purpose of the review was to determine compliance with Act 205, which establishes conditions under which action by the insurer is prohibited. The review also determines compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

From the universe of 54 property policies that were identified by the Company as rescissions during the experience period, 35 files were selected for review. All 35 files requested were received and reviewed. The property policies consisted of homeowners and condominium. There were no violations noted.

V. RATING

A. Personal Property

1. New business

New business, for the purpose of this examination, is defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – New Business Without Surcharges

From the universe of 992 homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. There were no violations noted.

Homeowner Rating – New Business With Surcharges

From the universe of 33 homeowner policies written as new business with surcharges during the experience period, all files were selected for review. All 33 files selected were received and reviewed. There were no violations noted.

Tenant Homeowner Rating – New Business Without Surcharges

From the universe of 18,410 tenant homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. There were no violations noted.

Tenant Homeowner Rating – New Business With Surcharges

There were no files for Tenant Homeowners New Business with Surcharges to review. The company did not report any New Business With Surcharges for Tenant Homeowners.

Condominium Rating – New Business Without Surcharges

From the universe of 71 condominium policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. There were no violations noted.

Condominium Rating – New Business With Surcharges

The universe of 1 condominium policy written as new business with surcharges during the experience period was selected for review. The file selected was received and reviewed. There were no violations noted.

2. Renewals

A renewal is any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), which require every insurer to file with the

Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – Renewal Without Surcharges

From the universe of 2,943 homeowner policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. There were no violations noted.

Homeowner Rating – Renewal With Surcharges

From the universe of 76 homeowner policies renewed with surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. There were no violations found but the following concern was noted.

CONCERN: In six cases, the Company is incorrectly listing on the Declarations page that the insured is receiving the new home buyer discount; however, the Quote Peril Factors page does not indicate a credit for that policy year. The Company should remove the discount from the Declarations page if the insured is not receiving the new home buyer discount for that policy period.

Tenant Homeowner Rating – Renewal Without Surcharges

From the universe of 12,388 tenant homeowner policies renewed without surcharges by the Company during the experience period, 100 files were

selected for review. All 100 files requested were received and reviewed. There were no violations noted.

Tenant Homeowner Rating – Renewal With Surcharges

There were no files for Tenant Homeowners Renewals with Surcharges to review. The company did not report any Tenant Homeowner Renewals With Surcharge.

Condominium Rating – Renewal Without Surcharges

From the universe of 274 condominium policies renewed without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. There were no violations noted.

Condominium Rating – Renewal With Surcharges

From the universe of 9 condominium policies renewed with surcharges during the experience period, all files were selected for review. All 9 files selected were received and reviewed. There were no violations noted.

VI. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Tenant Homeowner Claims
- C. Condominium Claims

The primary purpose of the review was to determine compliance with 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(10)(vi)).

A. Homeowner Claims

From the universe of 280 homeowner claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The 31 violations noted were based on 26 files, resulting in an error ratio of 35%.

The following findings and concern were noted:

1 Violation 31 Pa. Code §146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The Company failed to provide a complete file for the claim file noted.

2 Violations 31 Pa. Code §146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot be reasonably completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the two claim files noted.

16 Violations 31 Pa. Code §146.7(a)(1)

Acceptance or denial of a claim shall comply with the following: Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to accept or deny the claim in writing for the 16 claim files noted.

12 Violations 40 P.S. 1171.5(a)(10)(iii)

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices: failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies. The Company failed to adopt and implement reasonable standards for the prompt investigation of claims for the 12 claim files noted.

CONCERN: In one file reviewed, the Company did not issue the policyholder / claimant a written notice indicating it was closing the file without payment. The Company should, in all cases of claims closed without payment due to no damages, under the deductible, or withdrawn should issue a written notice to the policyholder/claimant indicating the file is being closed with no payment.

B. Tenant Homeowner Claims

From the universe of 486 tenant homeowner claims reported during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The five violations noted were based on five files, resulting in an error ratio of 7%.

The following findings were noted:

5 Violations 31 Pa. Code §146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such

investigation cannot be reasonably completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the five claim files noted.

C. Condominium Claims

From the universe of 12 condominium claims reported during the experience period, all 12 files were selected for review. All 12 files selected were received and reviewed. There were no violations noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 14 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 14 files were received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, (40 P.S. §§1171.1 – 1171.5). Section 5(a)(11) of the Act (40 P.S. §1171.5(a)(11)), requires a company to maintain a complete record of all complaints received during the preceding four years. 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 individual complaint files were reviewed for the relevancy to applicable statutes and to verify compliance with 31 Pa. Code §146.5(b)(c). There were no violations found but the following concern was noted.

CONCERN: In two of the 14 complaint files reviewed, the Department received an inquiry or a complaint from an insured and did not respond to the Department within 15 working days. The Company should respond to the Department's or inquiry or complaint within 15 working days.

The following synopsis reflects the nature of the 14 complaints that were received.

9	Cancellation/Nonrenewal	64.3%
3	Claims Related	21.4%
2	Miscellaneous	14.3%
<hr/>		<hr/>
14		100%

VIII. PRODUCER LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1-A(a) and Section 671-A of the Insurance Department Act No. of 1921, (40 P.S. §§310.41(a)a, 310.71), the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting and rating files were checked to verify proper licensing and appointment.

The following findings were noted:

1 Violation 40 P.S. §310.71

(a) Representative of the insurer – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to Department – An insurer that appoints an insurance producer shall file with the Department a notice of appointment. The notice shall state for which companies within the

insurer's holding company system or group the appointment is made.

(d) Termination of appointment – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee – An appointment fee of \$15 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting – An insurer shall, upon request, certify to the Department the names of all licensees appointed by the insurer.

The following producer was found to be writing policies but was not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Alpha Direct Agency LLC

IX. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed.

Memos and underwriting rule guides were furnished for the Company. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. There were no violations noted.

X. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used to verify compliance with the Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting files were reviewed to verify compliance with 75 Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claim forms and all renewals of coverage and 18 Pa. C.S. §4117(k)(1), which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claim forms.

The following findings were noted:

1 Violation 18 Pa. C.S. 4117(k)(1)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such

person to criminal and civil penalties. The Company failed to include a fraud warning notice on the one claim inventory form.

XI. DATA INTEGRITY

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam.

The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act Section 903(a) [40 P.S. §323.3(a)]. There were no violations noted.

XII. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review 18 C.S. §4117(k)(1) to ensure that violations regarding the requirement of a fraud warning on all claim forms, as noted in the Report, do not occur in the future.
2. The Company must review 31 Pa. Code §59.6(6) to ensure that nonpayment Notices of Cancellation specify the amount due and the due date.
3. The Company must review 31 Pa. Code §59.9(b) to ensure it provides the proper number of days' notice prior to cancellation effective date so that violations, as noted in the report, do not occur in the future.
4. The Company must review 31 Pa Code §146.3 with its claim staff to ensure the claims department maintains complete claim files.
5. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters and acceptance/denials, as noted in the Report, do not occur in the future.
6. The Company must ensure all producers are appointed, as required by 40 P.S. §310.71 prior to accepting any business from any producer.

7. The Company must ensure it issues notices of cancellations with a valid reason for cancellation in compliance with 40 P.S. §1171.5(a)(9), so that the violations noted in the report do not occur in the future. If the nonrenewal reason is “Risk is Unacceptable” then a fix-it letter must be provided to the Insured first. If the Insured chooses to ignore the fix-it letter request by the due date then the policy can be nonrenewed. A fix-it letter must also be issued when the nonrenewal is issued for a lack of inspection.

8. The Company must review 40 P.S. §1171.5(a)(9)(ii) to ensure that a 30 days’ notice is provided, prior to cancellation so violations noted in the report do not occur in the future and if it issues a notice of cancellation following an insured request that it allows the proper number of days’ notice. **Note:** There is no requirement to send a notice of cancellation following an insured request. A confirmation notice would confirm cancellation and has no statutory requirements.

9. The Company must review 40 P.S. §1171.5(a)(10)(iii) to adopt and implement reasonable standards for the prompt investigation of the claim.

XIII. COMPANY RESPONSE

Dear Mr. Townsen,

Thank you for the opportunity to review and respond to the Final Report of the Market Conduct Examination of Spinnaker Insurance Company (“Spinnaker”), conducted by the Pennsylvania Insurance Department for the experience period of January 1, 2023, through December 31, 2023. We appreciate your professionalism and collaboration, and that of your team throughout the course of the examination.

Spinnaker takes its regulatory obligations seriously and is committed to addressing the issues identified in the Report. We are pleased that the Department did not identify any violations in the following areas: Underwriting; Declinations; Recissions; Rating; Personal Property for both New and Renewal business; Underwriting Practices and Procedures; and Data Integrity.

Where violations or concerns were identified, we have carefully reviewed the Department’s findings, including both statutory violations and areas of concern, and have initiated the following actions in response:

- **Underwriting and Cancellations/Nonrenewals:** We are enhancing internal review procedures and policyholder communications to ensure all cancellation and nonrenewal notices meet statutory notice and content requirements under 40 P.S. §1171.5(a)(9) and related regulations. This includes improving processes related to notice timing, documentation of cancellation reasons, and in cases where the insured has requested the cancellation, the use of confirmation notices confirming that the policy has been canceled.
- **Claims Handling:** Spinnaker is updating its claims workflows to ensure complete documentation is maintained, and that status updates, acceptances, denials, and file closures are clearly communicated in accordance with 31 Pa. Code Chapter 146. Training for claims personnel is being implemented to reinforce compliance with regulatory timeframes and documentation expectations.
- **Producer Licensing:** We have conducted a comprehensive review of all active producers to verify proper appointment status and will ensure full compliance with 40 P.S. §310.71 moving forward.
- **Rating and Forms:** We have reviewed the one noted concern regarding the improper application of the new home buyer discounts and are working to ensure that the accurate premium calculations are shown on the Declarations page. Additionally, we have revised all claim forms to include the required fraud warning under 18 Pa. C.S. §4117(k)(1).
- **Complaint Response Timeliness:** Complaint-handling protocols have been reinforced to ensure timely responses to Departmental inquiries within the required 15-day timeframe.

- **Corrective Action and Monitoring:** Each recommendation listed in Section XII of the Report is being incorporated into a remediation plan with targeted completion timelines, accountability assignments, and ongoing monitoring to prevent recurrence.

We again thank the Department for their time and cooperation throughout this examination.