



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of

Amica Mutual Insurance Company

Lincoln, Rhode Island

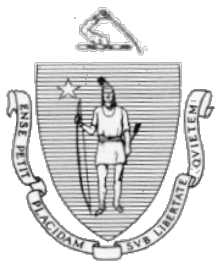
For the Period January 1, 2011 through December 31, 2011

NAIC COMPANY CODE: 19976

EMPLOYER ID NUMBER: 05-0348344

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

November 20, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, § 4, a comprehensive examination has been made of the market conduct affairs of

AMICA MUTUAL INSURANCE COMPANY

at their home offices located at:

100 Amica Way
Lincoln, Rhode Island 02865-1156

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Amica Mutual Insurance Company (the “Company”) for the period January 1, 2011 to December 31, 2011. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2011 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the domiciliary regulator’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the domiciliary regulator’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company’s related internal controls. While the Handbook approach is designed to detect incidents of deficiency through transaction testing, the internal control assessment provides an understanding of the key controls that the Company’s management uses to operate their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The internal control assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

The Division considers a “finding” to be a violation of Massachusetts insurance laws, regulations or bulletins. An “observation” along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any “finding” or “observation” for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions, and if applicable, subsequent Company actions. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to marketing and sales, or policyholder service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2011 homeowners underwriting and claims data, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. , RNA's testing of private passenger automobile and homeowners company cancellation transactions indicated that three homeowners and seven private passenger automobile company cancellations were incorrectly reported in the 2011 NAIC Market Conduct Annual Statement ("MCAS") due to transaction coding errors.

Required Actions: The Company shall implement new transaction coding and reporting procedures for company cancellations and non-renewals. In addition, the Company shall adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC to ensure that the data is accurately coded, complete, and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company has subsequently implemented transaction coding and reporting changes as noted in the required actions and has re-filed its 2011 MCAS data with the NAIC for corrections to company cancellation and non-renewal data.

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: The Company's did not initially provide complaint log extracts that included the line of insurance data element in the extracts for selected complaints. Additionally, some key dates in the initial complaint log extracts were incorrect for selected complaints. Revised complaint log extracts were provided that included the line of insurance data element and corrected key dates for these complaints. Both the line of insurance and key dates are required reporting elements in accordance with M.G.L. c. 176D, § 3(10).

Observations: Except as noted above, RNA noted that the Company's complaint log extracts include all statutorily-required database elements, and the complaint log extracts included all regulatory complaints.

Required Actions: The Company shall ensure that the line of insurance data element and key dates in the complaint database are properly reflected in the complaint database and the complaint log extracts in accordance with M.G.L. c. 176D, § 3(10). Further, the Company shall adopt new supervisory control procedures to ensure that the Company's complaint database and complaint log extract are accurate and complete, and to ensure that the statistical data in CAS agrees with the complaint database. Finally, the Company's internal audit or compliance department shall complete an independent assessment of the effectiveness of these new procedures by March 31, 2014 and report the results of the assessment to the Division.

Subsequent Company Actions: The Company has implemented a workflow process to ensure that the line of insurance data element and key dates contained in its complaint database are consistently tracked and maintained in accordance with statutory requirements. The workflow process also included training of those responsible for entering the information in the complaint database. Additionally, the Company's has implemented a data entry restriction preventing a claim entry in the complaint database without the line of insurance data element inserted.

STANDARD II-3

Findings: One of the tested consumer complaints related to a multi-year homeowner premium overcharge due to the Company inspecting the incorrect house in 2006. The Company offered to refund incorrect premium back to 2006, when it determined in 2011 that the wrong dwelling coverage amount had been used to calculate the premium. The Company initially declined to pay 6% annual interest on the premium as that was not the Company's policy. Payment of 6% annual interest is required in accordance with M.G.L. c. 107, § 3.

Observations: Except as described above, RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

Required Action: The Company shall establish a policy to pay 6% annual interest to this consumer and to other consumers on any future premium refunds.

Subsequent Actions: The Company has agreed to pay 6% annual interest to this consumer and to all Massachusetts consumers for any premium errors made by the Company.

SECTION III-MARKETING AND SALES

STANDARD III-1

Findings: None.

Observations: Based upon testing, the Company's website disclosure complies with Division requirements and the producer advertising was appropriate. RNA noted the legal review of advertising materials is performed orally. Written documentation of other reviews is generally maintained. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: The Company should consider requiring sign-off, completion of a checklist, or other evidence of review and approval by the legal department of sales and advertising materials prior to use.

STANDARD III-2

Findings: None.

Observations: Based upon review, the Company's agent training processes appear adequate and agent training materials appear accurate and reasonable. The Company does not track continuing education credits for its employee-agents. It is the employee agents' responsibility to track their continuing education credits and to maintain compliance with these requirements.

Recommendations: The Company should consider adopting a process to track continuing education credits for its Massachusetts employee agents and to remind them when they are in danger of non-compliance with Massachusetts continuing education requirements.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: RNA noted five appointment termination notices to former employee agents that were mailed to the former agent two to five months after the employee agents' appointment terminations in violation of M.G.L. c. 175, § 162T, which requires notice of terminations to former agents within 15 days of reporting the appointment terminations to the Division

Observations: For the appointment terminations tested, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. Also, for each of these, other than as noted above, the Company was able to provide evidence of timely notice to the former employee agents in compliance company policy.

Required Action: The Company shall provide notice of appointment terminations to former employee agents consistently and timely in accordance with statutory requirements.

Subsequent Company Actions: The Company has added appropriate language responsive to the required action to its communications provided to terminating employee agents.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: The Company confirmed through its review of Board of Appeal vacated at-fault accident determinations for the period 2008-2012 that 145 such vacated surcharges were not properly reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11. Additionally, during claims testing, one at-fault accident surcharge was not properly applied in accordance with 211 CMR 134.00.

Observations: Based upon testing, except as noted above, the Company generally appears to calculate private passenger automobile and homeowners policy premiums, discounts, and at-fault accident surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Additionally, RNA's testing of motorcycle rating indicated that the Company could not document average retail value for the 16 of the 25 policies tested that had comprehensive or collision coverages, since that documentation was not retained in the underwriting files. The Company states that the comprehensive and collision coverage premiums were properly calculated, although it cannot support its conclusions. RNA determined that the average retail values appeared reasonable. No other motorcycle rating exceptions were noted.

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for the 145 vacated at-fault accident determinations not properly reversed. Also, the Company shall adopt new procedures to ensure that at-fault accident surcharges are properly applied as applicable and that vacated at-fault accident determinations are timely evaluated to determine whether premium credits are due to consumers. These procedures shall include training or guidance to staff about implementing these new procedures. Also, the Company shall complete an independent assessment of the effectiveness of the new vacated at-fault accident determination procedures by March 31, 2014 and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of its vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include testing to obtain reasonable assurance that the vacated surcharges were accurately and timely reversed with the proper premium credit applied.

The Company shall ensure that its motorcycle valuation methodology is documented and supported in the underwriting files. The Company shall provide training and guidance to staff on these procedures. Finally, the Company shall complete an independent assessment of the effectiveness of these new procedures by March 31, 2014 and report the results of the assessment to the Division.

Subsequent Company Actions: The Company has provided the vacated surcharge refunds and 6% interest as applicable to the customers as noted above. The Company has developed new procedures for the processing of vacated surcharges and for the documentation of motorcycle values. Training and guidance to staff has been provided.

STANDARD VI-7

Findings: None.

Observations: Based upon the 50 declinations selected for testing, RNA noted that 11 were company cancellations or non-renewals. Thus, the Company's declination data was not accurate. RNA tested the remaining 21 private passenger automobile and 18 homeowners declination decisions and determined that they were made in accordance with statutory requirements and the Company's underwriting guidelines.

All declined applicants received either written or oral declination notices. With regard to the 176 declinations of direct mail solicited customers, five applications reviewed met the Company's Massachusetts underwriting guidelines and should have been accepted, but were rejected due to process or underwriter error. In addition, declination testing indicated several risks were declined in which unwritten underwriting criteria were applied as a matter of underwriter judgment. The testing results indicate no evidence that credit scores were used to underwrite Massachusetts private passenger automobile risks. Based upon testing and review of the information available, the Company's declinations were not unfairly discriminatory.

Recommendations: The Company should ensure that its transaction coding for declinations includes only applications for coverages which were declined by the Company. Also, the Company should improve documentation of its Massachusetts private passenger automobile underwriting guidelines to ensure consistent and fair application of the guidelines by the Company's underwriters. Finally, the Company should provide training and guidance to underwriters about the new guidelines, and develop a monitoring procedure to ensure that the guidelines are consistently used to evaluate risks.

Subsequent Company Actions: The Company provided revised declination data that included only coverage applications declined by the Company and has revised its transaction coding as noted above. Further, the Company has revised its written Massachusetts private passenger automobile underwriting guidelines to develop consistent criteria for all renewal business and to broaden the underwriting criteria to be applied to all new business applications. Finally, the Company developed a list of consistent underwriting factors that may influence the underwriting of private passenger automobile applications.

SECTION VII-CLAIMS

STANDARD VII-2

Findings: None.

Observations: Except as noted below, RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. For one of the private passenger automobile claims tested, a police report was not timely ordered when the loss was reported. Additionally, for this same claim, an adverse subrogation bodily injury claim from another carrier was filed with the Company, but the Company did not notify the insured of this claim until approximately four months later. Finally, the Company did not pay the other carrier seven months after an arbitration decision was reached naming the Company's insured at fault. Based upon testing, it appears that the Company's processes for timely investigating claims are generally functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: The Company should provide training or a written reminder notice to claim staff about timely ordering of police reports. Further, the guidance should remind staff to notify the insured timely of the filing of an adverse subrogation bodily injury claim. Finally, the guidance should remind staff to timely pay subrogated claims once liability has been determined.

Subsequent Company Actions: The Company has issued a management memorandum to all Massachusetts claim handling personnel addressing the timely ordering of police reports, timely notification to policyholders of an adverse subrogation bodily injury claim, and timely payment of subrogated claims once liability has been determined.

COMPANY BACKGROUND

The Company was incorporated as a mutual insurer in 1907 and is a direct writer of personal insurance with private passenger auto, homeowners, personal excess liability and marine coverages. The Company is licensed to transact business in all states and the District of Columbia, with the exception of Hawaii.

The Company's statutory surplus as of December 31, 2011 is \$2.26 billion with statutory admitted assets of \$4.12 billion. The Company's 2011 direct premium written is \$1.47 billion. The Company maintains a financial strength rating of A++ (Superior) from A.M. Best.

The key objectives of this examination were determined by the Division with emphasis on the following areas.

I. COMPANY OPERATIONS/MANAGEMENT

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.
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Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Board of Directors is responsible for compliance matters. The Board of Director's membership consists of 11 independent directors plus the Company's Chief Executive Officer. The Board of Directors has tasked senior management with responsibility for implementing compliance policies and procedures within the Company's operations.
- The Board has an Audit Committee comprised of five independent directors. The Audit Committee's responsibilities include financial oversight, engagement and communication with the Company's independent auditor, monitoring the Company's enterprise risk management ("ERM") processes, and oversight of the internal audit function.
- The Company's internal audit department staff conducts financial, operational and information technology audits. The Audit Committee approves the internal audit plan bi-annually, reviews ERM processes, and reviews internal audit reports issued.
- The Company has quality assurance programs in its sales and underwriting functions. Home office supervisors listen to branch employee agents' customer calls to evaluate the work of employee agents. Home office management annually selects several private passenger automobile and homeowners applications per branch office to test for compliance with Company policies and statutory requirements. Lastly, the home office sales and client service department performs quality assurance reviews of branch office underwriting operations to ensure the accuracy of applications and to verify that required forms have been received.
- The Company has developed a quality assurance program for customer service and policy changes. All inbound service calls are recorded, and 10 quality assurance audits are performed on each branch per month by a home office team that assesses specific calls based upon the call categories including coverage questions, billing questions, complaints, etc.
- The Company has established a claims quality assurance program to review and evaluate claims processing adherence to Company policies and procedures. Annually, a home office claims quality assurance team member reviews a selection of claim files for each branch office. In addition, each branch office has a program to randomly self-evaluate 10% of selected closed claims.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for internal audit and quality assurance audit processes. RNA reviewed Board of Director minutes, selected internal audit reports, evidence of underwriting and claim quality assurance audits, and the recent CAR audit to evaluate procedures performed and results obtained. Issues noted in such reports were further investigated and discussed with management.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. The Company has undergone a recent CAR audit. The review of these audits or reviews indicated that the Company is generally in compliance with policies, procedures and regulatory requirements. Any deficiencies noted showed follow up actions by the Company to address them.

Recommendations: None.

Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

No work performed. All required activity for this Standard is included in the scope of the domiciliary state's financial examination of the Company.

Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.
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Objective: This Standard addresses the effectiveness of the Company's antifraud plan. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's Special Investigative Unit ("SIU") has adopted antifraud claims and underwriting procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Massachusetts Insurance Fraud Bureau ("IFB").
- The Company has developed criteria to evaluate claims that should be potentially referred to SIU for review.
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the National Insurance Crime Bureau ("NICB").
- The Company has a fraud awareness training program for its employees.
- All Company directors and employees are annually required to attest that they are in compliance with the Corporate Code of Conduct including the conflict of interest policy.
- The Company conducts criminal, financial and credit background checks prior to hiring prospective employees.
- The Company has implemented Office of Foreign Asset Control compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any policyholders, claimants, or vendors that might be included in the SDN database.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prevent and fully investigate fraudulent insurance acts.

Recommendations: None.

Standard I-4. The regulated entity has a valid disaster recovery plan.

No work performed. All required activity for this Standard is included in the scope of the domiciliary state's statutory financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.
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Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard I-6:

- The Company's sales distribution is directly through an exclusive employee agent sales force, each of whom has met the Company's employment screening requirements.
- Certain claims litigation defense duties are outsourced to a selected list of various law firms and attorneys.
- The Company outsources automobile physical damage appraisals to qualified appraisal firms in Massachusetts, and also uses independent adjusters to supplement its employee staff.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed such documentation as part of new and renewal business testing and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's contracts with entities assuming a business function on its behalf comply with statutory and regulatory requirements.

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. As part of underwriting and new business processing, RNA reviewed the work of employee agents, including evidence of agent appointment. As part of claims testing, RNA reviewed the work of claims appraisers, adjusters and legal resources.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is adequately monitoring the activities of third parties assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements include guidelines for management, maintenance and disposal of records, and the length of time specific documents must be retained.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

Standard I-8. The regulated entity is licensed for the lines of business that are being written.

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's certificate of authority, and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.
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Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was very good.

Recommendations: None.

Standard I-10. The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-16:

- Company policy requires that a consumer privacy notice be provided to applicants when a new personal lines policy is issued. The consumer privacy notice is also annually provided to customers with personal lines renewal notices. Finally, the Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. Company policy is to disclose information only as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.
- The Company does not sell or share information with anyone for marketing purposes. As such, there is no need to provide policyholders with opt out rights.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal lines underwriting testing, and all claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and completion of underwriting and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

Standard I-11. The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.

Objective: This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

Standard I-12. The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA reviewed underwriting documentation for any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

Recommendations: None.

Standard I-13. The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 25 private passenger automobile and 25 homeowners policies issued and renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient consumer privacy notice to customers that discloses its treatment of non-public personal financial information.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: The Company does not share nonpublic personal financial information with anyone for marketing purposes. Thus, the Company is not required to offer an opt out for such information sharing.

Recommendations: None.

Standard I-15. The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with underwriting and claims, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Recommendations: None.

Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.
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Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for information security compliance, and reviewed documentation supporting its information security policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program, which appears to provide reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the NAIC Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division when required.
- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in the MCAS.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the 2011 homeowners underwriting and claims data statutorily-required to be submitted to the Division and also reviewed the 2011 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2011 homeowners underwriting and claims data, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's testing of private passenger automobile and homeowners company cancellation transactions indicated that three homeowners and seven private passenger automobile company cancellations were incorrectly reported in MCAS due to transaction coding errors.

Required Actions: The Company shall implement new transaction coding and reporting procedures for company cancellations and non-renewals. In addition, the Company shall adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC to ensure that the data is accurately coded, complete, and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company has subsequently implemented transaction coding and reporting changes as noted in the required actions and has re-filed its 2011 MCAS data with the NAIC for corrections to company cancellation and non-renewal data.

II. COMPLAINT HANDLING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of all complaint Standards:

- The Company considers a complaint to be any written grievance received. Written complaint handling procedures have been developed by the Company.
- All written regulatory or attorney generals' complaints are directed to the Assistant Vice President - Sales and Client Services, who is the primary executive responsible for complaint handling. Complaints are recorded in the complaint log and forwarded to the appropriate branch office business unit for response. A response is prepared by the branch office and is reviewed by a supervisory level manager before the response is sent to the complainant, insurance regulator or attorney generals' office. In addition, claims-related complaint responses are also reviewed by home office claims staff before the response is sent to the insurance regulator or attorney generals' office. Copies of all written responses for underwriting complaints are provided to the Assistant Vice President - Sales and Client Services. Copies of all written responses for claim complaints are provided to the Assistant Vice President – Claims Executive. Branch office personnel are responsible for recording the complaint resolution and response date in the complaint log, except for claims-related complaints which are recorded by the home office claims staff.
- The Company classifies written grievances received in any form in the home or branch offices or directed to an officer of the Company as corporate executive complaints. Additionally, instances where consumers expressing a concern via phone call to the home office are also considered corporate executive complaints. Corporate executive complaints are added to the complaint log by home office administrative staff. Corporate executive complaints not related to claims may be handled at the home or branch office depending on the nature of the complaint. A written response is generally prepared, and the response includes any action taken and discussed with the complainant. Most responses are reviewed and approved by home office management before they are sent to consumers. Written responses to claim-related corporate executive complaints are handled similarly to regulatory complaints, and a written response is prepared by a home office claims officer. Finally, the complaint resolution information and response date is added to the complaint log by home office administrative staff.
- Additional complaints may be received through the Company's Voice of the Customer Program, which allows customers to file complaints, compliments and any other communications through the Company's website. Complaints may also be received through the Better Business Bureau, and those are provided to Assistant Vice President-Sales and Client Services for review and assignment to staff for handling. Grievances expressed through social media may also be considered complaints. All of these complaint types are reviewed in the home office and assigned to staff for handling similar to corporate executive complaints and are added to the complaint log by home office administrative staff. The resolution information and response dates are added to the complaint log by home office administrative staff or claims staff.

- The Company's policy is to respond to regulatory and attorney generals' complaints within 14 days, and corporate executive complaints within three to five days.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its web-site.
- The complaint database and the complaint log extract are to include each complaint, the origin of the complaint, the classification of the complaint by line of business, the nature of the complaint, the disposition of the complaint, the date of receipt and the date of response.
- The Company uses its Complaint Array System ("CAS") to summarize and categorize complaints for reporting to management. The CAS can be sorted by branch or by complaint type. The Company's complaint database does not interface with the CAS. The complaint database is used on an ad hoc basis to make inquiries or follow up on a specific complaint.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint log extracts for 2011-2012 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint log extracts for 2011-2012 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: The Company's did not initially provide complaint log extracts that included the line of insurance data element in the extracts for selected complaints. Additionally, some key dates in the initial complaint log extracts were incorrect for selected complaints. Revised complaint log extracts were provided that included the line of insurance data element and corrected key dates for these complaints. Both the line of insurance and key dates are required reporting elements in accordance with M.G.L. c. 176D, § 3(10).

Observations: Except as noted above, RNA noted that the Company's complaint log extracts include all statutorily-required database elements, and the complaint log extracts included all regulatory complaints.

Required Actions: The Company shall ensure that the line of insurance data element and key dates in the complaint database are properly reflected in the complaint database and the complaint log extracts in accordance with M.G.L. c. 176D, § 3(10). Further, the Company shall adopt new supervisory control procedures to ensure that the Company's complaint database and complaint log extract are accurate and complete, and to ensure that the statistical data in CAS agrees with the complaint database. Finally, the Company's internal audit or compliance department shall complete an independent assessment of the effectiveness of these new procedures by March 31, 2014 and report the results of the assessment to the Division.

Subsequent Company Actions: The Company has implemented a workflow process to ensure that the line of insurance data element and key dates contained in its complaint database are consistently tracked and maintained in accordance with statutory requirements. The workflow process also included training of those responsible for entering the information in the complaint database. Additionally, the Company's has implemented a data entry restriction preventing a claim entry in the complaint database without the line of insurance data element inserted.

Standard II-2. The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 14 Division and four corporate executive complaints from the 2011 and 2012 complaint log extracts to evaluate the Company's efforts to properly dispose of complaints. RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to consumers.

Recommendations: None.

Standard II-3. The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 14 Division and four corporate executive complaints from the 2011 and 2012 complaint log extracts to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: One of the tested consumer complaints related to a multi-year homeowner premium

overcharge due to the Company inspecting the incorrect house in 2006. The Company offered to refund incorrect premium back to 2006, when it determined in 2011 that the wrong dwelling coverage amount had been used to calculate the premium. The Company initially declined to pay 6% annual interest on the premium as that was not the Company's policy. Payment of 6% annual interest is required in accordance with M.G.L. c. 107, § 3.

Observations: Except as described above, RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

Required Action: The Company shall establish a policy to pay 6% annual interest to this consumer and to other consumers on any future premium refunds.

Subsequent Actions: The Company has agreed to pay 6% annual interest to this consumer and to all Massachusetts consumers for any premium errors made by the Company.

Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 14 Division and four corporate executive complaints from the 2011 and 2012 complaint log extracts to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely the tested Division and corporate executive complaints within 14 days. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company creates print, mail, television, media sponsorships, and web-based advertising for direct marketing its products.
- Product brochures are developed by teams, which include subject matter experts in product design, underwriting, actuarial, legal, and operations.
- The Company maintains a sales materials and advertising log to track all such materials.
- The Company has policies and procedures for review and use of advertising and sales materials, including review and approval of all materials by the General Counsel prior to use.
- The Company discloses its name and address on its website.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected 10 advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness, and for evidence of legal approval prior to use. Further, RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's website disclosure complies with Division requirements and the producer advertising was appropriate. RNA noted the legal review of advertising materials is performed orally. Written documentation of other reviews is generally maintained. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: The Company should consider requiring sign-off, completion of a checklist, or other evidence of review and approval by the legal department of sales and advertising materials prior to use.

Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard and Standard III-3:

- Newly hired employee agents receive on-site training regarding the Company's products and compliance matters.
- The Company requires its employee agents to monitor their continuing education compliance. The Company inquires with its employee agents whether they have attained the required credits prior to agent appointment expiration. All continuing education costs for employee agents are paid by the Company.
- The employee agents are closely supervised and monitored with frequent call monitoring for compliance and training purposes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee agent training materials to understand the nature and breadth of the Company's producer training. As part of new and renewal business testing, RNA reviewed evidence that 10 employee agents met Massachusetts continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's agent training processes appear adequate and agent training materials appear accurate and reasonable. The Company does not track continuing education credits for its employee-agents. It is the employee agents' responsibility to track their continuing education credits and to maintain compliance with these requirements.

Recommendations: The Company should consider adopting a process to track continuing education credits for its Massachusetts employee agents and to remind them when they are in danger of non-compliance with Massachusetts continuing education requirements.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing agent communications, and reviewed examples of such communications for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for communications to agents appear appropriate and reasonable.

Recommendations: None.

Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.

No work performed. This Standard is not covered in the scope of examination because the Company does not mass market property and casualty insurance in Massachusetts.

IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

Objective: The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard IV-4:

- The Company recruits entry level and experienced sales representatives, who wish to sell the Company's products as employee agents. A written application must be completed by any producer seeking employment with the Company. The applications are reviewed by the Company, and the Company conducts criminal, financial and license background checks on the applicants. All new hires must attend a training program to understand the Company's policies, products and sales guidelines and obtain or verify a producer license prior to soliciting sales.
- All employee agents are appointed through the Division's On-Line Producer Appointment ("OPRA") System.
- Employee agents are compensated with a base salary with potential for incentive compensation based on productivity, accuracy, timeliness, and other metrics.
- The Company completes an annual reconciliation of their agent appointments with Division appointment data contained in OPRA. Any differences are to be investigated and addressed.
- The Company uses approximately 125 exclusive employee agents to produce Massachusetts business that was originally written under the prior Massachusetts fixed and establish regulatory structure.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer recruitment, hiring and processing of employee agent appointments. RNA selected 18 private passenger automobile and 18 homeowners policies issued during the examination period, to determine whether the employee agent for each policy was included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's employee agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA system.

Recommendations: None.

Standard IV-2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of licensing and appointment. See Standard III-2 for controls related to producer continuing education requirements. See Appendix A for applicable statutes, regulations and bulletins.

Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

Objective: This Standard addresses the Company's termination of agents in accordance with applicable statutes requiring notification to the state and the agent. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

- The Company's policy is to give written notice to all employee agents whose appointments are terminated and notice to the Division through the OPRA system.
- The Company's policy is to give additional information to the Division about employee agents whose appointments are terminated "for cause" including the reason for the termination.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for employee agent supervision and appointment termination processing. RNA selected all 29 appointment terminations from the Division's 2011 OPRA system appointment termination listing and compared those to information on the Company's appointment termination records. Finally, RNA reviewed evidence that notice to the Division and the agents complied with statutory requirements and company policy.

Transaction Testing Results:

Findings: RNA noted five appointment termination notices to former employee agents that were mailed to the former agent two to five months after the employee agents' appointment terminations in violation of M.G.L. c. 175, § 162T, which requires notice of terminations to former agents within 15 days of reporting the appointment terminations to the Division

Observations: For the appointment terminations tested, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. Also, for each of these, other than as noted above, the Company was able to provide evidence of timely notice to the former employee agents in compliance company policy.

Required Action: The Company shall provide notice of appointment terminations to former employee agents consistently and timely in accordance with statutory requirements.

Subsequent Company Actions: The Company has added appropriate language responsive to the required action to its communications provided to terminating employee agents.

Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Objective: The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standards IV-1 and IV-3.

Controls Reliance: See Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 18 private passenger automobile and 18 homeowners policies issued during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agent appointment and termination policies.

Recommendations: None.

Standard IV-5. Records of terminated producers adequately document the reasons for terminations.

Objective: The Standard addresses the Company's documentation of the reasons for agent terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent appointment termination processing. RNA selected 29 appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

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Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. The Company has not terminated any agent "for cause" as defined by statute during the examination period.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.
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No work performed. This Standard is not covered in the scope of examination because the Company direct bills all premium. Thus, excessive debit account balances are not an issue.

V. POLICYHOLDER SERVICE

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.
--

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's private passenger auto and homeowners policies billing and payment methods include payment in full at inception or direct bill in ten installments. Customers are "account" billed such that all policies in-force are billed in one combined statement. Payments are accepted using a check, electronic funds transfer or payment with a credit card. For new business, a down payment of 20% is required on private passenger auto business if the customer does not have current coverage. New business applications assigned through the Massachusetts Automobile Insurance Plan ("MAIP"), the Commonwealth's assigned risk plan for high risk drivers, require a 25% deposit if MAIP rates are applicable or a 30% deposit if the Company's lower rates apply. For MAIP renewal policies, a 20% deposit is required.
- For billed installments, the initial bill is sent approximately 20 days prior to the due date. If not paid, a second notice is sent approximately 11 days after the due date noting that the premium is past due with disclosure of the Company's cancellation policy. If not paid in the next 20 days, a cancellation notice is issued. For electronic funds transfers with insufficient funds, such notice will trigger a second and final transfer, and if the funds are still insufficient, the transfers are stopped, and the Company contacts the customer to set up a different billing method.
- If a customer was previously cancelled for non-payment and wants new coverage, the customer must either pay the annual premium in full or finance the premium with a premium finance company for at least one year.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.
- The Company has developed a quality assurance program for customer service and policy changes. All inbound service calls are recorded, and 10 quality assurance audits are performed on each branch per month by a home office team that assesses specific calls based upon the call categories including billing requests.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing. RNA reviewed evidence of monitoring of billing and collections service standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, billing notices appeared to be mailed with an adequate amount of advance notice.

Recommendations: None.

Standard V-2. Policy issuance and insured-requested cancellations are timely.
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Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard V-7:

- Company policy is to cancel policies upon request from the policyholder and to process premium refunds in a timely manner.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.
- Automobile policyholders may cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that they have moved out of Massachusetts.
- The Company has developed a quality assurance program for customer service and policy changes. All inbound service calls are recorded, and 10 quality assurance audits are performed on each branch per month by a home office team that assesses specific calls based upon the call categories including policyholder requests.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 10 homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the insured-requested cancellations were processed accurately and timely.

Recommendations: None.

Standard V-3. All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.

Objective: This Standard addresses the Company's procedures for providing timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section, and claims are covered in the Claims section. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- All policyholder service and policy requests are processed by one of the Company's branch offices. Customer service representatives and employee agents answer general questions or correspondence about the policyholder's policy or premium billing and can make policy changes or billing changes.
- The Company has developed performance/work flow standards and goals for customer service and policy changes.
- The Company monitors branch center service levels for customer service representatives and employee agents. 100% of inbound service calls are recorded, and 10 quality assurance audits are performed on each branch per month. Call center service metrics and results are reported daily and weekly to supervisors. Quality assurance audit results are reported monthly to management.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating and policyholder service standards. Additionally, RNA obtained documentation showing customer service correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, rating, and policyholder service matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

Recommendations: None.

Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained the prior approval of the insurance department and the regulated entity has sent the required notices to affected policyholders.

No work performed. The Company does not enter into assumption reinsurance agreements.

Standard V-5. Policy transactions are processed accurately and completely.

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1, and insured-requested cancellations are tested in Standard V-2. Return of premium testing is included in Standard V-7. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

Standard V-6. Reasonable attempts to locate missing policyholders or beneficiaries are made.

Objective: This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that un-cashed checks, including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company's treasury department periodically reviews its outstanding check list when completing monthly bank reconciliations. Payees with un-cashed checks that are outstanding nine months receive a letter to the last known address. Additionally, for un-cashed checks greater than \$100, six months prior to escheatment, the treasury department investigates the un-cashed checks to locate the recipient and sends a final letter to the last known address to notify the payee the amount to be escheated. When a check has been outstanding for three years, it is escheated.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.
- For returned mail, the Company researches the address using Company records or public information to ensure that the address is correct or to locate a better address.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 2011 escheatment filing with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: None.

Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard V-2.

Controls Reliance: See Standard V-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 10 homeowner insured-requested cancellations from the examination period, to test for proper premium refund calculation and timely payment, where appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

Standard V-8. Claims history and loss information is provided to the insured in timely manner.

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's claims personnel and employee agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide a policyholder with his or her claims history and paid loss information upon request.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

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Findings: None.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence that the Company was non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards VI-4 and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company requires written private passenger automobile, motorcycle and homeowners applications to be mailed, faxed or emailed by the applicant. The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating, although the Company does use prescreened offers based on credit scores for direct mail solicitation of private passenger automobile business as permitted by the Fair Credit Reporting Act.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and ensures that drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. At-fault accident determinations are not reported to private consumer reporting agencies.
- Private passenger automobile rates are based on Automobile Insurers Bureau of Massachusetts ("AIB") base rates with deviations using actuarial guidelines and principles.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules.
- Homeowners rates are based on Company-specific ratemaking data supplemented by the Company's competitive analysis of market rates.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, new construction, security features, safety features and higher deductibles. The Company does not use credit or insurance scores in homeowners underwriting and rating in Massachusetts.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- The Company's home office performs various quality assurance reviews of branch underwriting operations. Home office supervisors listen to branch employee agents' customer calls to review the work of the agents. Also home office management annually selects several private passenger automobile and homeowners applications per branch to test for compliance with Company

policies and statutory requirements. In addition, new business quality assurance audits are conducted randomly by the home office for all of the Company's branches to continually improve the quality of the employee agents' work. All quality assurance results are periodically reported to management.

- The Company monitors branch center service levels for individual employee agents and customer service representatives. Call center service metrics and results are reported daily and weekly to supervisors.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 13 private passenger automobile, 12 homeowners policies and verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements and that premium charges were accurate. RNA also selected 25 motorcycle policies to test rates charged and motorcycle valuations used for comprehensive and collision coverages. RNA selected 45 private passenger automobile vacated at-fault accident determinations by the Board of Appeal to ensure that premium surcharges were timely and accurately reversed as appropriate. For additional review, RNA reviewed Company-prepared data on vacated at-fault accident determinations for the period 2007-2012 to ensure that all were timely identified and properly processed. Finally, during private passenger automobile claims testing, RNA tested to ensure that at-fault accident surcharges were properly applied in accordance with regulatory requirements.

Transaction Testing Results:

Findings: The Company confirmed through its review of Board of Appeal vacated at-fault accident determinations for the period 2008-2012 that 145 such vacated surcharges were not properly reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11. Additionally, during claims testing, one at-fault accident surcharge was not properly applied in accordance with 211 CMR 134.00.

Observations: Based upon testing, except as noted above, the Company generally appears to calculate private passenger automobile and homeowners policy premiums, discounts, and at-fault accident surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Additionally, RNA's testing of motorcycle rating indicated that the Company could not document average retail value for the 16 of the 25 policies tested that had comprehensive or collision coverages, since that documentation was not retained in the underwriting files. The Company states that the comprehensive and collision coverage premiums were properly calculated, although it cannot support its conclusions. RNA determined that the average retail values appeared reasonable. No other motorcycle rating exceptions were noted.

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for the 145 vacated at-fault accident determinations not properly reversed. Also, the Company shall adopt new procedures to ensure that at-fault accident surcharges are properly applied as applicable and that vacated at-fault accident determinations are timely evaluated to determine whether premium credits are due to consumers. These procedures shall include training or guidance to staff about implementing these new procedures. Also, the Company shall complete an independent assessment of the effectiveness of the

new vacated at-fault accident determination procedures by March 31, 2014 and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of its vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include testing to obtain reasonable assurance that the vacated surcharges were accurately and timely reversed with the proper premium credit applied.

The Company shall ensure that its motorcycle valuation methodology is documented and supported in the underwriting files. The Company shall provide training and guidance to staff on these procedures. Finally, the Company shall complete an independent assessment of the effectiveness of these new procedures by March 31, 2014 and report the results of the assessment to the Division.

Subsequent Company Actions: The Company has provided the vacated surcharge refunds and 6% interest as applicable to the customers as noted above. The Company has developed new procedures for the processing of vacated surcharges and for the documentation of motorcycle values. Training and guidance to staff has been provided.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
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Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides private passenger automobile information guides to consumers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required coverage disclosures to insureds upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-3. The regulated entity does not permit illegal rebating, commission cutting or inducements.

Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that broker commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's employee agents are compensated with a base salary with potential for incentive compensation based on productivity, accuracy, timeliness, and other metrics.
- Performance monitoring and disciplinary actions for employee agents are handled in accordance with the Company's human resource management processes.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer licensing, agent appointment and employee agent compensation. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-4. The regulated entity underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declinations and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-5. All forms including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard VI-19:

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB 2008 Massachusetts Private Passenger Automobile Form, which has been approved by the Division.
- Company policy requires that homeowners policy forms and endorsements be filed and approved by the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using approved policy forms and endorsements in compliance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- The Company does not require private passenger automobile physical damage inspections for new applicants, in accordance with the Company's Division approved underwriting and rating plan.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.
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Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company does not use credit or insurance scores in private passenger automobile or homeowners underwriting or rating, although the Company does use prescreened offers based on credit scores for direct mail solicitation of private passenger automobile business as permitted by the Fair Credit Reporting Act.
- Applications for private passenger automobile and homeowners coverage may be declined by the employee agent on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- The Company's employee agents provide oral declination notices to private passenger automobile and homeowner applicants who do not meet the Company's minimum standards for coverage.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA initially selected 25 private passenger automobile and 25 homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory and to ensure that proper declination notice was given to applicants. In addition, to determine that there is no disparate treatment between private passenger automobile consumers applying for coverage who were solicited through direct mail because of a favorable credit score, compared to those consumers applying for such coverage but not solicited through direct mail, RNA reviewed 176, or

all of the direct mail applicants declined during the examination period to determine the declination reason.

Transaction Testing Results:

Findings: None.

Observations: Based upon the 50 declinations selected for testing, RNA noted that 11 were company cancellations or non-renewals. Thus, the Company's declination data was not accurate. RNA tested the remaining 21 private passenger automobile and 18 homeowners declination decisions and determined that they were made in accordance with statutory requirements and the Company's underwriting guidelines. All declined applicants received either written or oral declination notices. With regard to the 176 declinations of direct mail solicited customers, five applications reviewed met the Company's Massachusetts underwriting guidelines and should have been accepted, but were rejected due to process or underwriter error. In addition, declination testing indicated several risks were declined in which unwritten underwriting criteria were applied as a matter of underwriter judgment. The testing results indicate no evidence that credit scores were used to underwrite Massachusetts private passenger automobile risks. Based upon testing and review of the information available, the Company's declinations were not unfairly discriminatory.

Recommendations: The Company should ensure that its transaction coding for declinations includes only applications for coverages which were declined by the Company. Also, the Company should improve documentation of its Massachusetts private passenger automobile underwriting guidelines to ensure consistent and fair application of the guidelines by the Company's underwriters. Finally, the Company should provide training and guidance to underwriters about the new guidelines, and develop a monitoring procedure to ensure that the guidelines are consistently used to evaluate risks.

Subsequent Company Actions: The Company provided revised declination data that included only coverage applications declined by the Company and has revised its transaction coding as noted above. Further, the Company has revised its written Massachusetts private passenger automobile underwriting guidelines to develop consistent criteria for all renewal business and to broaden the underwriting criteria to be applied to all new business applications. Finally, the Company developed a list of consistent underwriting factors that may influence the underwriting of private passenger automobile applications.

Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination notices are tested in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company-initiated cancellations of private passenger automobile policies for underwriting reasons are a result of driver license suspension, vehicle registration violations or material misrepresentation with most occurring within the first 60 days of coverage. Company-initiated cancellations of homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies or material misrepresentation with most

occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder at least 23 days prior to the cancellation effective date.

- Company cancellations for non-payment of premium for private passenger automobile policies are provided at least 20 days prior to the cancellation effective date and for homeowners policies, are provided at least 10 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable private passenger automobile and homeowners risks are provided to policyholders at least 45 days prior to the non-renewal effective date. The notices state the specific reason for the non-renewal.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 20 private passenger automobile and 22 homeowners company-initiated underwriting cancellations for testing. In addition, RNA tested 30 private passenger automobile and 27 homeowners non-renewal transactions for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provided timely and adequate notice to the policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were generally reasonable and in compliance with statutory requirements.

Recommendations: None.

Standard VI-9. Rescissions are not made for non-material misrepresentation.
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Objective: This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that, although rare, rescissions may be given only for significant material misrepresentations or fraud and only with approval of the legal staff.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and inquired about procedures for issuing rescissions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable.

Recommendations: None.

Standard VI-10. Credits, debits and deviations are consistently applied on a non-discriminatory basis.

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-11. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-12. Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-13. Verification of premium audit accuracy and the proper application of rating factors.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-16. Verification of regulated entity data provided in response to the NCCI call on deductibles.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-17. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Objective: This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at or near inception of the coverage, rather than near expiration or following a claim. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Home office supervisors listen to branch employee agents' customer calls to evaluate the work of the employee agents. Home office management annually selects five private passenger auto and five homeowners applications per branch to test for compliance with Company policies and statutory requirements. Lastly, the home office sales and client service department performs quality assurance reviews of branch office underwriting operations to ensure the accuracy of applications.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage.

Recommendation: None.

Standard VI-18. Audits, when required, are conducted accurately and timely.

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits, field agency audits, CAR audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-19. All forms and endorsements, forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-20. The regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.

Objective: This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's employee agents are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases to ensure that both are accurate.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company verifies VIN and vehicle symbol at policy issuance in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.
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Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Certain risks are referred to the underwriters to determine whether they should be accepted or rejected.
- Home office supervisors listen to branch employee agents' customer calls to evaluate the work of the agents. Home office management annually selects several private passenger automobile and homeowners applications per branch to test for compliance with Company policies and statutory requirements.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not appear to be collusive or anti-competitive.

Recommendations: None.

Standard VI-22. The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in application of mass marketing plans.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer mass marketing plans in Massachusetts.

Standard VI-23. All group personal lines property and casualty policies and programs meet minimum requirements.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer mass marketing plans in Massachusetts.

Standard VI-24. Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. See Standard VI-8 for testing of this Standard. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-25. All policies are correctly coded.

Objective: This Standard addresses the accuracy of statistical coding. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the agents are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company's policy is to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and the Insurance Services Office ("ISO").
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded.

Recommendations: None.

Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.
--

Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's employee agents are responsible for completing applications for new business and obtaining information needed to properly underwrite and rate the policies. Properly completed applications are to include applicant and producer signatures.
- Home office supervisors listen to branch employee agents' customer calls to evaluate the work of the agents. Home office management annually selects five private passenger auto and five homeowners applications per branch to test for compliance with Company policies and statutory requirements. Lastly, the home office sales and client service department performs quality assurance reviews of branch office underwriting operations to ensure the accuracy of applications and to verify that required forms have been received.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners policies issued during the examination period, to test whether the application information was properly submitted and whether policy files adequately support the Company's decisions. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted.

Recommendations: None.

VII. CLAIMS

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VII-1. The initial contact by the regulated entity with the claimant is within the required time frame.

Objective: This Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and through Standard VII-13:

- The Company's claim operation includes an executive oversight function located in the home office and 37 national branch offices that include claims managers and supervisors, adjusters, appraisers, customer service representatives support personnel. The Company also has three call centers that service claims. Massachusetts claims are primarily handled in one of three Massachusetts branch offices. The branch office claims staff is organized functional units. Customer service representatives handle auto physical damage, small property, and personal injury protection claims. A dedicated homeowners team is located in one Massachusetts branch office that handles the majority of the smaller homeowner claims for Massachusetts. A staff of employee field adjusters handles larger property and bodily injury claims requiring investigation, with assistance from outside adjusters and catastrophe teams as needed.
- Each branch office has a supervisory structure including managers, supervisors, team leaders, or customer service representatives who are periodically involved in reviewing the work of the adjusters and customer service representatives, as considered necessary. Individual claim settlement authority limits are assigned commensurate with adjusters' or customer service representatives' experience. In addition, the Company utilizes independent adjusters on selected claims.
- Claims are investigated to determine coverage, liability and claim settlement amounts. Company policy is to investigate all claims in a timely manner. Written policies and procedures govern claims handling processes. First notice of loss is typically reported through the Company's 800 telephone number, by a fax, electronically, or contact from an attorney. Key information such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries is obtained and recorded in the electronic claims processing system, which includes a claim diary, financial history and repository for correspondence and scanned documents. A claim number is established and a claims adjuster is assigned immediately. The claims adjuster is to contact the claimant within 24 hours, but often contact is sooner. For automobile physical damage claims, a list of auto repair shops that accept the Company's auto repair plan is sent to auto claimants with the initial acknowledgement letter.
- A majority of claims handling is handled by the branch offices with reserves automatically set and adjusted by the branch offices as deemed necessary. Larger more complex claims, such as injury or homeowners claims, or claims aged over two years require oversight, review, and reserve setting by the home office claims examination staff.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. CAR audits the Company for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim.
- The Company has developed criteria to evaluate claims that should be potentially referred to SIU for review. The Company also has a fraud awareness training program for its employees. Fraud

triggers based upon claim facts have also been established and are reviewed for applicability by the adjuster and SIU. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution. Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the NICB.

- The Company has implemented Office of Foreign Asset Control compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are to be performed as required by statute and are to be documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or general damages awarded. Releases are routinely required from third party bodily injury claimants.
- Criteria for supervisor and manager periodic reviews of the claim representatives' work have been established, and such reviews are documented in the claim system. In addition, large loss reports for such claims are periodically prepared.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required in Massachusetts.
- The claim system provides weekly summary reporting including the measurement of key metrics, cycle times and claims inventories, and these reports are reviewed by home office management.
- The Company has established a quality assurance program to review and evaluate claims for adherence to Company policies and procedures. Annually every branch office has a selection of claim files audited by a home office quality assurance team. In addition, each branch office has a program to randomly evaluate 10% of selected closed claims. Immediate feedback is provided to branch employees. Quality assurance and branch office reports of the results are periodically prepared and provided to home office and branch management.
- Prior to 2011, the Company conducted telephone surveys of first party claimants. Beginning in 2011, first party claimants are invited to complete a written survey when a claim payment is made. Any negative comments from respondents are addressed, and the overall survey results are reported quarterly.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was processed according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it

appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: Except as noted below, RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. For one of the private passenger automobile claims tested, a police report was not timely ordered when the loss was reported. Additionally, for this same claim, an adverse subrogation bodily injury claim from another carrier was filed with the Company, but the Company did not notify the insured of this claim until approximately four months later. Finally, the Company did not pay the other carrier seven months after an arbitration decision was reached naming the Company's insured at fault. Based upon testing, it appears that the Company's processes for timely investigating claims are generally functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: The Company should provide training or a written reminder notice to claim staff about timely ordering of police reports. Further, the guidance should remind staff to notify the insured timely of the filing of an adverse subrogation bodily injury claim. Finally, the guidance should remind staff to timely pay subrogated claims once liability has been determined.

Subsequent Company Actions: The Company has issued a management memorandum to all Massachusetts claim handling personnel addressing the timely ordering of police reports, timely notification to policyholders of an adverse subrogation bodily injury claim, and timely payment of subrogated claims once liability has been determined.

Standard VII-3. Claims are resolved in a timely manner.

Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was resolved in a timely manner. Based upon testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.

Objective: The Standard addresses the timeliness of the Company's response to claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented its claim handling. Based upon testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open

claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed 14 claims-related complaints to determine whether the related claims were properly handled.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of 10 claims-related complaints, the related claims appeared to be properly handled.

Recommendations: None.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.
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Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appropriately used the required claim forms in accordance with the Company's policies and regulatory requirements.

Recommendations: None.

Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.

Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that reserves for each of the tested claims were evaluated, established and adjusted according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for evaluating, establishing and adjusting reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected denied or closed-without-payment claims including four private passenger automobile claims and four homeowners claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling and denial practices are appropriate and are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open

claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of procedures and testing, the Company did not appear to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and the Company did not attempt to settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

Standard VII-12. Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.

Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Based upon testing, it appears that the Company's processes for utilizing reservation of rights and excess of loss letters for claims are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-13. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds upon subrogation recoveries for all applicable tested claims were timely and accurate according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-14. Loss statistical coding is complete and accurate.

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. Based upon testing, the Company appears to have processes for timely and accurately reporting of loss statistical data to rating bureaus in accordance with its policies and statutory requirements.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2011 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Underwriting and Rating, and Claims.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with RNA applied certain agreed-upon procedures to the corporate records of the Company in order for the Division to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive market conduct examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), communication and status reporting throughout the examination, administration and preparation of the examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the comprehensive market conduct examination is hereby acknowledged.

Matthew C. Regan III
Director of Market Conduct &
Examiner-In-Charge
Commonwealth of Massachusetts
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