

**MARKET CONDUCT EXAMINATION REPORT
OF THE
INSURANCE BUSINESS OF**

**Erie Insurance Company
Erie Insurance Exchange
Erie Family Life Insurance Company**

**100 Erie Insurance Place
Erie, PA 16530**

Report Nos. MCPC-1-2021-E, MCPC-2-2021-E, MCLH-1-2021-E

Examination Period: January 1, 2016 – December 31, 2020



**STATE OF MARYLAND
MARYLAND INSURANCE ADMINISTRATION**

MARIE GRANT, ACTING COMMISSIONER

I. EXECUTIVE SUMMARY

The Maryland Insurance Administration (“Administration”) conducted a targeted Market Conduct Examination (“Examination”) of certain practices of the Erie Insurance Company (EIC), the Erie Insurance Exchange (EIE) (together, “Erie”), and the Erie Family Life Insurance Company (EFL) (collectively with Erie, the “Companies”). The Examination was called to assess the Companies’ compliance with Maryland insurance laws and regulations, particularly with respect to its marketing, underwriting, and agency practices in their personal and life insurance lines of business. The Examination, as originally called, focused on the time period from January 1, 2016, through December 31, 2020 (the “Examination Period”), but, as noted herein, the data considered by the Administration extended beyond the Examination Period.

The Examination was triggered by complaints filed with the Administration’s Property and Casualty Complaints Unit (the “P&C Unit”) by three licensed insurance producers (each, a “Complainant”) who had been appointed as agents by the Companies. During the Examination, the Administration received one additional related complaint. The Complainants each alleged that their agency agreements with the Companies had been terminated or otherwise unilaterally amended to their detriment. During the Examination, the Administration identified compliance issues related to the conduct of the Companies.

In the normal course of its regulatory activities, the P&C Unit and the Market Conduct unit work cooperatively to review matters and avoid duplication of effort. Frequently, the P&C Unit refers matters to the Market Conduct unit for in-depth investigation and remediation of the issues giving rise to a complaint. The P&C Unit may open an investigation and await the results of a Market Conduct action to close the complaint or may obtain relief for a specific complainant prior to or after referring the matter to Market Conduct. The Units also meet regularly to discuss complaints and market conduct actions; to share information and discuss issues of concern; and to coordinate enforcement activities.

The Examination conducted by the Administration included interviews with the four Complainants, 23 additional current and former appointed agents (including four former managers), and four current members of the Companies’ management team. The Administration issued extensive requests for data, documents and information, which were provided by the Companies. The documents reviewed by the Administration included: (i) marketing and sales materials and resources used by the Companies and made available to its agents; (ii) agency agreements, and materials related to all aspects of the Companies’ recruitment, oversight, training, compensation, discipline, and termination of Maryland agents; (iii) materials related to the Companies’ development and application of agency performance standards; and (iv) communications within the Companies and with agencies regarding agency performance. The data analyzed by the Administration included data regarding performance metrics for all agencies which held appointments with the Companies during the Examination Period, as well as data relating to the amount of

business written by Erie through its agents by zip codes, the demographic composition of those zip codes, and the impact on policy counts by zip codes as a result of agency performance standards and requirements imposed by Erie during and after the Examination Period. In addition, the Administration reviewed policy files related to 800 randomly selected policies that had been issued by the Companies.

As discussed in more detail below, the information reviewed by the Administration demonstrated that both during and after the Examination Period, Erie has engaged in practices that violate Md. Ann. Code, Ins. Art. §§ 27-501 and 27-503 as well as other violations of the Insurance Article as noted herein.

While all violations of the Insurance Article are of concern to the Administration, the emphasis in this Report is on Erie's encouragement of its appointed agents to adopt their own "front-line underwriting" guidelines and not act consistent with the formal underwriting guidelines and filed rating plans which the Administration has found led certain agents to turn down qualified business that was considered likely to be unprofitable.

Section 27-501 of the Insurance Article states, in relevant part:

(a) (1) An insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk for a reason based wholly or partly on race, color, creed, sex, or blindness of an applicant or policyholder or for any arbitrary, capricious, or unfairly discriminatory reason.

(2) Except as provided in this section, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by the application of standards that are reasonably related to the insurer's economic and business purposes.

(b)(1) An insurer may not require special conditions, facts, or situations as a condition to its acceptance or renewal of a particular insurance risk or class of risks in an arbitrary, capricious, unfair, or discriminatory manner based wholly or partly on race, creed, color, sex, religion, national origin, place of residency, blindness, or other physical handicap or disability.

(2) Actuarial justification may be considered with respect to sex.

Section 27-501 (a) and (b) sets the standards that all insurers admitted in Maryland must follow when developing and applying underwriting eligibility guidelines.

Section 27-503 of the Insurance Article states in relevant part:

(d) Notwithstanding any other provision of this section, an insurer may not cancel or amend a written agreement with an insurance producer or refuse

to accept business from the insurance producer if the cancellation, amendment, or refusal is arbitrary, capricious, unfair, or discriminatory or is based wholly or partly on the race, creed, color, sex, religion, national origin, or place of residency of the insurance producer or the applicants or policyholders of the insurance producer.

* * * * *

(f) An insurer may not cancel or amend a written agreement with an insurance producer about property insurance or casualty insurance because of an adverse loss ratio experience on the insurance producer’s book of business if:

(1) the insurer required the insurance producer to submit the application for underwriting approval, all material information on the application was completed, and the insurance producer did not omit or alter any information provided by the applicant; or

(2) the insurer accepted, without prior approval, policies issued by the insurance producer, if all material information on the application for the policy or on the insurer’s copy of any policy issued by the insurance producer was completed and the insurance producer did not omit or alter any information provided by the applicant.

Section 27-503(f) of the Insurance Article prohibits an insurer from terminating or amending an agency agreement due to an agency’s “adverse loss ratio” in certain circumstances noted above. “Adverse loss ratio” is a metric used to measure an insurer’s degree of profit from the premiums it receives versus its losses from the amount it pays in claims and claims related expenses. The higher the amount of claims paid and claims related expenses compared to the amount of premiums received, the more adverse the loss ratio. This prohibition against terminating an agency agreement due to an agency’s “adverse loss ratio,” when agents have provided the insurer the material required by the statute, exists because an insurer’s loss ratio is largely a function of its own business decisions, specifically, its underwriting eligibility guidelines (which risks it is willing to write) and its rating plan (how much it charges to write those risks).

Property and casualty rates cannot be excessive, inadequate, or unfairly discriminatory See, § 11-306(b). Rates are based primarily on an insurer’s actuarially determined loss cost projections, expected expenses, and profit margins. Within the range of legally and actuarially acceptable rates, the rates selected by an insurer for the risks that meet its underwriting eligibility guidelines are also based on its risk appetite.

Once an insurer establishes its underwriting eligibility guidelines and its rates, it cannot lawfully refuse to issue a policy to a person who meets its guidelines and for whom it has a rate. It is a longstanding principle of Maryland motor vehicle insurance laws that an insurer may not decline a risk because the insurer determines that its filed rate for the risk

is inadequate.¹ It cannot do that directly, and it cannot do it indirectly by advising its agents, under penalty of disciplinary action, to reject applicants that meet the insurer's underwriting guidelines. Section 27-501(a)(2) is clear that "an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by the application of standards that are reasonably related to the *insurer's* economic and business purposes." (Emphasis added). An appointed Erie agent cannot cancel, refuse to underwrite, or refuse to renew a risk that meets Erie's underwriting eligibility guidelines and rating plan. If Erie's filed rates for a given factor do not produce the economic results Erie seeks, Erie may increase its rates by filing a modification of its rating plans under the appropriate statute and by following the appropriate procedures.²

Erie expected its agents to use a more restrictive set of standards in what Erie characterized as "front line underwriting." The purpose of this "front line underwriting" was to help agencies to identify business that might not be profitable, even though it qualified for coverage with Erie – and then not place that business with Erie.

Erie effected this by requiring the loss ratio on the book of business produced by appointed agencies to be within 20% of Erie's loss ratio goal for the entire State. Agents who failed to meet this metric were subject to disciplinary actions, including commission reductions and termination. To avoid those economic penalties, agents were expected to improve their "frontline underwriting" by not issuing an Erie policy to individuals who met Erie's underwriting guidelines, but who Erie considered to be an unprofitable risk based (in some cases) on an internally generated "underwriting score" deployed by Erie. Agents were encouraged to decline these risks or place them with other insurers. Again, Erie is responsible for setting adequate rates to ensure profitability, and may not decline risks that it deems would be unprofitable if accepted at the filed rate.

The data analyzed by the Administration demonstrated that the Erie-appointed agents who have been the subject of disciplinary actions because of the loss ratio on their book of business, including Complainants, include agents whose business is primarily in zip codes in urban areas, such as Baltimore City. The data also shows that the effect of Erie's agent review and disciplinary programs has been to significantly reduce the number of policies written and renewed in zip codes in urban areas.

The violations that the Administration has found are based on the following types of unlawful behavior by the Companies:

- Encouraging certain producers to implement more stringent underwriting guidelines for Erie business than what is filed and in use by the Companies;

¹*Lumbermen's Mutual Casualty Co. v. Insurance Commissioner*, 302 Md. 248, 269 (1985).

²*Id.*

- The use of loss ratio to reduce producers' commissions and to otherwise take adverse actions against producers, including termination;
- The failure of EIC and EIE to follow its filed surcharge plan when non-renewing policies;
- EIC and EIE improperly canceling policies during the 45-day underwriting period;
- EFL failing to list agent addresses on illustrations.

As discussed below, the Administration has directed the Companies to cease certain practices; to develop corrective action plans for review and approval by the Administration, including detailed reporting on the implementation and execution of the plans when approved by the Administration; to provide the Administration with evidence, for the Administration's review, which the Companies assert supports the lawful basis for the Companies' termination of agents who were terminated during the Examination period and/or had their commissions reduced; and to prepare an efficient process for resolving any adverse findings concerning the propriety of these decisions.

II. SCOPE OF EXAMINATION

The Examination was conducted pursuant to §§ 2-205, 2-207, 2-208, and 2-209 as well as Code of Maryland Regulations ("COMAR") 31.04.20.

Some non-compliant practices may not have been discovered or noted in the Report. Failure to identify or criticize non-compliant business practices in Maryland or in other jurisdictions does not constitute acceptance of such practices. Examination findings and recommendations, if any, that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Companies' practices and ensure consumer protection.

The Examination and testing methodologies follow standards established by the National Association of Insurance Commissioners and procedures developed by the Administration. Testing performed during the review provides a credible basis for the findings contained in the Report. All sample files were selected using a computer-generated random sample program, unless otherwise stated herein.

III. COMPANY PROFILE

The Erie Insurance Group's operations commenced with EIE on April 20, 1925, under the laws of the state of Pennsylvania. EIC was incorporated September 11, 1972, under the laws of Pennsylvania and began business January 1, 1973. EIC was organized as a companion carrier of EIE. EFL commenced operations on September 1, 1967. Pennsylvania is the state of domicile for all three companies.

EIC's and EIE's certificates of authority to transact property and casualty insurance business in Maryland were last issued on July 1, 2023, and are currently in good standing. EFL's certificate of authority to transact life insurance business in the State was last issued on July 1, 2023, and is currently in good standing.

In addition to Maryland, EIC currently conducts business in the District of Columbia, Illinois, Indiana, Kentucky, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin.³

In addition to Maryland, EIE currently conducts business in, the District of Columbia, Illinois, Indiana, Kentucky, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin.⁴

In addition to Maryland, EFL currently conducts business in the District of Columbia, Illinois, Indiana, Kentucky, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and Wisconsin.⁵

A.M. Best Company, Inc. ("Best") assigns insurers a Financial Size Category which is based on reported policyholders' surplus and is designed to provide an indicator of the insurer's size in terms of its statutory surplus and related accounts. The Financial Size Category is represented by Roman numerals ranging from Class I (smallest – less than one million) to Class XV (largest – two billion or greater). As of August 10, 2023, the Financial Size Category for EIE and EIC is Class XV, with a financial strength rating of A+ (Superior). As of August 10, 2023, the Financial Size Category for EFL is IX (250 million to less than 500 million), with a Financial Strength Rating of a (Excellent).

IV. PROCESSES AND PROGRAMS

The Companies sell their products through independent producers and business entities that are appointed as agents of the Companies.⁶ In Maryland, the Companies have appointed agents in 22 of Maryland's 24 governmental jurisdictions, including Baltimore City. The largest concentration of appointed agents is in Montgomery County. The number of agencies appointed by the Companies in Maryland was 154 at the beginning of the Examination Period and was 146 as of May 23, 2023.

In 2021, the Complainants each submitted an administrative complaint to the Administration. The Complainants alleged that their agency agreements had been

³ EIC is licensed in Minnesota but does not currently conduct business in the State.

⁴ EIE is licensed in Connecticut, Maine, Minnesota and Rhode Island but does not currently conduct business in those States.

⁵ EFL is licensed in Minnesota but does not currently conduct business in the State.

⁶ Section 1-101(q) of the Insurance Article defines an "independent insurance producer." An independent insurance producer is one that is not owned or controlled by an insurer, and which may represent more than one insurer or groups of insurers. A producer may be an agent or a broker, but is a person that, for compensation, sells, solicits, or negotiates insurance contracts. The term "agency" may be used in this Report to refer to a producer firm.

terminated and/or unilaterally changed by the Companies on illegal grounds. The Complaints also described unlawful activities by the Companies with respect to marketing, underwriting, and other practices. Those complaints triggered the Examination. On May 24, 2023, the Administration issued 3 determinations with respect to the individual complaints submitted by 3 of the Complainants, based on the findings made and the violations found. On May 25, 2023, the Administration issued a fourth determination with respect to an additional Complainant, also based on the findings made and the violations found.

Maryland law places limits on the conduct for which an insurance company may cancel or amend an agreement with an insurance producer. Pursuant to § 27-503 of the Insurance Article, an insurer may not cancel an agreement based on the loss ratio experience of the producer's book of business if certain conditions are met. One of the allegations investigated in depth by the Administration is that the Companies amended or cancelled their agreements with producers based on the loss ratios of the producers' book of business.

In the course of the investigation, the Administration found, as detailed later in this report, that the Companies used loss ratio as the basis to amend or cancel their agreements with producers in a manner that violated § 27-503(f). Specifically, and as will be explained, the Companies used loss ratios to reduce commissions, place agencies on levels of review and into "slow down" processes where producers would write less Erie business, and to subsequently terminate the producers' contracts.

As discussed above, insurers generally manage their loss ratios through underwriting. Underwriting includes both determining whether a risk is acceptable and the appropriate rate to charge for the risk, which can also be termed as "rating." Insurers usually develop underwriting eligibility guidelines intended to ensure a book of business that will produce the desired loss ratio when combined with adequate rates. Accurately assessing and pricing risk is a core part of an insurer's profitability. Insurers may develop their own underwriting guidelines, and different companies within a holding company structure may have different guidelines.

The Companies each have underwriting guidelines and filed rating plans, which are used to determine if a risk is acceptable to insure, and, if so, the rate that the policyholder will be charged for the coverage purchased. A review of the Companies' underwriting guidelines and rating rules submitted to the MIA confirm that they provide a broad range of rates for a broad range of applicants, including those with poor driving records.

Separate and apart from the underwriting guidelines of the Companies, the Examination revealed that the Companies encourage their appointed agents to apply additional business standards or underwriting guidelines, which they refer to as "front line underwriting." Specifically, the Companies advise their appointed agents not to submit applications for otherwise qualified applicants who are deemed likely to be unprofitable and do not meet the agents' "front line underwriting" standards. As previously noted, Maryland law does not permit insurers to determine that their own filed rates are

inadequate and therefore refuse to insure a risk for which the insurer has a rate; this prohibition extends to producers acting as agents for the insurer.

As an example, during the Examination, Erie produced a document entitled “Agent Front Line Underwriting Guide, Reference Manual” dated July 1, 2020 (the “2020 FLU Manual”) that was distributed to Erie agents in Maryland. The document asserts that “ERIE continues to be a judgement based underwriting company. ... Insurance is a relationship business.” The 2020 FLU Manual then advises Erie agents that in determining whether to write business, they must “determine whether the risk fits within Erie’s underwriting appetite” and that the agents are to act as “a Front Line Underwriter charged with identifying and developing relationships with average to above average risks.” According to the 2020 FLU Manual, the selection of these preferred customers with average to above average risks should be made by applying criteria (aka “front line underwriting standards”) that are more restrictive than the underwriting guidelines and rating plans adopted by the Companies. Erie directed its agents to adopt such “front line” underwriting criteria and to use them to not write policies with Erie that meet Erie’s underwriting standards. Erie says that its directives regarding “front line underwriting” are intended to assist its agents to build their businesses and to make their agencies more profitable.

Agents grow their business and increase their profitability by placing risks and earning commission. As a general rule, the loss ratio on an agent’s book of business cannot be used by an insurer to terminate or otherwise take arbitrary and capricious, unfair or discriminatory disciplinary action against an agent. Hence, an agent’s placement of business that meets Erie’s standards with Erie should not negatively impact an agency’s profitability.

Erie assesses its appointed agents on whether the business that they write is profitable for Erie. On an annual basis, Erie establishes a statewide loss ratio goal and then expects its agencies to produce business which, when analyzed at the agency level, generates a loss ratio that is within 20% of the statewide goal. Agents whose book of business does not meet that standard were subjected to a progressive set of constraints and disciplinary measures that can culminate in termination.

The Administration finds that Erie used loss ratios as a basis to place agencies under “review,” to alter their underwriting authority, to reduce their access to business development benefits (such as customer leads), to reduce their commission and to terminate them.

Agency Disciplinary Programs

The Administration finds that agencies which produce business that fails to meet Erie’s profitability requirements may ultimately lose their agent appointments and suffer the termination of their agency agreements. To avoid termination, Erie places an agency under one or more levels of review and oversight, including the development of rehabilitation plans to improve the agency’s performance. The levels of review are progressive with respect to the degree of oversight and include penalties such as losing access to marketing funds, marketing tools, and commission reductions.

On an annual basis, Erie establishes a breakeven loss ratio by business segment. The breakeven loss ratio is determined on a statewide basis and all agencies are expected to produce business that is within a certain range of that loss ratio, without consideration of the territory in which the agent is writing.

When an Erie agency fails to meet its loss ratio benchmarks (or other alternative metrics as identified below), the agency becomes subject to various oversight processes beginning with the District Sales Manager (“DSM”) level, which the Companies describe as a tool for the District Sales Managers to have knowledge of underperforming agents. From there, an agency may progress to a “Level 1” or “Level 2” review status. Agencies on Level 1 and Level 2 review status are subject to an annual review, with representatives from the at the branch level with Regional Vice Presidents (RVPs) and Branch Managers. Level 2 reviews have more Home Office involvement, including the RVPs and Senior Vice Presidents (SVPs) from Underwriting and Sales, and are more formal.

Documents from the Companies show that agents may be placed on the DSM Alert List, Level 1 review or Level 2 review if they meet certain criteria, some of which are objective and change yearly, and some of which are subjective. For example, in 2021, an agency was subject to DSM oversight if the loss ratios for the agency’s P&C or PPA exceed the target loss ratio for the State in 3 of the preceding 5 years, unless the last 2 years were profitable. Agents could be placed on Level 1 review if they met 2021 criteria including whether 3 of the last 5 years P&C or PPA loss ratio were 10 points too high, unless the last two years are profitable. However, a branch manager could also place an agent in Level 1 review.

Agents were placed on Level 2 if:

- Non-weather property and casualty or private passenger auto loss ratio is 20 percentage points or more above the branch break even ratio for three of the past five years (unless the last 2 years are below break-even) OR
- 5 consecutive years new Life production is less than \$2,000 OR
- 5 consecutive years new property and casualty premium written is less than \$100,000 OR
- Branch manager & Regional Vice President add agency to list.

The Administration finds that higher loss ratios were the primary criteria used by Erie in implementing a higher level of agency review.

The consequences to an agency placed on Level 1 or Level 2 review range from no action to termination and may escalate from interventions such as meetings with a branch manager (either at the branch or agent’s office) to limiting the agency’s underwriting authority, to discussing the agency’s business practices, to reducing commissions and/or bonuses. All Level 2 agencies lose funds otherwise provided to Erie agents for marketing purposes and access to online leads that Erie generates and makes available to its agents to pursue for potential policy sales.

An agency that is placed on a Level 1 or Level 2 review is expected to develop and complete a “rehabilitation” plan. The purported goal of the rehabilitation plan is to improve agency service, production, and underwriting performance, on the theory that the agency’s failure to meet profitability standards resulted from “poor underwriting practices.”

The rehabilitation process begins with a communication to the agency advising it of the Companies’ concerns. Communications include the area(s) of focus for changes, targets and deadlines, as well as possible solutions and offers of assistance from the Companies. In some cases, agencies may also be warned that if performance does not improve, the agency agreement may be terminated.

Significant signs of improvement may result in the Companies removing an agency from review, moving the agency to a lower level of review, and restoring commissions and bonuses.

If the Companies do not see significant signs of improvement, they may send a final warning letter giving additional time to improve. If the agency does not improve sufficiently, the producer’s agreement may be terminated.

Commission Reductions

One consequence that Erie appointed agencies faced for failing to meet targeted loss ratios was the reduction of their commission. Erie advised the Administration that it decides whether to reduce agency commission on a case-by-case basis. Erie says that it takes multiple factors into consideration, such as:

- Poor underwriting practices (frontline and/or re-underwriting as well as responsiveness and cooperation with their underwriters)
- Unacceptable policyholder service
- Agency Staffing
- Low engagement in ERIE educational events
- Broken Trust
- Failing company audits
- Customer Complaints against the Agent.

The Companies indicate there is no set timeframe for an agency to have its commission restored once it is reduced.

The Administration finds that the Companies do not have clear criteria for removing agencies from review and the review and rehabilitation process are not administered objectively or consistently across agencies.

Slow Down Process

Another action taken by Erie with respect to agents that were considered poor performers is requesting that the agency slow down its writing of new private passenger auto business by 33% in order to refocus agency efforts on improving their frontline underwriting and service processes, as well as on re-underwriting in-force policies. The

“Slow Down Process” was formally adopted and implemented by Erie in 2018, although documents produced by Erie show that the concept was practiced informally before that time.

According to the Companies, the purpose of “Slow Down” is to reduce the amount of time agents use to prospect for new customers and to re-allocate that time to improving the quality of their existing business, which in turn slows down their new business writings. Many of the agencies with high loss ratios and in a Level 2 review were asked to slow down new business in 2018.

Agencies were selected for “Slow Down” if they met *all* of the following criteria:

- Agency non-weather-related Loss Ratio for 3 out of last 5 years (unless last 2 are profitable) was 10 percentage points or more over breakeven;
- New Direct Written Premium = \$100,000+;
- Total Direct Written Premium = \$300,000+;
- Total Direct Written Premium Growth % = 10%+ OR Total Direct Written Premium Growth \$ = \$200,000+;
- At least 120 PPA Apps in the 12 months prior to being placed on PPA Slowdown.

Erie told its agencies that their loss ratio over the long term was an outcome of agent front line underwriting discipline/accuracy and agent service to their policyholders. Erie required producers in Level 2 to focus on improving those agency processes. Often, Level 2 agencies also met the “slow down” criteria and were therefore also asked to slow down new business production in order to allocate more time to improving processes and re-underwriting existing policyholders to collect accurate/current information.

The Administration discovered additional agencies that were on Level 1 that met the criteria for the Slow Down Process, but that were not required to or asked to slow down their business. Many of these “Prospective Agents” were on Level 1 and did not slow down new business production.

During its review of the Slow Down Process, the Administration noted that the amount of the Companies’ written premium in Baltimore City dropped after the Process was implemented. The Market Conduct Annual Statement (MCAS) data filed by the Companies also show a significant number of insured-initiated cancellations versus the number of company-initiated cancellations and non-renewals during the Examination Period. For agency business, that is evidence that the agency is moving business or the insured is taking their business from Erie to another carrier. While there are circumstances in which it is in the best interest of the policyholder to move to a different insurer, this pattern suggests that policyholders were being moved to benefit Erie’s loss ratio criteria, not policyholder needs. This reduction is also consistent with agents placing Baltimore City applicants with insurers other than Erie – or turning that business down.

In one agency interview, the principal agent confirmed this. The agent stated that once they were notified they were on Level 2 review and were introduced to the Slow Down Process, they made a decision to place a substantial amount of business with other insurers, even when the risk was acceptable under the Companies' underwriting guidelines and the Companies had a filed rate for the risk. That agency is now one of the Companies' top 30 agencies and is no longer in the Slow Down Process or under review.

The Companies provided copies of written agency agreements to the Administration that included compensation and commission. The agreements permit the Companies to change commissions with 90 days' notice to the agency. While this may be embedded in the agreements, the actual change in commissions by the Companies constitutes an amendment of the contracts with the producers.

Additional facts as determined by the Administration are set forth below with respect to specific violations found.

**ERIE INSURANCE COMPANY
ERIE INSURANCE EXCHANGE
Title 27, Subtitle 5 violations.**

**ERIE INSURANCE COMPANY
ERIE INSURANCE EXCHANGE**

FINDING 1

Based upon the evidence that Erie terminated or reduced compensation to agencies using loss ratios as a factor, the Administration finds that Erie violated § 27-503(f) of the Insurance Article, which states:

(f) An insurer may not cancel or amend a written agreement with an insurance producer about property insurance or casualty insurance because of an adverse loss ratio experience on the insurance producer's book of business if:

(1) the insurer required the insurance producer to submit the application for underwriting approval, all material information on the application was completed, and the insurance producer did not omit or alter any information provided by the applicant; or

(2) the insurer accepted, without prior approval, policies issued by the insurance producer, if all material information on the application for the policy or on the insurer's copy of any policy issued by the insurance producer was completed and the insurance producer did not omit or alter any information provided by the applicant.

FINDING 2

The Administration finds that Erie’s actions violated § 27-503(d) of the Insurance Article, which states:

(d) Notwithstanding any other provision of this section, an insurer may not cancel or amend a written agreement with an insurance producer or refuse to accept business from the insurance producer if the cancellation, amendment, or refusal is arbitrary, capricious, unfair, or discriminatory or is based wholly or partly on the race, creed, color, sex, religion, national origin, or place of residency of the insurance producer or the applicants or policyholders of the insurance producer.

If Erie’s filed rates are not sufficient for some risks, particularly those located in urban areas such as Baltimore City, then the loss ratios will be relatively high in those areas. Erie is able to control its loss ratios in large measure by appropriately pricing the risks that are permitted in its underwriting guidelines. Taking action against a Maryland-based agency based on a single state-wide loss ratio metric, when the insurer’s rates are not designed to produce the same level of profitability in all areas, would result in fewer policy sales to people in urban areas. And that is precisely what happened between 2016 and 2020.

For example, in 2016, the eight agencies with principal locations in Baltimore City represented approximately 27% of all new business in PPA policies being written for Erie in Baltimore City. By early 2018, four of the agencies listed as agencies with principal locations in Baltimore City in 2016 were enrolled in the Slow Down Process.

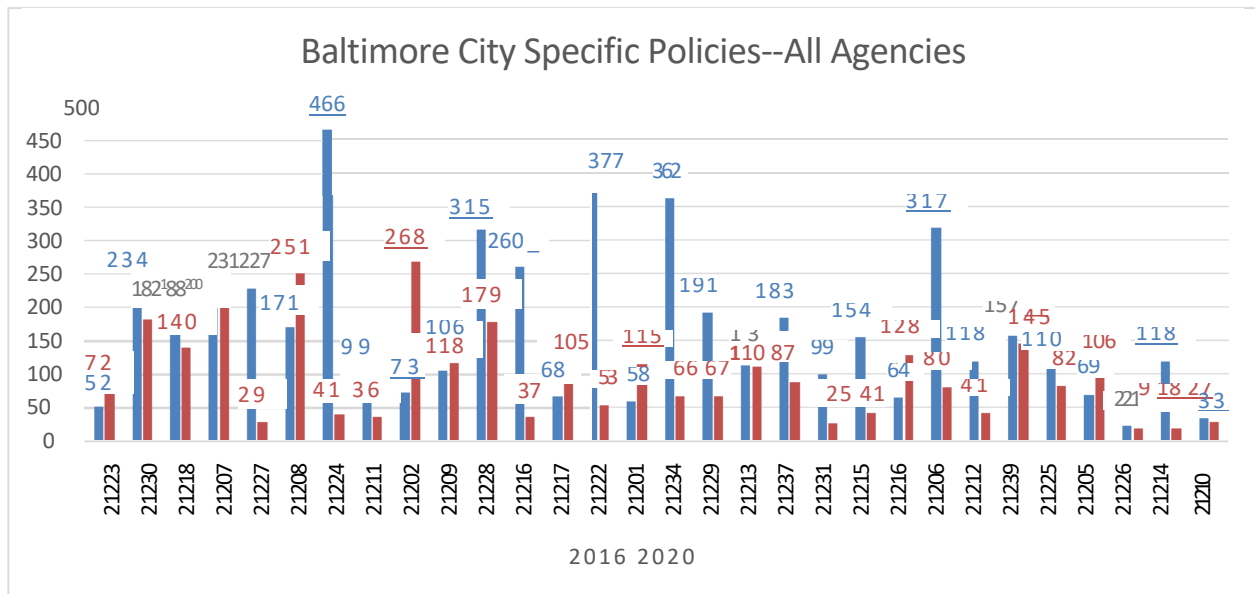
By 2020, a majority of the agencies with principal locations in Baltimore City in 2016 had either merged into a larger group of agencies, relocated, or been terminated. **The reduction by these agencies is reflected in the decline in the total policies written by Erie in Baltimore City:**

YEAR	2016	2017	2018	2019	2020
Total Number of Baltimore City Policies Written by All Agencies	5004	5501	4376	3509	2937

The Baltimore City area is known to have a higher rate of automobile accidents than other geographic regions in Maryland. According to the Maryland Department of Transportation, from 2017 through 2021, 16.3% of crashes, 17.9% of injury crashes, and 9% of fatal crashes in the State occurred in Baltimore City.

Overall, between January 2016 and December 31, 2020, the number of new PPA insurance policies issued in the State declined by 23.56%. In that same time period, the number of new PPA insurance policies written in Baltimore City declined by 41.31%. The Administration compared agencies placed under review, or which had adverse actions taken, for Baltimore City and the rest of the State. The comparison shows that agencies in Baltimore City were penalized at a higher rate than agencies in the remainder of the State.

Erie’s application of statewide loss ratio standards to all Maryland agencies, without adjusting its filed rates to achieve those targets in all areas, disadvantaged Erie agencies writing business in high loss regions such as Baltimore City who were using Erie’s actual underwriting eligibility guidelines and rating plan. Those differences lead to the amendment of the agreements with various producers based, at least in part, on the place of residency of the applicants or policyholders of the insurance producer. The demographic distribution of the impacted zip codes confirms this.



FINDING 3

The Administration finds that Erie’s actions violated Section 27-501(b)(1), which provides, in pertinent part:

(b) (1) An insurer may not require special conditions, facts, or situations as a condition to its acceptance or renewal of a particular insurance risk or class of risks in an arbitrary, capricious, unfair, or discriminatory manner based wholly or partly on race, creed, color, sex, religion, national origin, place of residency, blindness, or other physical handicap or disability.

It is well established in Maryland law that if an insurer has a filed rate for which a specific risk qualifies, the insurer must write that risk at that rate. The Administration found that Erie exerted pressure on agencies not to write some risks for which Erie had filed rates. By way of example, the FLU Manual explains what Erie means by “front line underwriting”:

What Is "Front Line" Underwriting?

Insurance is a relationship business. Front Line Underwriting is about choosing and developing the right relationships. Agents who successfully choose and develop the right client relationships tend to succeed.

Choosing the right Property & Casualty risks begins with careful investigation. Ask open-ended questions. Get to know the applicant. Be curious. Obtain accurate information. Once you understand who the applicant is, determine whether the risk fits within ERIE's underwriting appetite.

If you decide that the applicant/risk is within ERIE's appetite, advise the applicant as to the types of coverage, the amount of insurance, and the rate to be charged. Agents have personal relationships with applicants, so Agents are often best positioned to detect or investigate unfavorable aspects of a risk before submitting the account to company Underwriters. In this capacity an Agent serves as a "Front Line" Underwriter for ERIE- and for your Agency.

* * *

This document focuses on your responsibilities as a Front Line Underwriter charged with identifying and developing relationships with average to above average risks. To do this, you must make sure you have collected complete and accurate information for your clients in order to thoroughly underwrite and service the accounts. In general, ERIE’s rates include the collective experience of all our customers. By selecting and properly underwriting average to above average customers, you help ensure that ERIE’s rates will remain competitive, making your sales job easier.

* * *

ERIE intentionally keeps its underwriting guidelines as broad as possible in order to allow Agents to identify and write the highest volume of average to above average business according to the Agent's level of expertise and ability to service. Our best Agent Underwriters have suggested that each Agency's Underwriting Standards and procedures should be built starting with ERIE's guidelines. AgentExchange makes available Underwriting Guidelines and/or Desirable/Acceptable Business documents for each major line of business. From the "Quick Product Help" tile simply choose a line of business, click the "Underwriting" tab, and open the "Guidelines" folder. You will find a host of resources from which you may begin to develop best practices in implementing Agency Underwriting Standards.

Erie encourages producers to distinguish between prospective risks by using measures other than the insurer's own eligibility underwriting standards by "choos[ing] and develop[ing] the right client relationships." The Agent Front Line Underwriting Guide states that "...agents are best positioned to detect or investigate unfavorable aspects of a risk before submitting the account to company underwriters."

Agents were tasked by Erie with selecting customers who are average to above average risks, not by the use of Erie's underwriting standards, but through underwriting standards supposedly developed by each agency, so that those who would be eligible for certain rates would not be offered insurance with Erie even when they meet the underwriting standards of the Companies. Erie is thereby encouraging its agents to apply special conditions in the selection of risks to be submitted to Erie.

The Insurance Administration interviewed 23 current and former Erie producers. Sixteen producers confirmed that Erie encouraged their agency to utilize stricter underwriting guidelines than the Companies' established underwriting guidelines for Erie business. Producers indicated that these stricter guidelines were used only for Erie business, not for all of the agency's business.

In interviews by the Administration, all of the producers whose commission had been reduced stated they were pressured to develop and abide by stricter guidelines to have commission reinstated, and they were not provided a timeline as to when full commissions would be reinstated.

While Erie contends that it is up to the appointed agent to set the "stricter guidelines" that will guide which risks it places with Erie as opposed to a different insurer, the Administration finds that the materials produced by Erie refute that contention. Erie's Agent Front Line Underwriting Guide directs agents to use criteria outside of Erie's underwriting guidelines and rating plan rules to determine which policies to write with Erie. While this is expressed in terms of making the agency more profitable (e.g. eligible for bonuses or access to marketing funds and sales support), it is clear that the "agency" risk selection criteria that Erie expects its agents to use is an assessment of how profitable the policy is likely to be. That is, given Erie's generous guidelines and highly competitive rates, is the coverage underpriced for this particular applicant.

To assure that Erie agents use this criteria, Erie developed an applicant specific underwriting score (“UW Score”) and an “Agency UW Score Threshold” to be used by Erie agents in deciding whether or not to actually write Erie qualified business with Erie.

Applicant UW Score

The “UW Score” is a mathematically determined score developed by Erie to estimate how underpriced a particular policy would be if sold to the prospective insured. The Companies contend that the UW Score is not used in Maryland to determine an applicant’s eligibility, but admits that it is provided to Erie producers in Maryland as “an informational tool” to support the agencies’ frontline underwriting. Thus, the UW score is used in Maryland with the intent and expectation that it will be used to decide whether to submit the applicant to Erie. In other words, contrary to the Companies’ contention, it is intended to be used to determine an applicant’s eligibility.

According to the Companies: “The UW score is a prioritization tool, not an underwriting rule.” The purpose of the UW Score Reports, the Companies say, is to help agents maintain and write a profitable book of business, and to identify the number of written policies with scores at zero or above and the loss ratio impact to each agency. If an UW Score exceeds an acceptable threshold level, then whether the applicant is offered an Erie policy could be based on the Agency UW score, as well as the applicant’s UW Score.

Example: Auto UW score and expected loss ratio

UW Score	UW Score Expected Loss Ratio
0	56%
1–50	73%
51–100	78%
101–150	83%
151–200	88%
201–250	93%
251–300	98%
301–350	103%
351–400	108%
401–450	113%
451+	146%

An UW Score of 250 means that the premium charged at the Exchange/Preferred price may be deficient by \$250 in relation to the amount that should be charged to maintain a long-term profitable loss ratio for that policy, even though the Exchange/Preferred rate is part of the rating plan filed by Erie. An UW Score of zero (0) is a sign that the policy is adequately priced and more likely to have a profitable loss ratio. The UW Score and the projected policy loss ratio are directly related. As previously noted, Erie controls the price to be charged for a risk, and the price determines whether the business will be profitable; the UW Score is a special condition applied in addition to the underwriting guidelines. This special condition is applied to exclude risks that are acceptable under Erie’s underwriting guidelines and for which there is a filed rate, which are based on actuarial principles, and is therefore in violation of the statute.

Applicant's UW Score versus Agency's UW Score

In 2020, the Companies began using an Agency UW Score threshold in addition to the applicant's UW Score. Agency UW Score thresholds were used by the Companies to determine which personal lines applications and endorsements would be referred to an in-house Erie underwriter for review. Applications that are not referred are approved. Applications that are referred are subject to rejection. The factors used to set an Agency's UW Score threshold are identified by Erie as including: Customer Care Contact per PIF ratio; DHI Re-underwriting action rates; long term loss ratio; home new business cancellations and overall adverse action ratios from Millennium inspection; underwriter assessment of agent discipline, and "etc. in order to monitor the agency's risk selection."

After review of agency data, the Administration observed that the threshold for more recently appointed agencies was set at '0', in order to ensure that a majority of their applications would be referred to an underwriter for review. The threshold would increase based upon the agency's profitability. The Companies confirmed that referrals have always been sent to underwriters, especially for newer agencies.

The Administration discovered that the Companies were in the process of piloting a program that would automatically trigger a referral to an underwriter when new business was submitted by an agency. The pilot program involved the use of Agency UW Score thresholds that were set at specific levels for eleven agencies, including a group of agencies in the Silver Spring branch. The agencies were divided into two categories: unprofitable and profitable. Unprofitable Agencies were assigned a low Agency Underwriting score. Profitable Agencies were assigned a high Agency Underwriting Score. This is exactly the opposite of how the applicant's underwriting scores were assigned. Section 27-501(b)(1) prohibits an insurer from requiring "special conditions, facts, or situations as a condition to its acceptance" of a particular insurance risk in an arbitrary, capricious, unfair or discriminatory manner based wholly or partly on race, creed, color, sex, religion, national origin, place of residency, blindness, or other physical handicap or disability. Here, "special conditions, facts, or situations" were placed on applicants as a condition of the acceptance of their business through the imposition of "frontline underwriting," which sought only those applicants that were "within Erie's underwriting appetite" using criteria other than Erie's own underwriting standards. Similarly, the use of the applicant UW Scores also placed a special condition on the applicant beyond what is provided for in Erie's underwriting guidelines. Thus, the use of the applicant UW Scores and "frontline criteria" violates the statute.

FINDING 4

The Administration finds that Erie's actions violated § 27-501(a) of the Insurance Article, which states:

(a)(1) An insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk for a reason based wholly or partly on race, color, creed, sex, or blindness of an applicant or policyholder or for arbitrary, capricious, or unfairly discriminatory reason.

(2) Except as provided in this section, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular risk or class of risk except by application of standards that are reasonably related to the insurer's economic and business purposes.

Erie adopted underwriting eligibility guidelines and competitive filed rates, but encouraged its appointed agents to adopt Erie specific guidelines that were not consistent with the guidelines and filed rates of Erie. The insurer used "front line underwriting" requirements, UW Scores, loss ratio benchmark requirements, and agency disciplinary programs to avoid less profitable, but qualifying business even when the policyholders satisfied Erie's underwriting guidelines and filed rating plan.

The analysis of this data showed that the number of new PPA policies written by Erie in Maryland declined by 9838 (from 31,689 to 21851) between 2017 and 2020. Approximately 50% of the change (5009 policies) resulted from reduced policy sales in 38 zip codes. Of those, 26 are classified as urban, 9 are classified as suburban, and 3 are classified as rural. For the same reasons that Erie's actions violated § 27-503(d) and § 27-501(b)(1), Erie's actions violated § 27-501(a).

**ERIE INSURANCE COMPANY
ERIE INSURANCE EXCHANGE**

OTHER PRACTICES

V. ADVERTISING AND MARKETING

EIC and EIE provided 223 marketing pieces and 23 radio advertisements for review. No violations were found.

VI. UNDERWRITING

EIC and EIE were requested to provide the total population for each area listed in the chart below:

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS
New Business	136,393	200	0
Non-Renewals	540	100	6
Midterm Cancellations	1,219	100	8
Binder Cancellations	6,722	100	15

A more precise description of the violations is provided on the following pages by individual statutory code.

**Issue 5 – Violation of Section 27-501(a)(2) and COMAR 31.15.10.06
EIC non-renewed policies for which it had a filed rate.**

Section 27-501 provides in pertinent part:

(a) (2) Except as provided in this section, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by the application of standards that are reasonably related to the insurer’s economic and business purposes.

COMAR 31.15.10 provides in pertinent part:

.06 Prohibition on Cancellation or Nonrenewal When Filed Rate Exists.

A. Scope. This regulation does not apply to cancellation of a risk due to nonpayment of a premium.

B. Prohibition. Notwithstanding any provision of Insurance Article, §27-501, Annotated Code of Maryland, or of this chapter, an insurer may not cancel, or refuse to renew, a risk if the insurer has a filed rate that is applicable to that risk.

FINDING 5

EIC non renewed policies even though the policies met the company’s guidelines. EIC indicated its underwriters had used EIE guidelines in error when non-renewing those policies.

The Companies are in violation of Section 27-501(a)(2) and COMAR 31.15.10.06.

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIC Baltimore Non-Renewals	12	12	1	12	A
EIC Maryland Non-Renewals	66	25	5	20	A

EIC shall demonstrate that procedures have been established to ensure compliance with Section 27-501(a)(2) and COMAR 31.15.10.06.

**Issue 6 – Violation of Section 27-613(b)(3)(i)
EIE improperly cancelled policies in effect for more than 45 days.**

Section 27-613 provides in pertinent part:

- (b) (3) Notwithstanding paragraph (1) of this subsection, an insurer may not cancel a policy midterm except:
- (i) when there exists:
1. a material misrepresentation or fraud in connection with the application, policy, or presentation of a claim;
 2. a matter or issue related to the risk that constitutes a threat to public safety; or
 3. a change in the condition of the risk that results in an increase in the hazard insured against[.]

FINDING 6

In one instance, the EIE cancelled a policy mid-term when the policyholder submitted the requested driver exclusion for the driver in the household whose driving record was causing the policy to be non-renewed. In two additional instances, policies were cancelled by EIE due to at fault accidents within the first 45 days of coverage. This was not a valid reason for cancellation included in the EIE underwriting guidelines and not a valid reason for cancellation.

EIE is in violation of Section 27-613(b)(3)(i).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Midterm Cancellations	182	49	3	6	B

EIE shall demonstrate that procedures have been established to ensure compliance with Section 27-613(b)(3)(i).

**Issue 7 – Violation of Sections 12-106(a)(2) and 27-501(a)(2)
EIC and EIE improperly cancelled policies during the 45-day underwriting period.**

Section 12-106(a) pertains in pertinent part:

- (a) (1) In this section the following words have the meanings indicated. (2) (i) “Material risk factor” means a risk factor that:
1. was incorrectly recorded or not disclosed by the insured in an application for insurance;
 2. was in existence on the date of the application; and
 3. modifies the premium charged on the policy or binder in accordance with the rates and supplementary rating information filed by the insurer under Title 11, Subtitle 3 of this article.

Section 27-501 states in pertinent part:

- (a) (2) Except as provided in this section, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by the application of standards that are reasonably related to the insurer’s economic and business purposes.

FINDING 7

In three instances, policies were cancelled during the 45-day underwriting period due to at-fault accidents during the first 45 days of coverage. In four additional instances, policies were cancelled due to open claims. These are not valid reasons for cancellation included in EIC and EIE’s underwriting guidelines and not a valid reason for cancellation.

EIC and EIE are in violation of Sections 12-106(a)(2) and 27-501(a)(2).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIC Baltimore Binder Cancellations	3	3	1	33	C
EIC Maryland Binder Cancellations	20	20	2	10	C

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Baltimore Binder Cancellations	104	47	3	6	D
EIE Maryland Binder Cancellations	413	30	1	3	D

EIC and EIE shall demonstrate that procedures have been established to ensure compliance with Sections 12-106(a)(2) and 27-501(a)(2).

**Issue 8 – Violation of Section 27-613(c)(4)(i)2 and COMAR 31.08.03.09B(2)
EIE failed to clearly and specifically indicate the reason for cancellation on the
Notice of Cancellation for policies in effect for more than 45 days.**

Section 27-613 provides in pertinent part:

(c) (4) (i) The insurer’s statement of actual reason for proposing to take an action subject to this section must be clear and specific and include a brief statement of the basis for the action, including, at a minimum:

- * * * *
- 2. if the action of the insurer is due wholly or partly to a violation of the Maryland Vehicle Law or the vehicle laws of another state or territory of the United States:
 - A. the name of the driver;
 - B. the date of the violation; and
 - C. a description of the violation[.]

COMAR 31.08.03.09 provides in pertinent part:

B. Contents of Statement. If an insurer cancels, refuses to renew, increases a premium for, or reduces coverage under a policy or binder of private passenger motor vehicle liability insurance, the statement of actual reason required by Insurance Article, §§27-613 or 27-614, Annotated Code of Maryland, shall include at a minimum:

- * * * *
- (2) If the action of the insurer is due wholly or partly to a violation of Maryland vehicle law or the vehicle laws of another state:
 - (a) The name of the driver;
 - (b) The date of the violation; and
 - (c) A description of the violation.

FINDING 8

EIE cancelled policies mid-term, but failed to clearly and specifically indicate the reason for cancellation on the Notice of Cancellation.

EIE is in violation of Section 27-613(c)(4)(i)2 and COMAR 31.08.03.09B(2).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Baltimore Midterm Cancellations	182	49	1	2	E
EIE Maryland Midterm Cancellations	1023	39	1	3	E

EIE shall demonstrate that procedures have been established to ensure compliance with Section 27-613(c)(4)(i)2 and COMAR 31.08.03.09B(2).

Issue 9 - Violation of Section 12-106(f)(1)(iii) and COMAR 31.08.15.06B(1)(a) EIE failed to provide a clear and specific reason for the cancellation of policies during the 45-day underwriting period.

Section 12-106 provides in pertinent part:

(f) (1) Except as provided in paragraph (2) of this subsection, a notice of cancellation under this section shall:

* * * *

(iii) state clearly and specifically the insurer’s actual reason for the cancellation[.]

COMAR 31.08.15.06 provides in pertinent part:

B. Cancellation for Reason Other than Nonpayment of Premium.

(1) Except as provided in §B(2) of this regulation, an insurer that cancels a policy or binder under this regulation for a reason other than nonpayment of premium shall:

(a) Provide the insured with a written notice of cancellation that clearly and specifically states the insurer’s actual reason for the cancellation[.]

FINDING 9

EIE failed to provide information that was clear and specific enough to convey the actual reason for the cancellation of the policy on the Notice of Cancellation for policies in effect 45 days or less.

EIE is in violation of 12-106(f)(1)(iii) and COMAR 31.08.15.06B(1)(a).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Baltimore Binder Cancellations	104	47	3	6	F

EIE shall demonstrate that procedures have been established to ensure compliance with Section 12-106(f)(1)(iii) and COMAR 31.08.15.06B(1)(a).

**Issue 10 – Violation of Section 27-613(c)(1)
The EIE failed to timely provide the required notice of cancellation for policies in effect for more than 45 days.**

Section 27-613 provides in pertinent part:

(c) (1) At least 45 days before the proposed effective date of the action, an insurer that intends to take an action subject to this section shall send written notice of its proposed action to the insured at the last known address of the insured[.]

FINDING 10

In one instance, EIE failed to timely provide the required Notice of Cancellation for a policy in effect for more than 45 days. In another instance, it could not provide a copy of the Notice of Cancellation for a policy in effect for more than 45 days.

EIE is in violation of Section 27-613(c)(1).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Baltimore Midterm Cancellations	182	49	1	2	G
EIE Maryland Midterm Cancellations	1023	39	1	3	G

EIE shall demonstrate that procedures have been established to ensure compliance with Section 27-613(c)(1).

**Issue 11 – Violation of Section 27-613(c)(3)(vi) and COMAR 31.08.03.04
EIE failed to provide the correct required notice of cancellation for policies in effect for more than 45 days.**

Section 27-613 provides in pertinent part:

- (c) (3) The notice must state in clear and specific terms:
* * * *
- (vi) the right of the insured to protest the proposed action of the insurer and request a hearing before the Commissioner on the proposed action by[.]

COMAR 31.08.03 provides in pertinent part:

.04 Procedure and Requirements Regarding Cancellation or Nonrenewal.

A notice of cancellation or nonrenewal sent by an insurer to its insured in accordance with Insurance Article, §27-613, Annotated Code of Maryland, shall be sent by certified mail and shall, in addition to the statutory information required in the notice of cancellation or nonrenewal, include the following on the first page of the notice in 12-point bold type:
IMPORTANT
"Right of Protest"

FINDING 11

In one instance, EIE provided a Notice of Cancellation for a policy in effect 45 days or less which did not contain the Right of Protest language as required.

EIE is in violation of Section 27-613(c)(3)(vi) and COMAR 31.08.03.04.

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATION	% OF ERROR	EXHIBIT
EIE Baltimore Midterm Cancellations	182	49	1	2	H

EIE shall demonstrate that procedures have been established to ensure compliance with Section 27-613(c)(3)(vi) and COMAR 31.08.03.04.

**Issue 12 – Violation of Section 12-106(c) and (f)(1)(i), and COMAR 31.08.15.06A and B(1)(a)
EIE failed to mail the required notice of cancellation within the 45- day underwriting period.**

Section 12-106 provides in pertinent part:

(c) A binder or policy is subject to a 45–day underwriting period beginning on the effective date of coverage.

(d) (1) An insurer may cancel a binder or policy during the underwriting period if the risk does not meet the underwriting standards of the insurer.

* * * * *

(f) (1) Except as provided in paragraph (2) of this subsection, a notice of cancellation under this section shall:

(i) be in writing[.]

COMAR 31.08.15 provides in pertinent part:

.06 Cancellation of Binder or Policy During Underwriting Period.

A. An insurer may cancel a binder or policy during the 45-day underwriting period if the risk does not meet the underwriting standards of the insurer.

B. Cancellation for Reason Other than Nonpayment of Premium.

(1) Except as provided in §B(2) of this regulation, an insurer that cancels a policy or binder under this regulation for a reason other than nonpayment of premium shall:

(a) Provide the insured with a written notice of cancellation that clearly and specifically states the insurer’s actual reason for the cancellation;

FINDING 12

In four instances, EIE’s mailing date on the Notice of Cancellation for policies in effect 45 days or less was after the 45-day underwriting period. In one additional instance, EIC demonstrated mailing of a notice but could not locate a copy of the actual notice.

EIC and EIE are in violation of Section 12-106(c) and (f)(1)(i), and COMAR 31.08.15.06A and B(1)(a).

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATION	% OF ERROR	EXHIBIT
EIC Maryland Binder Cancellations	20	20	1	5	I

AREA REVIEWED	POPULATION	SAMPLE SIZE	VIOLATIONS	% OF ERROR	EXHIBIT
EIE Baltimore Binder Cancellations	104	47	4	8	J

EIC and EIE shall demonstrate that procedures have been established to ensure compliance with Section 12-106(c) and (f)(1)(i) and COMAR 31.08.15.06A and B(1)(a).

ERIE FAMILY LIFE INSURANCE COMPANY

VII. ADVERTISING AND MARKETING

**Issue 13 - Violation of Section 27-202(1)
EFL failed to make accurate representations of policies.**

Section 27-202 provides in pertinent part:

A person may not:

(1) make, issue, circulate, or cause to be made, issued, or circulated an estimate, circular, or statement that misrepresents the terms of a policy issued or to be issued, the benefits or advantages promised by the policy, or the dividends or share of the surplus to be received on the policy[.]

FINDING 13

EFL failed to make a full and accurate representation of policies.

EFL is in violation of Section 27-202(1).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATION	% OF ERROR	EXHIBIT
Advertising and Marketing	643	643	1	<1	K

EFL shall implement procedures to ensure compliance with Section 27-202(1).

VIII. APPLICATIONS

**Issue 14 - Violation of COMAR 31.09.09.09(B)
EFL failed to stamp illustration as “Revised.”**

COMAR 31.09.09.09(B) provides in pertinent part:

B. If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy. The revised illustration shall conform to the requirements of this chapter, shall be labeled "revised illustration", and shall be signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer not later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.

FINDING 14

EFL failed to stamp illustration as “Revised.”

EFL is in violation of COMAR 31.09.09.09(B).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATIONS	% OF ERROR	EXHIBIT
Baltimore Canceled	295	50	1	2	L
Baltimore Issued	1082	50	2	4	L
Maryland Declined	736	50	2	4	L
Maryland Issued	10841	50	1	2	L

EFL shall implement procedures to ensure compliance with COMAR 31.09.09.09(B).

**Issue 15 - Violation of COMAR 31.15.03.04(A)(2)
EFL failed to list insurance producer name on Statement of Policy Cost and Benefit Information.**

COMAR 31.15.03.04(A)(2) provides in pertinent part:

A. A carrier shall include in a policy summary all of the following:

* * * * *

(2) The name and address of the insurance producer, or, if an insurance producer is not involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the policy summary;

FINDING 15

EFL failed to list insurance producer name on Statement of Policy Cost and Benefit Information.

EFL is in violation of COMAR 31.15.03.04(A)(2).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATIONS	% OF ERROR	EXHIBIT
Baltimore Cancelled	295	50	6	12	M
Baltimore Issued	1082	50	4	8	M
Maryland Cancelled	2384	50	4	8	M
Maryland Declined	736	50	1	2	M

EFL shall implement procedures to ensure compliance with COMAR 31.15.03.04(A)(2).

**Issue 16 - Violation of COMAR 31.09.09.06(A)(3)(b)
EFL failed to list the agent address on the illustration.**

COMAR 31.09.09.06(A)(3)(b) provides in pertinent part:

A. An illustration used in the sale of a life insurance policy shall:

* * * * *

(3) Contain the following basic information:

(a) Name of insurer,

(b) Name and business address of the producer or insurer's authorized representative, if any[.]

FINDING 16

EFL failed to list the agent address on the illustration.

EFL is in violation of COMAR 31.09.09.06(A)(3)(b).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATIONS	% OF ERROR	EXHIBIT
Baltimore Cancelled	295	50	9	18	N
Baltimore Declined	736	50	5	10	N
Baltimore Issued	1082	50	6	12	N
MD Cancelled	2384	50	9	18	N
MD Declined	736	50	9	18	N
MD Issued	10841	50	9	18	N

EFL shall implement procedures to ensure compliance with COMAR 31.09.09.06(A)(3)(b).

**Issue 17 - Violation of COMAR 31.09.05.06A(2)
EFL failed to send a replacement notice to existing insurer within 5 business days.**

COMAR 31.09.05.06A(2) provides in pertinent part:

A. In General. If a replacement is involved in a transaction, the replacing insurer shall:

* * * * *

(2) Notify any other existing insurer that may be affected by the proposed replacement within 5 business days after:

- (a) Receipt of a completed application indicating replacement at the home office of the replacing insurer; or
- (b) A replacement is identified, if not indicated on the application[.]

FINDING 17

EFL failed to send a replacement notice to existing insurer within 5 business days.

EFL is in violation of COMAR 31.09.05.06A(2).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATION	% OF ERROR	EXHIBIT
Baltimore - Cancelled	295	50	1	2	0

EFL shall implement procedures to ensure compliance with COMAR 31.09.05.06A(2).

**Issue 18 – Violation of COMAR 31.09.05.06(A)(4)
EFL failed to complete a copy of the “Important Notice: Replacement of Life Insurance or Annuities.”**

COMAR 31.09.05.06(A)(4) provides:

A. In General. If a replacement is involved in a transaction, the replacing insurer shall:

* * * * *

(4) Be able to produce copies of the notification regarding replacement required by Regulation .04C of this chapter, indexed by insurance producer, for at least 5 years or until the next regular market conduct examination by the insurance department of an insurer's state of domicile, whichever is later[.]

FINDING 18

EFL failed to complete a copy of the “Important Notice: Replacement of Life Insurance or Annuities”.

EFL is in violation of COMAR 31.09.05.06(A)(4).

AREA EXAMINED	POPULATION	SAMPLE	VIOLATION	% OF ERROR	EXHIBIT
Baltimore Declined	104	50	1	2	P

EFL shall implement procedures to ensure compliance with COMAR 31.09.05.06(A)(4).

IX. DIRECTIVES AND CORRECTIVE ACTIONS

- A. The Companies shall immediately and permanently Cease and Desist from all unlawful practices described in this Examination Report, including:
1. Directing or instructing any agent appointed by the Companies to:
 - a. use underwriting guidelines or standards and/or rate an insurance policy other than pursuant to those lawful criteria set forth in Companies' official written underwriting eligibility guidelines and the Companies' filed rating plans; and/or to:
 - b. calculate and/or use applicant or policyholder UW Scores in connection with the underwriting or rating of applicants or policies.
 2. The direct or indirect use of adverse loss ratios to terminate or amend any term of a written agreement with an agent or agency, except in those circumstances permitted by statute under 27-503(f), including:
 - a. The use of statewide loss ratio benchmarks and targets;
 - b. The use of any agency performance standard, oversight tool, review process, or rehabilitation program that is triggered by the loss ratio of the agency's book of business, except in those circumstances permitted by statute under 27-503(f); and
 - c. The reduction of agency commissions and access to agency support tools based on the agency's loss ratios except in those circumstances permitted by statute under 27-503(f).
 3. The use of the Slow Down Process and Agency Review Levels in the form described in the Report.
- B. Within thirty (30) days of the date of this Report, the Companies shall submit to the Administration a Corrective Action Plan to address all of the violations found in this Report, including:
1. Revisions to the Companies' policies and practices relating to the development, contracting, oversight, compensation and discipline of its Maryland producer salesforce to assure that the Companies' agency practices meet the

- requirements of Maryland law, as determined by the Administration in its review of the Corrective Action Plan;
2. Revisions to the Companies' agency instructional guidelines, manuals, training materials and educational tools that encourage and/or direct Maryland independent agents to use guidelines or standards other than those lawful criteria set forth in Companies' official written underwriting eligibility guidelines and the Companies' filed rating plans to determine eligibility for insurance offered by the Companies;
 3. Setting forth the Companies' plan to conduct and document the retraining and education of all appointed Maryland agents in accordance with the findings in this Report;
 4. Setting forth the Companies' plan to assure that residents of Baltimore City and other urban areas of the State have full and equal access to the Companies' approved products in accordance with the Companies' official underwriting eligibility guidelines and filed rating plans, including, how Erie will assure that its sales and marketing activities with respect to risks located in the zip codes identified in Baltimore City align with the marketing plan that Erie is required to file with the Administration pursuant to 11-325(h);
 5. Actions the Companies are implementing to assure compliance regarding Findings 1 to 10 in Erie Insurance Exchange, Erie Insurance Company - Other Practices, and Findings 11 to 16 in Erie Family Life Insurance Company; and
 6. Setting forth the Companies' implementation schedule.

Once approved by the Administration, the Companies shall be required to report to the Administration on the progress of the implementation of the Corrective Action Plan in accordance with a schedule and reporting format to be determined in conjunction with the review and approval of the Corrective Action Plan.

- C. Within thirty (30) days of the date of this Report, the Companies shall submit to the Administration a list ("List") of all agent terminations and commission reductions or modifications occurring between January 1, 2017 and the date of this Report. Erie will also provide, with the List: (1) a statement of the bases (such as, by way of example and not of limitation, fraud, loss of producer's license, failure to follow lawful underwriting standards and practices) on which the Companies contend that each termination or commission reduction decision was lawful; and (2) additional contextual or other information or documents that might be of assistance in determining whether further review of any termination or commission reduction

decision is warranted.

1. The Administration and the Companies will then meet and confer concerning whether additional review of agent termination and commission reduction decisions is warranted. In the event that the Administration then determines that additional review of a termination or commission reduction decision(s), if any, is warranted, then Erie will provide the Administration reasonable supporting documentation supporting the Companies' termination or commission reduction decision(s) on a timetable reasonably agreed to by the Administration and the Companies. In the event that the Administration determines that any termination or commission modification decision violates Maryland law ("Determination"), not already provided pursuant to determination letters issued by the Administration, then the Administration will provide the Companies notice of the draft Determination. The Administration and the Companies will then engage in good faith discussions to informally and confidentially resolve their disagreements concerning the draft Determination.
2. In the event that the Administration and the Companies are not able to resolve their disagreements concerning the draft Determination, the Administration will issue a Determination and notify the principal(s) of the agency that received the termination or commission modification decision.
3. In the event that the Administration successfully contacts the principal(s) of that agency, the Companies will then attempt to negotiate a good faith resolution of any complaints that the principal(s) may have concerning the Companies' termination or commission modification decision.
4. In the event that the Companies cannot successfully contact the agency principal(s) or convince the principals to participate in negotiations with the Companies, then the violation finding shall be deemed corrected by the Companies.
5. In the event that the Companies and the agency principal(s) engage in good faith negotiations of a resolution of the principal(s)' complaints, and successfully reach a settlement of those complaints, then the violation finding shall be deemed corrected by the Companies.
6. In the event that the Companies and agency principal(s) negotiate in good faith but fail to reach agreement, the parties may request a hearing with the Administration on the Determination within thirty (30) days from the date the Administration or the Companies provides written notice to the other that further negotiations would be unproductive. In the event that neither party requests a hearing, then the violation finding shall be deemed corrected by the Companies.

7. Upon receipt of a timely request for hearing from a party, the Administration will schedule a hearing pursuant to § 2-210(a)(1) of the Maryland Insurance Article to determine whether the Companies' termination or commission reduction violates Maryland law, the amount of restitution to be awarded, if any, and whether the termination should be reversed. The Companies and the agency that received the reduction or termination decision shall be parties to the hearing. The Administration may choose to be a party to the hearing. The Companies reserve and retain all claims and defenses, including but not limited to the right to dispute that the termination or reduction was unlawful, whether restitution is appropriate and whether reversal of the termination is: an option provided by the Insurance Article; lawful under the Insurance Article, the United States Constitution, Maryland Bill of Rights, or other applicable laws; or arbitrary and capricious. The Administration and the agency principal(s) reserve and retain all claims and responses to any argument made by the Companies.
 8. The hearing described in the preceding paragraph shall be conducted pursuant to §§ 2-210 through 2-215 of the Insurance Article, COMAR 31.02.01 and any other applicable, effective statutes and hearing regulations. The effect of the Administration's Determination shall be stayed pending the publication of the final decision of the Administration's hearing officer.
- D. Six months after the publication of this Report, the Administration will request that the Companies verify their continued compliance with Title 27, Subtitle 5 of the Insurance Article.
- E. In light of the violations, the Companies shall be jointly and severally liable to pay an administrative penalty in the amount of \$400,000 (Four Hundred Thousand Dollars) on the one-year anniversary of the publication of this Report, subject to the following condition: in the event that the Administration finds that the Companies are in continued compliance with Title 27, Subtitle 5 of the Insurance Article pursuant to the six-month verification process described in Paragraph D above, then the Companies shall be jointly and severally liable to pay an administrative penalty of \$200,000 (Two Hundred Thousand Dollars), and the remaining \$200,000 (Two Hundred Thousand Dollars) penalty shall be waived.

X. EXAMINATION REPORT SUBMISSION

The courtesy and cooperation extended by the officers and employees of the Companies during the course of the Examination are hereby acknowledged.



Kyle Lanasa, MCM, APIR
Chief Market Conduct Examiner,
Property and Casualty
Market Regulation &
Licensing Professional Licensing



Mary Kwei
Associate Commissioner
Market Regulation &
Professional

In addition, the following individuals participated in this Examination and in the preparation of this Report:

Penny Schuster, MCM, PIR, AIRC
Assistant Chief Market Conduct Examiner, Property and Casualty

Rasheda Chairs, MCM, APIR
Market Conduct Examiner II, Property and Casualty

Raymond Guzman, MCM
Senior Market Conduct Examiner, Life and Health

Nelson Ayling, FLMI
Consulting Market Conduct Examiner, Life and Health

Thomas Hooper, MCM
Market Conduct Examiner, Life and Health

Lori Perine
Special Assistant, Data Projects

Denise Owens
Management Associate

EXHIBITS

**ERIE INSURANCE COMPANY, ERIE INSURANCE EXCHANGE,
ERIE FAMILY LIFE INSURANCE COMPANY**

APPOINTED AGENT INTERVIEWS

AGENCY / AGENT	INTERVIEW DATE	REASON FOR INTERVIEW	ZIP CODE	CITY	COUNTY
Baltimore Insurance Network Rob Turnblacer, Jerrold Gray)	12/07/21	Complainant	21202, now 20715	Baltimore (Penn-Fallsway/Old Town/East), Bowie	City, Prince George's
Ross Insurance Agency (Zerita Ross)	12/07/21	Complainant	21228, now 21244	Windsor Mill	Baltimore
Welsch Insurance Group (Tom Welsch)	12/07/21	Complainant	21224	Baltimore (Graceland Park/Southeast)	City
AJR (Jay West)	02/08/22	Complainant Referral / Emailed Administration	21208	Pikesville	Baltimore
Brand One (BJ Borden)	02/08/22	Complainant Referral / Emailed Administration	21206,21047, now 21060	Columbia, Glen Burnie	Howard
Bedford (Craig Bedford)	02/08/22	Complainant Referral / Emailed Administration	21217, now 21211	Baltimore (Hampden/North)	City
Ernest Burley	02/09/22	Complainant Referral / Emailed Administration	20720	Bowie	Prince George's
Ron Hardin (former Erie DC/PA agent & diversity recruiter, terminated 2006)	02/24/22	Complainant Referral			N/A
Great Oak (Beth Hotaling)	02/25/22	Complainant Referral / Emailed Administration	21209	Baltimore (Cheswolde/Northwest)	Baltimore
Mid Atlantic (Emmett Johnson)	06/01/22	Complainant Referral / Emailed Administration	20707	Laurel	Prince George's
Liberty Preferred (Tyler Murr)	06/09/22	On Companies' 2019 target list. Hired outside firm to assist with underwriting guidelines	21784	Sykesville	Carroll
Seguros R Vasquez, Inc. (Roberto & Paola)	06/09/22	On Companies' 2019 target list. Top 30 agent, level 1, no commission reduction. Metrics under review	20902	Silver Spring	Montgomery
Rohan Augustine Ins	06/10/22	Commission reductions	20774	Upper Marlboro	Prince George's
Jj Lee, LLC (Jean Jie Li)	06/13/22	On Companies' 2019 target list. Terminated & questioned Companies about process	20878	Gaithersburg	Montgomery

Klinger & Associates, Inc. (Robert Klinger)	06/13/22	On Companies' 2019 target list. Received bonus while on level 2. In slow down since 2017. Metrics under review	20874	Germantown	Montgomery
Sabourin Insurance Services, LLC	06/15/22	One of first agents to be chosen for slow down and one of first terminated due to performance.	21228	Catonsville	Baltimore

AGENCY / AGENT	INTERVIEW DATE	REASON FOR INTERVIEW	ZIP CODE	CITY	COUNTY
(Kenneth Sabourin)					
Terrapin Insurance Group (Mike Davis)	07/18/22	Was on Level 2 but improved. Notes mentions work on guidelines.	20850	Rockville	Montgomery
Coakley Insurance Group (Dan Coakley)	07/20/22	Mentioned in Companies' internal investigation of complaint. Was recently on Level 2	21231	Baltimore City	City
Perry Hall Insurance (Vince Piscopo)	07/20/22	13 carriers. Not on slow down but business is declining (conversion rate below 33%)	21128	Perry Hall	Baltimore
V.W. Brown (Angela Ripley)	07/21/22	High minority population, PPA accelerate, 17 carriers. Conversion rate is 35%, high direct written premium	21046	Columbia	Howard
Redmer Insurance (Liz Mika)	07/22/22	Underwriting guidelines discussion	21162	White Marsh	Baltimore
Robert W Nock Insurance (Emily Nock)	07/26/22	Location	21804	Salisbury	Wicomico
Insurance First Inc. (Mitchell Babashan)	07/29/22	High written premium, large amount of Companies' business	21704	Urbana	Frederick
American Ins & Financial Services Inc. (Anthony Perillo)	08/16/22	Former District Sales Manager	21040 & 21224	Fallston / Baltimore City	Harford
McDole Edge Insurance (Jacob Nutter)	09/07/22	Former Senior District Sales Manager	21102	Manchester	Carroll
Performance & Mader (Dana Page)	09/27/22	Former District Sales Manager	21054	Gambrills	Anne Arundel
Eric W. Snyder Insurance (Lindsey Petrillo)	09/28/22	Former District Sales Manager	21120	Parkton	Baltimore

MANAGEMENT INTERVIEWS

NAME	INTERVIEW DATE	REASON FOR INTERVIEW
Joseph Genuso	10/03/22	Regional Vice President Underwriting
Daniel Schulman	10/12/22	District Sales Manager
Kristopher Marrison	10/12/22	Vice President and Branch Manager
Mark Banks	10/13/22	Southeast Regional Vice President of Sales

**ERIE INSURANCE COMPANY,
ERIE INSURANCE EXCHANGE**

**EXHIBIT A
Violations of Section 27-501(a)(2) and COMAR 31.15.10.06
Non-Renewals – Improper Non-Renewal**

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	NON-RENEWAL DATE	REASON FOR NON-RENEWAL
10	EIC	Baltimore	Q056510118	05/15/19	Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure operators who in the past 36 months have had 1 or more at-fault motor vehicle accidents, whether or not surchargeable, when insured with Erie for less than five years. Therefore, your driving record of 2 at-fault accidents in the past 36 months makes you ineligible for coverage...
7	EIC	Maryland	Q077605872	07/26/17	Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure anyone who has experienced more than 2 at-fault accident(s) in the past three years. Therefore, your driving record of 3 at-fault accidents in the past three years makes you ineligible for coverage...
13	EIC	Maryland	Q055114984	05/01/18	Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure anyone who has experienced two (2) or more at-fault accident(s) in the past three years when insured with Erie for less than five (5) years. Therefore, his driving record of 2 at-fault accidents in the past three years makes him ineligible for coverage...
15	EIC	Maryland	Q086307205	08/13/18	We are not renewing your Automobile Insurance Policy. Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure operators who in the past 36 months had any combination of more than 2 incidents (at-fault accidents or violations) when insured with Erie less than five years. Therefore, your driving record of 2 at-fault accident(s) and 1 violation(s) in the past three years makes you ineligible for coverage...
20	EIC	Maryland	Q126906304	12/19/19	We are not renewing your Automobile Insurance Policy. Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure operators who in the past 36 months had any combination of more than 2 incidents (at-fault accidents or violations) when insured with Erie less than five years. Therefore, your driving record of 1 at-fault accident(s) and 2 violation(s) in the past three years makes you ineligible for coverage...
25	EIC	Maryland	Q027007940	02/20/19	We are not renewing your Automobile Insurance Policy. Our Defensive Driver Plan and our Underwriting Standards provide that we will not insure operators who in the past 36 months had any combination of more than 2 incidents (at-fault accidents or violations) when insured with Erie less than five years. Therefore, your driving record of 2 at-fault accident(s) and 1 violation(s) in the past three years makes you ineligible for coverage...
TOTAL: 6					

**EXHIBIT B
Violation of Sections 27-613(b)(3)(i)
Midterm Cancellations – Improper Cancellation**

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	CANCELLATION DATE	REASON FOR CANCELLATION
11	EIE	Baltimore	Q081113791	01/04/17	We request the exclusion of Davon Lawson. A 10/21/16 claim was reported and Davon Lawson drove your vehicle with permission and was involved in an auto accident and has an expired I.D. card. Our underwriting standards provide that operators in the past three years who drive a motor vehicle without a valid driver's license are not eligible to be insured on an Erie automobile policy. The magnitude of the risk presented by his driving without a license cannot be quantified. However, it is clear that the underwriting standard violated is reasonably related to our business and economic purposes and that continuing this insurance coverage would have an adverse effect upon our losses and expenses in light of our filed rating plan.
13	EIE	Baltimore	Q030314705	05/19/17	Your policy is being canceled due to your at-fault accident within the first 45 days of coverage. On 3/14/17, you slid on ice and struck a cement curb. This presents an increase in hazard. We are unable to generate sufficient additional premium to cover the increased chance of loss.
31	EIE	Baltimore	Q120128991	03/05/19	Your policy is being cancelled due to your at-fault accidents within the first 45 days of coverage. On 12/21/18 & 12/14/18 you were deemed at-fault, in both accidents. This presents an increase in hazard. We are unable to generate sufficient additional premium to cover the increased chance of loss.

TOTAL: 3

EXHIBIT C
Violations of Sections 12-106(a)(2) and 27-501(a)(2)
Binder Cancellations – Improper Cancellation

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	REASON FOR CANCELLATION
3	EIC	Baltimore	Q066908248	08/26/19	We are cancelling your auto policy because of an accident on 07/11/19 when you struck a parked vehicle, to date ERIE has paid \$1775.61. Your driving record of 1 at-fault accident(s) within the first 45 days of coverage makes you ineligible for coverage. Because the basis of this action is recognized in Section 27-507(1) of the Insurance Article, to be reasonably related to our business and economic purpose, and statistical validation is not required, we are not including statistical support for our action in this notice.
2	EIC	Maryland	Q025607087	03/28/16	Your automobile application listed the following open claim 8/30/14 where Bao was the vehicle operator. Our underwriting standards provide that applicants are ineligible when there is an open claim.
7	EIC	Maryland	Q035207862	05/09/17	Your policy is being cancelled due to Salar's at-fault accident within the first 45 days of coverage. On 3/25/2017 Salar hit a parked vehicle. This presents an increase in hazard. We are unable to generate sufficient additional premium to cover the increased chance of loss.
TOTAL: 3					

EXHIBIT D
Violations of Sections 12-106(a)(2) and 27-501(a)(2)
Binder Cancellations – Improper Cancellation

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	REASON FOR CANCELLATION
2	EIE	Baltimore	Q060314240	07/20/16	Your policy is being canceled as you had an at-fault accident in the first 45 days of coverage. On 06/14/16 you struck another vehicle while turning. To date we have paid \$2459 with final settlement costs pending. The magnitude of the risk presented by this exposure cannot be quantified. However, it is clear that this Policy Condition is reasonably related to ERIE's business and economic purposes and that continuing insurance coverage would have an adverse effect upon ERIE's losses and expenses in light of our filed rating plan.
20	EIE	Baltimore	Q062214562	08/07/17	Your automobile application lists a 4/28/17 accident which is still listed as open, 3/16/16 accident where \$5000 was paid out but still listed as open. Without the required documentation showing the claim closed with final payout this will not qualify. Our underwriting standards state that applications with open claims would not qualify and are ineligible for coverage, therefore, we are cancelling your automobile policy.
40	EIE	Baltimore	Q060315514	08/05/19	Your MD CLUE listed the following: 3/22/19 open claim. Our underwriting standards state that operators in the past 3 years who have open claims will not qualify in the Exchange program, therefore, we are cancelling your automobile policy.
29	EIE	Maryland	Q082717245	11/02/20	Your application indicated you have an open claim on 07/02/2020. This does not qualify on the MD auto policy. Our standards indicate an operator who currently has a open claim would not qualify for coverage, we are therefore cancelling your Erie Auto Policy since it is ineligible.

TOTAL: 4

EXHIBIT E
Violations of Section 27-613(c)(4)(i)2 and COMAR 31.08.03.09B(2)
Midterm Cancellations - Clear & Specific

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	REASON FOR CANCELLATION
26	EIE	Baltimore	Q011212754	11/14/18	We are cancelling due to a change in the condition of the risk that results in an increase in the hazard insured. Information obtained from the Maryland Motor vehicle record indicates you were found guilty Our Underwriting Standards and Defensive Driver Plan do not include provisions to insure or surcharge for driving under the influence of alcohol within the past 3 years. Therefore, we are unable to generate the premium to offset the increased chance of loss.
23	EIE	Maryland	Q121013996	03/26/19	Your Erie Insurance automobile policy is being cancelled for misrepresentation. Your application indicates only a speeding violation in the past three years for violations. However, your Maryland motor vehicle report shows several entries regarding a judgement insurance suspension. Your agent has attempted to contact you several times for further details. To date, there has been no response. Our underwriting standards provide that we will not insure anyone who makes a material misrepresentation in connection with an application.

TOTAL: 2

EXHIBIT F
Violations of Section 12-106(f)(1)(iii) and COMAR 31.08.15.06B(1)(a)
Binder Cancellations - Clear & Specific

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	REASON FOR CANCELLATION
10	EIE	Baltimore	Q011111394	01/11/16	Information obtained in a clue report lists an accident on 1/29/15 \$0 was paid out, and a 7/15/14 accident where \$0 was paid out. Our underwriting standards state that applications with a surchargeable at fault accident and another negative risk factor the past 3 years are ineligible for coverage, therefore, we are cancelling your automobile policy.
45	EIE	Baltimore	Q070168933	08/31/20	Information obtained in a clue report lists an accident on 2/2020 at fault accident where \$11,187, and an accident on 7/5/20 where \$1512.47 has been paid out with final settlement still pending. Our underwriting standards state that applications with a surchargeable at fault accident and another negative risk factor the past 3 years are ineligible for coverage, therefore, we are cancelling your automobile policy.
46	EIE	Baltimore	Q071018102	09/14/20	Information obtained in a clue report lists an accident on 5/2019 where \$4967 was paid out and 7/17/20 loss where Erie paid out \$1603, with final payment still pending. Our underwriting standards state that applications with a surchargeable at fault accident and another negative risk fact the past 3 years are ineligible for coverage; therefore, we are cancelling your policy.

TOTAL: 3

EXHIBIT G
Violations of Section 27-613(c)(1)
Midterm Cancellations – Timely Notice

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	NOTICE MAILING DATE
1	EIE	Baltimore	Q102014384	01/04/16	12/15/15
36	EIE	Maryland	Q081109772	07/08/20	06/19/20

TOTAL: 2

EXHIBIT H
Violation of Section 27-613(c)(3)(vi) and COMAR 31.08.03.04
Midterm Cancellations – Incorrect Notice

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY CANCELLATION DATE	NOTICE MAILING DATE
1	EIE	Baltimore	Q102014384	01/04/16	12/15/15
TOTAL: 1					

EXHIBIT I
Violation of Section 12-106(c) and (f)(1)(i), and COMAR 31.08.15.06A and B(1)(a)
Binder Cancellations – No Notice

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY EFFECTIVE DATE	NOTICE MAILING DATE
4	EIC	Maryland	Q116707071	11/17/16	12/20/16
TOTAL: 1					

EXHIBIT J
Violations of Section 12-106(c) and (f)(1)(i), and COMAR 31.08.15.06A and B(1)(a)
Binder Cancellations – Timely Notice

SAMPLE NUMBER	COMPANY	TERRITORY	POLICY NUMBER	POLICY EFFECTIVE DATE	NOTICE MAILING DATE
16	EIE	Baltimore	Q071521499	07/15/17	08/30/17
30	EIE	Baltimore	Q110314114	11/03/17	12/22/17
37	EIE	Baltimore	Q101715641	10/17/19	12/02/19
38	EIE	Baltimore	Q031314769	03/13/19	04/30/19
TOTAL: 4					

ERIE FAMILY LIFE INSURANCE COMPANY

**EXHIBIT K
Failure to Make Accurate Representations of Policies
Violation of Section 27-202(1)**

MIA #	AREA REVIEWED	COMMENTS
243	Advertising & Marketing	There is no disclosure to indicate that cost is subject to underwriting.
TOTAL: 1		

EXHIBIT L
Failure to Stamp an Illustration as "Revised"
Violations of COMAR 31.09.09.09(B)

MIA #	AREA REVIEWED	COMMENTS
645	Baltimore Cancelled	The illustration was not stamped as "Revised."
761	Baltimore Issued	The illustration was not stamped as "Revised."
766	Baltimore Issued	The illustration was not stamped as "Revised."
849	Maryland Declined	The illustration was not stamped as "Revised."
872	Maryland Declined	The illustration was not stamped as "Revised."
913	Maryland Issued	The illustration was not stamped as "Revised."

TOTAL: 6

EXHIBIT M
Failure to List Insurance Producer Name on State of Policy Cost and Benefit Information
Violations of COMAR 31.15.03.04(A)(2)

MIA #	AREA REVIEWED	COMMENTS
645	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
653	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
655	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
656	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
657	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
670	Baltimore Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
744	Baltimore Issued	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
745	Baltimore Issued	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
746	Baltimore Issued	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
760	Baltimore Issued	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
794	Maryland Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
797	Maryland Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
801	Maryland Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
809	Maryland Cancelled	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.
853	Maryland Declined	The Statement of Policy Cost and Benefit Information did not list the name of the insurance producer.

TOTAL: 15

EXHIBIT N
Failure to List Agent Address on Illustration
Violations of COMAR 31.09.09.06(A)(3)(b)

MIA #	AREA REVIEWED	COMMENTS
646	Baltimore Cancelled	The illustration is missing the agent address.
647	Baltimore Cancelled	The illustration is missing the agent address.
648	Baltimore Cancelled	The illustration is missing the agent address.
649	Baltimore Cancelled	The illustration is missing the agent address.
653	Baltimore Cancelled	The illustration is missing the agent address.
654	Baltimore Cancelled	The illustration is missing the agent address.
655	Baltimore Cancelled	The illustration is missing the agent address.
656	Baltimore Cancelled	The illustration is missing the agent address.
657	Baltimore Cancelled	The illustration is missing the agent address.
716	Baltimore Declined	The illustration is missing the agent address.
717	Baltimore Declined	The illustration is missing the agent address.
723	Baltimore Declined	The illustration is missing the agent address.
725	Baltimore Declined	The illustration is missing the agent address.
726	Baltimore Declined	The illustration is missing the agent address.
746	Baltimore Issued	The illustration is missing the agent address.
761	Baltimore Issued	The illustration is missing the agent address.
762	Baltimore Issued	The illustration is missing the agent address.
766	Baltimore Issued	The illustration is missing the agent address.
771	Baltimore Issued	The illustration is missing the agent address.
776	Baltimore Issued	The illustration is missing the agent address.
802	MD Cancelled	The illustration is missing the agent address.
806	MD Cancelled	The illustration is missing the agent address.
808	MD Cancelled	The illustration is missing the agent address.
814	MD Cancelled	The illustration is missing the agent address.
815	MD Cancelled	The illustration is missing the agent address.
816	MD Cancelled	The illustration is missing the agent address.
820	MD Cancelled	The illustration is missing the agent address.
825	MD Cancelled	The illustration is missing the agent address.
826	MD Cancelled	The illustration is missing the agent address.
854	MD Declined	The illustration is missing the agent address.
855	MD Declined	The illustration is missing the agent address.
859	MD Declined	The illustration is missing the agent address.
860	MD Declined	The illustration is missing the agent address.
861	MD Declined	The illustration is missing the agent address.
862	MD Declined	The illustration is missing the agent address.
867	MD Declined	The illustration is missing the agent address.
872	MD Declined	The illustration is missing the agent address.
876	MD Declined	The illustration is missing the agent address.
912	MD Issued	The illustration is missing the agent address.
913	MD Issued	The illustration is missing the agent address.
914	MD Issued	The illustration is missing the agent address.
916	MD Issued	The illustration is missing the agent address.
918	MD Issued	The illustration is missing the agent address.
920	MD Issued	The illustration is missing the agent address.
922	MD Issued	The illustration is missing the agent address.
925	MD Issued	The illustration is missing the agent address.
926	MD Issued	The illustration is missing the agent address.

TOTAL: 47

EXHIBIT O
Failure to Send Replacement Notice to Existing Insurer within 5 Business Days
Violation of COMAR 31.09.05.06A(2)

MIA #	AREA REVIEWED	DATE APPLICATION RECEIVED	DATE OF NOTICE TO INSURER	TOTAL NUMBER OF BUSINESS DAYS	DAYS OUT OF COMPLIANCE	COMMENT
670	Baltimore Cancelled	01/30/18	04/26/18	62	57	Replacement notice was not sent to existing insurer within 5 days.
TOTAL: 1						

EXHIBIT P
Failure to Complete Replacement Notice
Violation of COMAR 31.09.05.06(A)(4)

MIA #	AREA REVIEWED	COMMENTS
704	Baltimore Declined	The Company was unable to produce a completed copy of the "Important Notice: Replacement of Life Insurance or Annuities."
TOTAL: 1		

EXHIBIT Q
Erie Letter in Response to Market Conduct Report

WRITTEN RESPONSE**TO THE MARYLAND INSURANCE ADMINISTRATION'S MARKET CONDUCT
EXAMINATION REPORT OF THE INSURANCE BUSINESS OF:****ERIE INSURANCE COMPANY
ERIE INSURANCE EXCHANGE
ERIE FAMILY LIFE INSURANCE COMPANY****Report Nos. MCPC-1-2021-E, MCPC-2-2021-E, MCLH-1-2021-E****Examination Period: January 1, 2016 – December 31, 2020****PURSUANT TO COMAR 31.04.20.07.A.2****INTRODUCTION**

Erie Insurance (“Erie”) prioritizes ethical conduct, accountability, fairness and respect in all aspects of our business. These priorities have set Erie apart in the insurance industry for nearly 100 years. Erie appreciates and respects the Maryland Insurance Administration’s (“MIA” or “Administration”) valuable role in helping Erie meet these priorities, and in regulating the broader Maryland insurance marketplace. Despite this, Erie respectfully disagrees with the findings in the MIA’s market conduct report (“Report”).

The Report states that the Administration’s “emphasis” is on “Erie’s encouragement of its appointed agents to adopt their own ‘front-line underwriting’ guidelines.” The Report finds that these guidelines led the agents to “turn down qualified business that was considered likely to be unprofitable.” Erie’s core alleged violation of Maryland law, according to the Report, was encouraging its agents to be profitable. Erie denies that encouraging its agents to be profitable violates Maryland law.

The Report’s profitability-centric violation findings “are based on” two “types” of conduct by Erie: (1) “[e]ncouraging certain producers to implement more stringent underwriting guidelines for Erie business than what is filed [with the Administration] and in use by Erie”; and (2) Erie’s purported “use of loss ratio to reduce producers’ commissions and to otherwise take adverse actions against producers, including termination.” *Id.* The Report finds that these two types of conduct constitute violations of §§ 27-501 and 27-503 of the Insurance Article (“Article”) of the Maryland Annotated Code. The Report separates the purported violations of §§ 27-501 and 27-503 into Findings 1 through 4 of the Report. Erie disputes and denies the statements of fact and findings of law incorporated into all four Findings.

Notwithstanding the parties’ disagreements, Erie is committed to taking action to address the issues raised by the Administration. Erie has chosen to file this Response to the Report rather than to appeal the Report. Erie will refocus its resources on serving Erie’s Maryland policyholders and appointed agencies, rather than on expensive and distracting litigation with the Administration.

Erie's business is to provide the best possible coverage at the best possible price, and to be "above all in sERvIcE," not to litigate with regulators. In this vein, Erie does not identify each and every one of Erie's disagreements with the findings in the Report. Rather, Erie highlights certain key disagreements as appropriate.

Erie has proudly served Maryland policyholders since 1953. Erie is pleased to resolve this matter with the Administration and move forward in the best interests of Erie policyholders, agents and the communities we serve. Erie looks forward to continuing to grow its business in Baltimore City and throughout the State.

RESPONSE TO SECTIONS I-IV OF THE REPORT

I. ERIE'S "ENCOURAGEMENT" OF AGENTS TO DEVELOP THEIR OWN AGENCY-SPECIFIC UNDERWRITING GUIDELINES DOES NOT VIOLATE MARYLAND LAW.

A. Maryland Insurance Statutes Authorize Insurance Agencies To Develop And Implement Their Own Agency-Specific Underwriting Guidelines.

Erie typically sells its insurance through independent third-party insurance agencies. The agency principals who own those independent agencies are not Erie employees. Both the independent agencies and the agency principals are independently licensed by this Administration. The individual producers working for these agencies are employees of the agencies and are also independently licensed by the MIA.

Subsection 27-501(a)(2) of the Article expressly authorizes these independent agencies and producers to develop and apply their own independent agency-specific underwriting standards. Maryland's General Assembly could have easily required independent insurance agents to solely and exclusively rely on an insurer's filed underwriting guidelines, but it did not. Subsection 27-501(a)(2) is far broader than that.

Section 27-501(a)(2) separately requires both: (1) insurers **and (2) insurance producers** to apply "**standards** that are reasonably related to the insurer's economic and business purposes" when selling coverage. Md. Code Ann. [Ins.] § 27-501(a)(2) (emphasis added). Both insurers **and** insurance producers are statutorily authorized to apply their own "standards" in selling insurance, with the sole caveat being that those unspecified "standards" must "reasonably relate" to the insurer's economic and business purposes. *Id.*

B. Erie's Encouragement Of Agencies To Memorialize Their Agency-Specific Underwriting "Standards" In Writing Benefits Maryland Insurance Consumers, Agencies And Erie.

The independent insurance agencies that sell Erie coverage are typically appointed by many different competing insurers. Some Erie agents are appointed to sell coverage offered by a dozen or more insurers that are competing with Erie.

Independent agents are licensed professionals who provide Marylanders with their best business and professional judgments concerning appropriate insurers, products and coverages for their individual clients' unique circumstances. Agents should not provide their clients every conceivable insurance quote, particularly if the agent believes that the insurer providing a quote is not a good fit for the client. That is part of the reason the General Assembly requires producers, as licensed professionals, to be honest and trustworthy to sell insurance in this State. Article § 10-126(a)(13).

Independent insurance agencies tend to have formal or informal policies and procedures to evaluate applicants and match them with carriers and the varying coverages each insurer offers. Erie encourages producers to thoughtfully memorialize their evaluation standards and make them uniform throughout the agency.

In some cases, a producer may legitimately decide that the carrier an applicant requests is inappropriate for the applicant. By way of example, the insurer that the applicant requests may not provide coverages, policy terms or features, or claims or other services that the producer feels best fit an individual applicant's needs. If the agent has had a difficult history with an insurer paying claims, the producer may legitimately steer applicants away from the carrier until the situation improves – to protect Maryland consumers.

If there are producers who are attempting to investigate insurance applicants without using written standards, those producers are engaging in a less formalized and imprecise *ad hoc* investigation of risks that may or may not collect all material underwriting information for the insurer to consider in accepting and pricing that risk. These imprecise investigations will be less uniform across agencies that have not memorialized their guidelines – leading to increased underwriting mistakes, compromising the producer's ability to make informed and consistent recommendations to clients, and inhibiting carriers' ability to accurately assess risk. This lack of certainty and uniformity harms Maryland consumers, independent producers and the insurers who have appointed them.

C. Prior To This Report, The Administration Historically Approved Erie Agents' Development And Use Of Agency-Specific Underwriting Standards.

The Administration approved of Erie advising its agents to develop and implement agency-specific underwriting standards in a 1995 Consent Order. The MIA then reiterated this approval in a Final Report of its 2003 market conduct examination of Erie ("2003 Report"), with one narrow limitation. 2003 Report, at 6.

The narrow limitation in the 2003 Report was Erie's agreement to advise independent agencies not to use agency-specific underwriting guidelines to place a risk in higher-priced Erie company when the risk also qualifies for a lower-priced Erie company. *Id.* Specifically, Erie agreed to advise independent producers that if they decide that Erie coverage is appropriate for applicants, then those agents should recommend the cheaper Erie Insurance Exchange ("EIE") over the more expensive Erie Insurance Company ("EIC"), if the applicant qualifies for both. *Id.*, at 1. No other

use of agency-specific underwriting standards was prohibited – in fact, such other uses were expressly contemplated in the parties’ agreement.

The Administration expressly blessed independent agents’ use of agency-specific underwriting guidelines in the 2003 Report by agreeing with Erie that Erie would advise independent producers that, “if [the producers first] decide to place a risk with one of these two Erie Companies, [the producers then] must follow the underwriting guidelines of [EIE] and then [EIC] and are not to apply their own guidelines with respect to placement in either of these two Erie Companies.” *Id.* at, at 1 ¶ 5 (emphasis added). Agents are free to use agency-specific guidelines in all other situations, pursuant to § 27-501(a)(2). *Id.*

Section 27-501(a)(2) of the Article has not materially changed between the 2003 Report and the Administration’s 2025 Report in this matter. The statute continues to expressly authorize the use of agency-specific underwriting standards.

D. The Report Relies On An Incorrect Overstatement Of The *Lumberman’s* Holding.

Independent agents tend to utilize a complex decision-making calculus in choosing the right insurers, products and coverages for their clients. This complex calculus is unique to each client and turns on a wide variety of factors relating to the insurers the agent represents and to the individual client. Erie encourages its independent agents to adopt their own agency-specific underwriting guidelines with the expectation that the guidelines will assist the agencies in exercising their lawful professional and business judgment to choose the best insurers, products and coverages for each applicant based on a virtually innumerable array of factors.

Erie disagrees with the Report’s attempt to reduce Erie’s recommendation of agency-specific underwriting standards to a single “profitability” issue. The Report invents this single “profitability” litmus test to shoehorn the Report’s factual findings into the Maryland Supreme Court’s opinion in *Lumberman’s Mutual Casualty Co. v. Insurance Commissioner*, 302 Md. 248 (1985). *Lumberman’s* is inapplicable to Erie’s encouragement of its agencies to develop and implement their own agency-specific underwriting standards.

The *Lumberman’s* opinion addresses only the narrow issue of whether an insurer is permitted to non-renew policies when the insurer determines that *its own filed rates* for a risk are inadequate. 302 Md. at 266. In *Lumberman’s*, the insurer non-renewed policies when the insurer decided its own rates were insufficient. *Id.*, at 266-69. When the non-renewals were challenged at an MIA hearing, the insurer failed to meet its burden of proving the inadequacy of its own rates. *Id.* Erie is not asserting that any of its own rates are inadequate, so *Lumberman’s* does not apply here. *Id.*

The Report overstates the *Lumberman’s* holding by incorrectly claiming that *Lumberman’s* also supports the broader proposition that an insurer must always offer a policy to an applicant if the risk presented by the applicant satisfies the insurer’s filed rating plan. That is not what *Lumberman’s* says. *Id.* Erie disagrees with the Report’s finding that Erie violated § 27-501(a)(2) of the Article and *Lumberman’s* by encouraging independent agencies to adopt agency-specific

underwriting standards that agencies may rely on in refusing to provide Erie coverage to risks for which Erie has a filed rate.

E. Erie’s Interpretation Of *Lumberman’s* Is Widely Accepted In Maryland - Insurers’ And Agents’ Use Of § 27-501(a)(2) Underwriting Standards That Are More Specific Than An Insurer’s Filed Underwriting Guidelines Is Widespread In This State.

Erie is not alone in the view of *Lumberman’s*. In October 2024, the Administration issued Bulletin 24-24, which cites *Lumberman’s* as support for the same incorrect proposition described in the Report: that “an insurer may not refuse to underwrite a risk for which it has a filed rate.” The American Property and Casualty Insurance Association (APCIA) responded to a draft of this Bulletin by expressing “strong concerns” that the MIA’s interpretation of *Lumberman’s* “will prevent insurers from exercising sound and appropriate judgment in their assumption and management of risks, which is detrimental to a healthy and well-functioning insurance market.” Property Insurance Report, Nov. 18, 2024 ed., at 8. According to the APCIA, some “commercial insurers are concerned” because those insurers are, like Erie, “using their underwriting to review or refuse to write or stay on a risk. It appears that [those insurers] will need to go back and refile and remove any filed rating plans for risks that they do not want to write, which will be burdensome.” *Id.* at 8-9.

By way of example, “Progressive is implementing stricter measures to sell new home and auto policies as part of an effort to improve profitability as mounting severity continues to dent its bottom line.” *P&C Specialist*, “Progressive Restricts New Business In Effort To Drive Profitability,” June 5, 2023. Progressive “state managers and area sales representatives are frequently engaging with independent agents who write their policies by coming to their offices to help market their services and products to attract the right profile of customers.” *Id.*

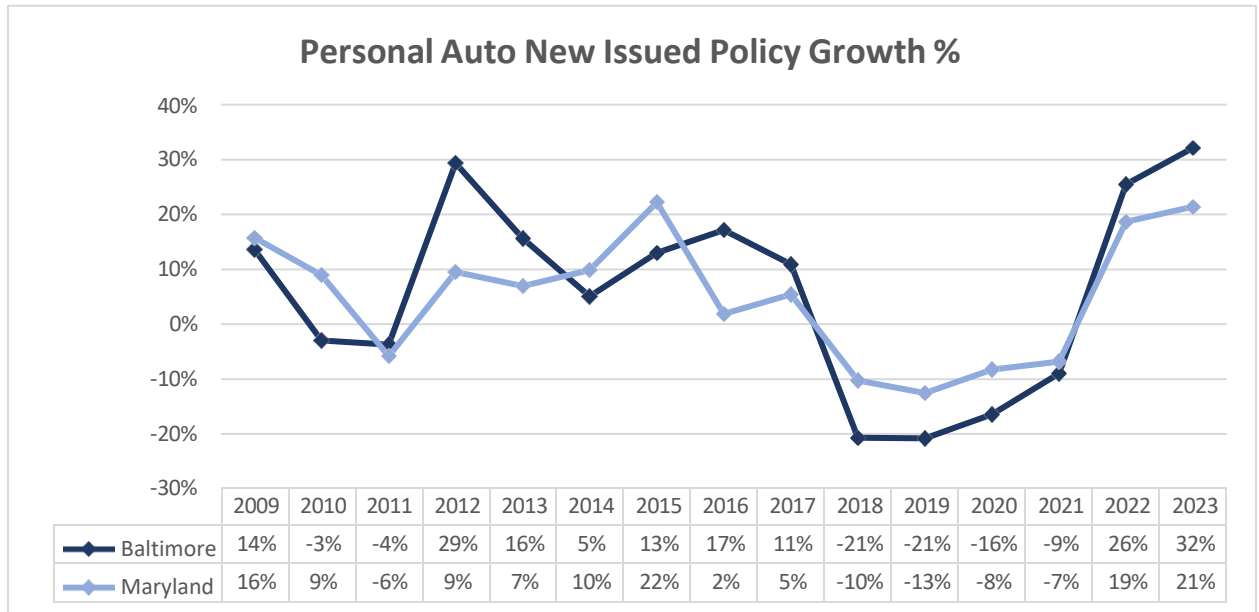
Similarly, according to a June 29, 2023 story in the *Insurance Journal*, Nationwide “will [now] require pre-quote documentation and additional paperwork for new personal lines business for some products in select states. For auto, this includes copies of registrations, driver’s licenses for all cars and all drivers, proof of residency such as utility bills, and pictures of every vehicle, according to sources”.

Erie has informed the Administration that the Report’s prohibition against use of agency-specific underwriting standards will likely require: (1) a significant tightening of Erie’s filed underwriting guidelines, and (2) material increases to the cost of Erie insurance. The Report may cause current Erie insureds to switch carriers due to price increases – and may cause price increases that end Erie’s fifteen-year pattern of growth in Baltimore City.

F. Erie’s Growth Of New Auto Policies In Baltimore City Has Outpaced Erie’s Growth In The Rest Of Maryland Over The Past Fifteen (15) Years.

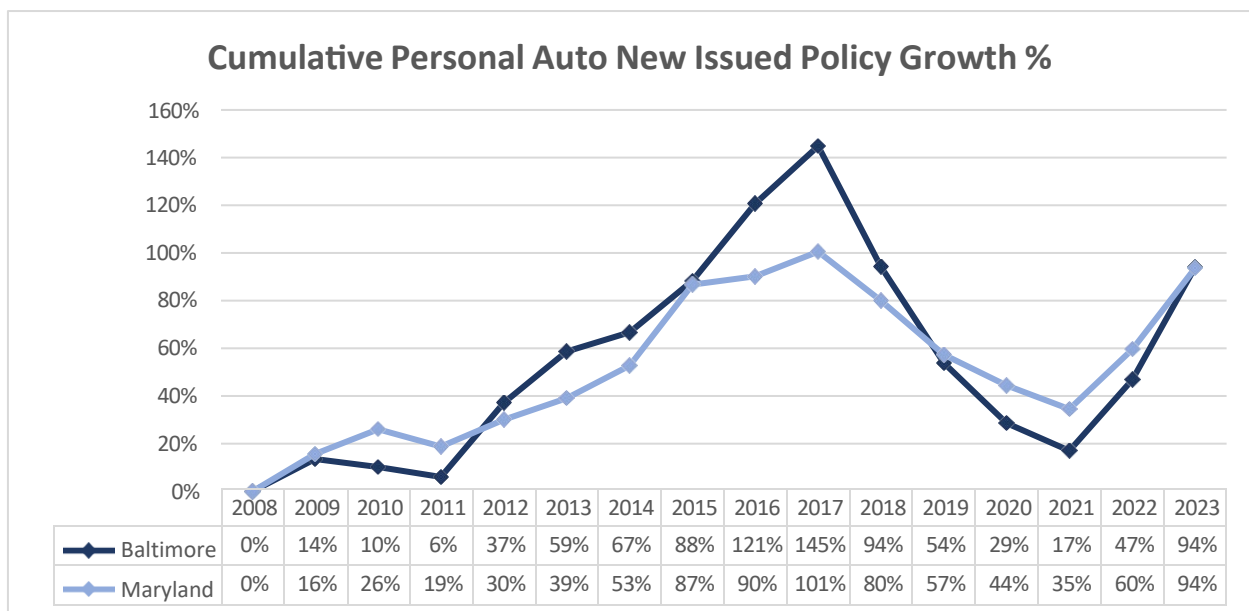
In the fifteen (15)-year period from 2008 through 2023, there were seven (7) years (2011, 2012, 2013, 2016, 2017, 2022, 2023) when Erie’s growth of new auto policies issued in Baltimore

City *outpaced* Erie’s growth in the rest of the State. Two of those years (2016, 2017) fall within the Report’s far narrower five year “examination period” (2016 to 2020).



Erie disagrees with the Report’s focus on an arbitrarily narrow five-year examination period (2016-2020). The five-year period is skewed by the unprecedented COVID pandemic in 2019 and 2020 and many other material factors. The Report also disregards the broader upward trend in Erie’s Baltimore City sales over the past 15 years. Once the COVID restrictions were lifted, Erie’s sales in Baltimore City outpaced sales in the remainder of Maryland by seven percentage points (7%) in 2022 and eleven percentage points (11%) in 2023, notwithstanding Erie’s continued implementation of commission reductions and the agency review process that the Report incorrectly asserts reduced Baltimore City sales.

More broadly, Erie’s cumulative new policy growth is precisely the *same* for this fifteen-year period: ninety-four percent (94%) for Baltimore City, versus ninety four percent (94%) in the remainder of Maryland. Critically, Erie’s Baltimore City sales were strongest, and completely outpaced sales in the rest of Maryland, for three of the five years of the 2016-2020 examination period:



Erie’s recommendation of agency-specific underwriting guidelines, and application of the agency review standards referenced in the Report did not result in fewer policy sales to people in urban areas. Rather, Erie protected its Maryland policyholders from underperforming producers while simultaneously growing its Baltimore City business at the same (or better) rate as its business in the remainder of the State for a decade and a half.

II. Erie Denies That “Higher Loss Ratios” Were The “Primary Criteria” Driving Erie’s Review Of Its Maryland Agencies.

A. Erie Desires That All Of Its Agencies Succeed.

The success of any Erie agency is mutually beneficial to both Erie, to the agency, and to Erie policyholders. Erie invests significant time and resources to help its agencies achieve that success. By way of example, Erie voluntarily incurs considerable out of pocket costs employing six (6) Erie-salaried Maryland District Sales Managers (“DSM”). Each of Erie’s Maryland agencies have an assigned DSM who provides its agencies with training, business coaching, and other business support – at no cost to the agency.

Erie also invests substantial resources in employing multiple individual and commercial lines underwriters for Maryland. Each Maryland Erie agency has access to designated Erie-salaried underwriters. This significant cost is justified by the underwriters’ development of an experiential knowledge base to draw on in guiding the agency through underwriting issues.

In light of these and many other investments that Erie makes in each of its Maryland agencies, it does not benefit Erie to reduce commissions or terminate agencies. Commission reductions and terminations are measures of last resort. Erie would always prefer to pay full commission to a healthy agency than pay a reduced commission to an agency experiencing operational challenges. The additional premium Erie retains from commission reductions pales in

comparison to the many financial benefits generated by a healthy, growing agency on full commission.

B. Erie Developed A Wide Variety Of Lawful, Objective Criteria To Identify Underperforming Agencies In Need Of Assistance.

Erie has developed lawful, objective criteria that assist Erie in ensuring that Erie's independent agents help Erie remain "above all in sERvIcE" to Erie policyholders. Examples of Erie's objective measurements include Erie's review of agencies':

- (1) percentages of "unlisted drivers" on Erie auto applications;
- (2) the agencies' contacts-per-PIF ("CPP") percentages;¹
- (3) the agencies' number of sales of new policies;
- (4) the number of an agencies' mistaken, rejected or unacceptable applications;
- (5) agency participation in re-underwriting efforts (or not);
- (6) agents taking online classes and training opportunities (or not);
- (7) an agency's failure to hire adequate licensed and appointed staff to provide proper service;
- (8) an agency's utilization of Erie educational and marketing resources (or not); and
- (9) agent attendance at Erie branch and other events (or not).

C. Erie's Agency Review Program Is Designed To Rehabilitate And Benefit Underperforming Erie Agencies And Their Maryland Policyholders.

1. Erie's Agency Review Program Helps Agencies Develop Sound Business Practices That Directly Benefit The Agency And Its Principals.

Contrary to the Report's findings, Erie designed the Level 1 and Level 2 statuses of its agency review program to be a benefit to the agencies under review. Erie disagrees that the most serious level, Level 2 review, is an inevitable precursor to commission reductions or termination. In all cases, it is Erie's hope that Level 2 agencies improve their objective metrics and avoid commission reductions or termination.

Erie, like many insurers, relies on appointed agents to play a vital role in collecting all material information relating to applicants and in serving as the first reviewer of the collected data. At its core, Erie's "front line underwriting" expectations are that the appointed agent will gather **complete and accurate information** concerning each applicant.

Erie's agency review program encourages, teaches and refines proper front line underwriting and service practices for Level 1 and Level 2 agencies. The extra attention and

¹ The CPP percentage is the ratio of the number of service contacts that Erie's Customer Care team receives from an agency's clients, divided by the number of active policies that the agency has in force. In simple math, if a hypothetical agency had one hundred (100) policies in force, and Erie Customer Care receives twenty (20) contacts from that producer's clients or the producer during the year, then that agency's CPP ratio is twenty percent (20%).

assistance that Erie's DSM and Branch Manager provide to Level 1 and 2 agencies *who are invested in the agency review program* tend to benefit these agencies by leading to increased client satisfaction, and ultimately increased client retention over the long term. Increased policyholder retention increases the value of the agency's book of business – and thereby increases the value of an asset that is owned by the agency principal, not Erie. Agencies also learn to find opportunities to sell additional products to fit their clients' unique coverage needs. The agency and its policyholder clients benefit from rehabilitation, and the extra coverage sales, in addition to Erie. Further, the superior sales and service results that are generated by agencies invested in the agency review program generate opportunities for those agencies to earn a wide variety of additional bonuses.

The improved business practices that invested agencies learn in the agency review program also tend to improve the agency's profitability. There tends to be – but there is ***not always*** - a direct correlation between an agency's diligent collection of all material information relating to a risk (i.e., proper underwriting) and the profitability of that agency's book of Erie business. The Report's assertion that an insurer's loss ratio "is largely a function of [the insurer's] own business decisions, specifically, [the insurer's] underwriting eligibility guidelines (which risks [the insurer] is willing to write) and [the insurer's] rating plan (how much [the insurer] charges to write those risks)" ignores the material impact of agency business practices in the profitability calculus.

Erie annually pays millions of dollars in profitability-based Founder's Award bonuses to Maryland agencies. Erie desires that ***every*** Erie agency in Maryland earn a profit-sharing Founder's Award – because that would mean that every Maryland Erie agency is profitable and benefitting financially from their superior underwriting and service performance. While profitability tends to be only one by-product of proper agency business practices, agencies with sound business procedures tend to – but do not always – receive substantial profitability-based bonuses. An agency's active participation in the Erie agency review program positions the agency to earn profitability-based bonuses, in addition to the other financial incentives discussed above.

2. Only A Small Number Of Erie's Agencies Were Placed On The Highest Level Of Review During The Examination Period.

Erie had over one hundred and fifty (150) appointed independent agencies in Maryland throughout the examination period. Only seventeen (17) of those agencies were on Level 2 review in 2017; thirty-four (34) agencies were on Level 2 review in 2018; thirty-five (35) agencies were on Level 2 review in 2019; and thirty-three (33) agencies on Level 2 review in 2020.

3. Only A Small Percentage Of The Unprofitable Agencies On Level 2 Review Received Commission Reductions Or Terminations During The Examination Period.

Erie implemented commission reductions or terminations on only a very few of the unprofitable agencies that were on Level 2 review during the examination period.

By way of example, of the thirty-five (35) Erie agencies who were on Level 2 review 2019, twenty-four (24) did ***not*** receive a commission reduction or termination. It was only the eleven

(11) agencies who refused to improve their business practices that received commission reductions or terminations in 2019. Similarly, in 2020, of the thirty-three (33) Erie agencies who were on Level 2 review, ***no*** (0) agencies were terminated and only two (2) agencies received a commission reduction. Those two agencies had their commissions reduced due to refusals to correct business procedures, not due to unprofitability.

The data shows that these two 2020 commission reductions were not based on unprofitability, because thirty-one (31) of the of thirty-three (33) unprofitable agencies received no commission reduction or termination in 2020. Erie's focus for Level 2 agencies was on rehabilitation of the business practices of those agencies, not on measures of last resort, like commission reductions or terminations.

D. Erie's Implementation Of Commission Reductions Does Not Implicate § 27-503(f) Of The Article.

Erie's reduction of certain agencies' commissions does not implicate § 27-503(f) of the Article because the commission reductions are not "amendments" to Erie's agency agreement ("Agency Agreement") with Erie agencies. As the MIA notes in its Report, Erie's Agency Agreement expressly "permit[s] Erie] to change commissions with 90 days' notice to the agency." The Report further concedes that Erie's right to change producer commissions is "embedded in the [agency] agreement[]." Erie's exercise of its contractual right to reduce producer commissions is not an "amendment" of the Agency Agreement.

E. The Report Fails To Address Subsections Of § 27-503(f) That Expressly Permit Insurers To Rely On Agency Loss Ratios When Terminating Or Amending An Agency's Agreement.

Even if the Report were correct that commission reductions constitute an "amendment" to the Erie Agency Agreement (they do not), Erie is statutorily authorized to reduce agency commissions, and terminate Agency Agreements, in direct reliance on the agency's loss ratio, if the agency fails to collect and include all material information to Erie's evaluation of a risk in the applications for the policy. § 27-503(f).

Specifically, Section 27-503(f) prohibits insurers from "cancel[ing] or amend[ing] a written agreement with an insurance producer ... because of an adverse loss ratio experience on the insurance producer's book of business" ***only if***: "(1) ... all material information on the application was completed, and the insurance producer did not omit or alter any information provided by the applicant; or (2) the insurer accepted, without prior approval, policies issued by the insurance producer, if all material information on the application for the policy or on the insurer's copy of any policy issued by the insurance producer was completed and the insurance producer did not omit or alter any information provided by the applicant." *Id.* (emphasis added).

The Report does not find that any of the agents who received commission reductions or terminations submitted all material information to Erie in connection with the applications that led to those agencies' lack of profitability. As such, the Report does not state any violation of § 27-503(f).

It is also critical that Maryland's General Assembly uses the term "an adverse loss ratio experience *on the insurance producer's book of business*" in § 27-503(f). (emphasis added). This quoted phrase demonstrates the legislature's intent and understanding that agencies will have a unique and different loss ratio experience on the agencies' own book of business. Agencies have a different "loss ratio experience" from insurers partly because some agencies have implemented proper business practices to collect "all material information" pertinent to a risk, and some agencies have not. Like Erie, Maryland's General Assembly recognizes that the agencies who collect "all material information" pertaining to the applications they prepare tend to have a superior "loss ratio experience" to the agencies who do not. *Id.*

The focus on producer-specific loss ratios in § 27-503(f) is consistent with the § 27-501(a)(2) language supporting the use of agency-specific underwriting guidelines in performing frontline underwriting. As noted above, § 27-501(a)(2) expressly contemplates producers' development and use of their own agency-specific underwriting standards, as long as those standards are at least "reasonably related" to the insurer's "economic and business purposes." *Id.* In light of this § 27-501(a)(2) statutory authorization of the use of agency-specific underwriting standards, it makes sense that the General Assembly would also refer to agency-specific "loss ratio experience on the insurance producer's book of business." § 27-503(f)(1).

F. The Slow Down Process Was Specifically Designed To Assist Erie Agencies And Their Clients.

The MIA correctly finds that Erie's stated purpose for the Slow Down process was "to reduce the amount of time agents use to prospect for new customers and to re-allocate that time to improve the quality of their existing business [by reconnecting with current clients], which in turn slows down their new business writings." The "reallocat[ion of] time to improve" the quality of an agency's existing book of business by obtaining complete client information is a laudable objective that significantly benefits the agency employing the process, as well as its Maryland customers.

Agencies that "re-underwrite" their books by collecting additional material underwriting information from their clients often find new opportunities to sell needed products and coverages – and earn additional commissions while providing the benefit of enhanced protection to their clients. An agency may learn of an unlisted driver who needs to be added a policy. The agency may learn of an entirely new driver, or a newfound need or desire for life insurance. By re-underwriting its book, agencies diminish the possibility of unwelcome underwriting mistakes, create opportunities for additional sales, and also enjoy additional contacts with their client base, thereby strengthening client relationships and policyholder retention.

The Slow Down process was recommended to agents with poor loss ratios, but the process is not an adverse action, and the plan was entirely voluntary. Erie no longer recommends the Slow Down process to any Maryland agencies.

The fact that only one of the many agencies that the MIA interviewed claims to have felt pressure to engage in the Slow Down process undercuts the Report's finding that the Slow Down process was "required." Further, the Report's finding that "[m]any of the agencies with high loss ratios and in a Level 2 review were asked to slow down new business in 2018" confirms that Erie's Slow Down process and "re-underwriting" programs were purely voluntary for Erie's independent producer force. The agents would not be "asked" to slow down new business if the process were required.

RESPONSE TO FINDINGS 1-4

The Report attempts to fit criticisms of Erie's purportedly overly "profit-centric" agency review program into violations of Sections 27-501 and 27-503 of the Insurance Article. Report, Findings 1-4. Erie denies and disputes that it has committed any violation of either statute.

Erie incorporates the sections above into its responses to Findings 1 through 4, and supplements those responses below:

I. Additional Response To Finding 1.

Erie disputes and denies that Erie has committed any violation of § 27-503(f) of the Insurance Article, for the reasons set forth in this Response.

II. Erie Response To Finding 2.

Erie disputes and denies that Erie has committed any violation of § 27-503(d) of the Insurance Article, for the reasons set forth in this Response. Erie further responds to Finding 2 as follows:

Erie used loss ratios as one of its many screening tools to determine which Erie agencies would benefit the most from Erie's agency review program. Subsection 27-503(d) does not prohibit insurers from using loss ratio in this manner. Rather, subsection 27-503(d) specifically prohibits Erie from "cancel[ing] or amend[ing]" Agency Agreements. Screening tools do not cancel or amend any Erie producer's Agency Agreement.

The Report begins its Finding 2 analysis with the incorrect assumption that loss ratios are high solely because the premiums that Erie charges for its Maryland coverage are insufficient. That is not the case. All of Erie's Maryland agents sell the same Erie coverages at the same prices. If Erie's premiums were insufficient, all of Erie's Maryland agencies would have high loss ratios. As noted above, only a small fraction of Erie's more than 150 Maryland agencies combined high loss ratios with deficiencies in other objective criteria, leading to that small fraction of Erie agents being placed under Level 1 or Level 2 review.

As also noted above, the Report attempts to convert objections to Erie's use of loss ratio into a "premium insufficiency" issue in an attempt to take advantage of the irrelevant *Lumberman's, supra* opinion. There is no "premium insufficiency" here. Each of Erie's Maryland rates, for each region of Maryland, is approved by the Administration, and is therefore "adequate" as a matter of law.

In total, Erie has seventy-three (73) different rating territories and zones in Maryland. Each of these territories and zones has rates assigned based on Erie's experience in the territory or zone. With each rate change Erie submits all relevant data from all 73 territories and zones to the Administration for the MIA's review and approval of Erie's rates.

Erie disagrees with the Report's finding that "Erie is able to control its loss ratios in large measure by appropriately pricing the risks that are permitted in [Erie's] underwriting guidelines." No insurer can control loss ratios solely through underwriting guidelines if agents do not collect complete and accurate information pertinent to the policyholders. Erie utilized a single statewide loss ratio goal for all of its Maryland agents because it is arbitrary and capricious – and unfair to agencies to set different loss ratio goals for different agencies selling the same coverages for the same Erie-developed and MIA-approved prices. All agencies, in all regions of Maryland, should be able to meet that statewide goal if they simply collect and report accurate information to match Erie's actuarially sound and MIA-approved premiums.

The Report's finding that Erie's focus on high loss ratios led to fewer policy sales to people in urban areas is incorrect, as demonstrated by the charts above. Those charts show that Erie's sales in Baltimore City have met or exceeded sales in other areas of Maryland over a fifteen-year period.

Further, as also noted above, the independent agents who sell Erie coverage often represent many different insurers and recommend different carriers to different applicants based on numerous factors, which include, but are not limited to differences in the coverages provided by carriers, differences in price, each carriers' approach to handling claims, and recent positive or negative interactions with the insurers, among other reasons. Separately and independently, policyholders make purchasing and cancellation decisions for a similarly wide variety of their own reasons, such as coverages offered, price, their own claims experience with a carrier or the experience of friends, family and acquaintances, personal issues such as moving or job changes, or the policyholder may decide they do not like their producer – or have a friend or relative who becomes an agent selling competing coverage. Erie disagrees with the Report's disregard of all these common reasons for insurance purchases and sales while ascribing the entirety of a temporary decline in sales to one single reason – the manner in which Erie evaluates independent Erie agencies. Reality is far more complex.

The Report's own data also undercuts the Report's attempt to connect high agency loss ratios and a reduction in the number of Baltimore City agencies. The Report finds that "in 2016, the eight agencies with principal locations in Baltimore City represented approximately 27% of all new business in PPA policies being written for Erie in Baltimore City." This means that approximately seventy-three percent (73%) – or almost three out of four (3/4) of Erie's new Baltimore City policies were written by agencies who are ***not*** principally based in the City.

Mispriced Baltimore City risks would have impacted suburban and rural agencies far more than City-based agencies, by the Report's own numbers.

The Report notes that the "Baltimore City area is known to have a higher rate of accidents than other geographic regions of Maryland," but the Report does not account for the impact that this high rate of accidents has on agent conduct. Even if Baltimore City auto risks are appropriately priced to account for a higher incidence of accidents (they are), an agent writing City auto policies is required to invest greater effort in assisting the processing of the higher volume of claims. The Report does not address the inefficiencies generated by this increased workload and many other factors in its attempt to draw a connection between Erie's agency review programs and a decline in the number of Baltimore City-based agencies.

Erie has submitted substantial evidence to the MIA that Erie has actively (and successfully) attempted to expand its business in urban markets. Erie has annually filed its Baltimore City Marketing Plans with the Administration for many years, without objection from the MIA. Erie has vigorously attempted to execute these plans. As demonstrated in the charts above, these efforts are working. Erie has also been attempting to appoint new Baltimore City producers for years – notwithstanding its Baltimore City growth trend. Erie looks forward to continuing superior growth in Baltimore City and the rest of the Maryland market.

Erie denies that Erie amended any Agency Agreements with any producers "based, at least in part" on the "place of residency of the applicants or the policyholders." The Report incorrectly refers to commission reductions as "amendments" to the Erie Agency Agreement, as noted above. Erie ***categoryically denies*** that Erie implemented any commission reductions, terminations or amended or cancelled any Agency Agreement based on the place of residency of any agent, applicant or policyholder – even "in part".

III. Erie Response To Finding 3.

Erie disputes and denies that Erie has committed any violation of § 27-501(b)(1) of the Insurance Article, for all of the reasons set forth in this Response. Erie further responds to Finding 3 as follows:

Erie disagrees with the Report's assertion that "if an insurer has a filed rate for which a specific risk qualifies, the insurer must write that risk at that rate." This is a misstatement of *Lumberman's*.

The Finding 3 analysis is based on the determination that "Erie exerted pressure on agencies not to write some risks for which Erie had filed rates." This is not a violation of § 27-501(b)(1) for multiple reasons.

First, the Report does not find that Erie "required" its agents not to write some risks for which Erie had filed rates. "Exert[ing] pressure" on independently licensed third party businesses is not "requiring." Section 27-501(b)(1) prohibits an insurer from "***requir[ing]*** special conditions, facts, or situations as a condition to its [i.e., the insurer's] acceptance of a particular risk or class of risks." (Emphasis added). Erie did not, and could not, "require" its independent third-party

agents to write or not write any risks for which Erie had filed rates, due to the applicant or policyholder's place of residency or otherwise. *See* Erie Agency Agreement, at 2 § 2.D (“Agent, as an independent contractor, may exercise its own judgment as to the time and manner of performance of its services, subject to Applicable Law”).

The Report's own factual findings confirm that Erie did not “require” independently appointed agencies to adopt agency-specific underwriting guidelines. According to the Report, only sixteen (16) of the twenty-four (24) producers the MIA interviewed confirmed that Erie “encouraged” their agency to adopt agency-specific guidelines.

Second, Erie never instructs producers “not to write” any risks – and the Report does not identify any specific applicant or policyholder who purportedly qualified for Erie coverage and requested Erie coverage, but the producer refused to sell that applicant Erie coverage based on the producer's agency-specific underwriting guidelines.

The Report includes extensive quotations to Erie's agent FLU Manual. The FLU Manual is a compendium of business practices employed by some of Erie's best agencies throughout Erie's multi-state footprint. None of the Report's quotations to the FLU Manual constitute a violation of § 27-501(b)(1) by “requir[ing] special conditions, facts, or situations as a condition to [Erie's] acceptance of a particular risk or class of risks.”

The Report merely restates the standard operating procedure of many independent agencies when the Report quotes the FLU Manual's encouragement that agencies “choose and develop the right client relationships.” In fact, as noted above, the MIA previously expressly approved independent agencies' development of their own agency-specific underwriting standards to assist in client selection in the 1995 Consent Order and the 2003 Report. Maryland's General Assembly similarly authorized agency-specific underwriting standards in promulgating §§ 27-501(a)(2) (referring to insurer and insurance producer “standards”) and 27-503(f) (referring to an “an adverse loss ratio experience on the insurance producer's book of business”).

The Report quotes the FLU Manual as stating that “...agents are best positioned to detect or investigate unfavorable aspects of a risk before submitting the account to company underwriters.” Agents *are* best positioned to identify, for example, additional drivers in a household that an applicant has neglected to name on an auto application – by interviewing the applicant, visiting their home, observing the number and type of vehicles in the driveway, speaking with residents of the household as part of the “front line underwriting” process and “[a]sk[ing] open-ended questions.” That is the type of material underwriting information that can only be uncovered by an agent's proper investigation of a risk, not by the insurer's filed underwriting guidelines.

Third, § 27-501(b)(1) contains conjunctive language prohibiting only conditions, facts or situations that are: (1) “arbitrary, capricious, unfair or discriminatory” and also (2) based, in relevant part, “wholly or partly on ... place of residency[.]” The Report's factual findings do not satisfy either of these two conjunctive factors.

The Report finds that Erie encouraged its producers to be “profitable.” For an insurance producer, “profitability” is not an “arbitrary, capricious, unfair or discriminatory” goal. As to the second conjunctive factor, Erie never did (and never would) refuse to “accept[a] risk or class of risks” based on geography – and the Report does not identify any application submitted to Erie that Erie refused to accept based on geography.

Finally, Erie disagrees with the Report’s finding that the Underwriting Scores Erie developed for applicants are a “special condition” that Erie applied to “exclude risks that are acceptable under Erie’s underwriting guidelines and for which there is a filed rate.” Erie’s sales data shows that Erie’s Maryland agencies sold more policies to applicants with poor Underwriting Scores than favorable Underwriting Scores during the period that applicant Underwriting Scores were made available to Maryland agencies. That is likely because Erie specifically advised Maryland agencies that applicant Underwriting Scores were provided for informational purposes only. The data suggests that the agencies tended not to materially rely on applicant Underwriting Scores in choosing risks, or in advising the applicants to choose Erie over other carriers. Erie no longer provides applicant Underwriting Scores to Maryland agents.

As the Report also explains, Erie separately developed “Underwriting Scores” for agencies. Erie has also ceased providing agency Underwriting Scores to its Maryland agencies. When the agency Underwriting Scores were in use, certain agency Underwriting Scores required that more of an agency’s applications be referred to a live Erie underwriter for review. Referrals of applications to live underwriters to make sure the applications are complete and have been filled out correctly did not violate § 27-501(b)(1).

Underwriter review of applications is not an unlawful “special condition” to acceptance or renewal of a policy. Additional underwriter review is a benefit to the applicant (so the applicant does not receive inappropriate coverage), the producer (so the producer does not violate Maryland law or Erie underwriting guidelines by selling Erie coverage to Erie insureds who do not qualify) and to other Erie policyholders (who do not suffer increased risk of depletion of Erie reserves through claims made by applicants who should not have received Erie coverage). Additionally, underwriters’ review of applications with agents tends to assist agents with improving their skills in gathering all material information concerning a risk.

IV. Erie Response To Finding 4.

Erie disputes and denies that Erie has committed any violation of § 27-501(a) of the Insurance Article, for all the reasons set forth in this Response. Erie further responds to Finding 4 as follows:

Erie disagrees that its encouragement of agents to develop and implement their own agency-specific underwriting standards violates § 27-501(a), for the reasons described herein. The Report’s finding of a violation is based on a misreading of *Lumberman’s*.

Erie denies that agents’ front line underwriting and use of Underwriting Scores constitutes any violation of § 27-501(a) by Erie or the agencies. Erie also denies that its use of a statewide

loss ratio benchmark or any aspect of its agency review program violates § 27-501(a), for the reasons set forth herein.

Finally, Erie disagrees with the Report's finding of a § 27-501(a) violation in data purportedly showing that approximately fifty percent (50%) of the Statewide decline in Erie sales between 2017 and 2020 was concentrated in twenty-six (26) urban zip codes, nine (9) suburban zip codes and three (3) rural zip codes. These statistics show that the temporary statewide decline was dispersed throughout multiple different regions of the State. The charts above also show that this temporary decline was part of a fifteen-year upward sales trend. In addition, there is no discussion of the impact of COVID and the many other material factors impacting the temporary decline during the examination period. Finally, it is notable that when the COVID restrictions were lifted, Erie's sales of new auto policies in Baltimore City, in particular, substantially increased and outpaced sales in the rest of Maryland in 2022 and 2023.

RESPONSE TO FINDINGS 5-18

E. Erie Response To Finding 5.

Erie has reminded underwriters that when cancelling or non-renewing a policy the underwriters must identify whether the policy is written under EIE or EIC and use the appropriate guidelines to take appropriate action. Erie will continue to reinforce this requirement.

F. Erie Response To Finding 6.

Erie has reminded underwriters that policies may only be cancelled mid-term if circumstances exist as set forth in Section 27-613. Erie has further advised underwriters to provide policyholders with clear and valid written rationale identifying the specific guideline violated. Erie will continue to reinforce this requirement.

In addition, Erie has advised underwriters that "cancelling policies within the first 45 days due to an at fault accident that occurs within the first 45 days" is prohibited.

G. Erie Response To Finding 7.

Erie agrees that in its filed guidelines the word "claim" does not define or differentiate between an "open" claim versus a "closed" claim. While Erie disagrees that this lack of differentiation creates a violation of its filed underwriting guidelines, Erie prepared and submitted revised guidelines to further clarify the eligibility of open claims on new business.

In addition, Erie has advised underwriters that "cancelling policies within the first 45 days due to an at fault accident that occurs within the first 45 days" is prohibited.

H. Erie Response To Finding 8.

Erie has procedures in place to comply with Section 27-613(c)(4)(i)(2) and COMAR 31.08.03.09B(2). The errors identified were inadvertent human errors and do not rise to the level

of a business practice. However, Erie developed and delivered a training document for employees that included examples of clear and specific reasons for cancellation on the Notice of Cancellation.

I. Erie Response To Finding 9.

ERIE has procedures in place to comply with Section 12-106(f)(1)(iii) and COMAR 31.08.15.06B(1)(a). The errors identified were inadvertent human errors and do not rise to the level of a business practice. However, Erie developed and delivered a training document for employees that included examples of clear and specific reasons for cancellation on the Notice of Cancellation.

J. Erie Response To Finding 10.

Erie has procedures in place to comply with Section 27-613(c)(1). The errors identified were inadvertent human errors and do not rise to the level of a business practice. However, Erie reminded employees that all Notices of Cancellation must be created, scanned, filed, and mailed in accordance with the timeframe and requirements of Section 27-613.

K. Erie Response To Finding 11.

Erie has procedures in place to comply with Section 27-613(c)(3)(vi) and COMAR 31.08.03.04. The errors identified were inadvertent human errors and do not rise to the level of a business practice. However, Erie has reminded its processing areas that if the notice of cancellation is to be mailed outside the 45-day underwriting period, then the notice must be revised to use the correct cancellation form, which includes the Right of Protest language.

L. Erie Response To Finding 12.

Erie has procedures in place to comply with Section 12-106(c) and (f)(1)(i) and COMAR 31.08.15.06A and B(1)(a). The errors identified were inadvertent human errors and do not rise to the level of a business practice. However, Erie has reminded the appropriate business areas to follow the established procedures to avoid incorrect mailing dates.

M. Erie Response To Finding 13.

EFL has procedures to comply with Section 27-202(1). This one violation out of 643 materials was an error inadvertently made by Erie's vendor and should not be considered a normal business practice. Erie has discontinued the advertisement from being available to its agents.

N. Erie Response To Finding 14.

The violation noted was the result of a systematic coding error that EFL corrected in March 2022.

O. Erie Response To Finding 15.

The violation noted was the result of a systematic coding error that EFL corrected in October 2022.

P. Erie Response To Finding 16.

The violation noted was the result of a systematic coding error that EFL corrected in October 2022.

Q. Erie Response To Finding 17.

EFL has procedures in place to comply with COMAR 31.09.05.06A(2). The one violation out of 50 policies reviewed was inadvertent human error and does not rise to the level of a business practice.

R. Erie Response To Finding 18.

EFL has procedures in place to comply with COMAR 31.09.05.06(A)(4). The one violation out of 50 policies reviewed was inadvertent and does not rise to the level of a business practice.

RESPONSE TO DIRECTIVES AND CORRECTIVE ACTIONS

Erie disagrees with Section A of the Directives and Corrective Actions for the reasons discussed herein. Despite this disagreement, Erie looks forward to working with the Administration to develop practices and procedures that are acceptable to both the MIA and to Erie. Erie further looks forward to discussing each of the good and valid reasons for the terminations and commission reductions implicated in Section C. While Erie expects that the Administration will recognize the propriety of each of these decisions, to the extent that any of these matters proceed to litigation, Erie expressly reserves its rights to all claims, defenses and other arguments in those proceedings, and does not waive any right to raise any issue in those matters. Erie will comply with Sections D and E.

Finally, while Erie disagrees with the Report's factual and legal findings in Sections I through IV of the Report, and in Findings 1 through 4 of the Report, Erie has chosen not to appeal this Report, subject to a full reservation of all rights. Erie is seeking to refocus its resources on building its business rather than incurring the cost, inconvenience and distraction of litigation. Erie's decision not to appeal the Report is not an agreement with any of the findings or determinations in the Report, nor is it an admission of or waiver as to any matter described therein.

Respectfully Submitted,

ERIE INSURANCE COMPANY

/s/ Brian W. Bolash, Esq.

EVP, Secretary and General Counsel

ERIE INSURANCE EXCHANGE

/s/ James G. Nealon, III, Esq.

SVP and Corporate Law Officer of Erie
Indemnity Company, Attorney-in-Fact
for Erie Insurance Exchange

ERIE FAMILY LIFE INSURANCE COMPANY

/s/ Brian W. Bolash, Esq.

EVP, Secretary and General Counsel