



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

Report on the Comprehensive Market Conduct Examination of

Arbella Mutual Insurance Company
Arbella Protection Insurance Company
Arbella Indemnity Insurance Company

Quincy, Massachusetts

For the Period January 1, 2021, through December 31, 2021

NAIC COMPANY CODES: 17000, 41360, 10017

EMPLOYER ID NUMBERS: 04-3022050, 04-3170665, 04-3227818

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

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

April 25, 2023

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

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

ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

at their home offices located at:

1100 Crown Colony Drive
Quincy, Massachusetts 02269

The following report thereon is respectfully submitted.

ACRONYMS

Arbella Indemnity Insurance Company (“AIIC”)
Arbella Insurance Group (“Arbella”)
Arbella Mutual Insurance Company (“AMIC”)
Arbella Protection Insurance Company (“APIC”)
Better Business Bureau (“BBB”)
Commonwealth Automobile Reinsurers (“CAR”)
Commonwealth of Massachusetts Division of Insurance (“the Division”)
Company’s Board of Directors (“Board”)
Comprehensive Loss Underwriting Exchange (“CLUE”)
Corporate Communications (“CC”)
Division’s Board of Appeal (“BOA”)
Executive and Corporate Governance Committee (“Executive Committee”)
Fair Credit Reporting Act (“FCRA”)
Insurance Services Office (“ISO”)
Market Regulation Handbook (“The Handbook”)
Massachusetts Auto Insurance Plan (“MAIP”)
Myriad Development, Inc. (“Myriad”)
National Association of Insurance Commissioners (“NAIC”)
National Insurance Crime Bureau (“NICB”)
Office of Foreign Asset Control (“OFAC”)
Office of General Counsel (“OGC”)
Online Producer Appointment System (“OPRA”)
Personal Lines Information System (“PLIS”)
Risk Factor Identification (“RFID”)
Special Investigative Unit (“SIU”)

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "represents") conducted a comprehensive market conduct examination ("examination") of Arbella Mutual Insurance Company ("AMIC"), Arbella Protection Insurance Company ("APIC"), and Arbella Indemnity Insurance Company ("AIIC"), collectively, (the "Company"), for the period January 1, 2021, to December 31, 2021, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. In addition, the Division engaged representatives from the firm of INS Regulatory Insurance Services, Inc. ("INS") to complete the examination under the direction, management, and control of the market conduct examination staff of the Division.

EXAMINATION APPROACH

The examination employed a tailored approach using the guidance and standards of the 2021 NAIC Market Regulation Handbook ("the Handbook"), the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations, bulletins, and applicable Federal laws and regulations. Examiners performed all procedures under the supervision of the Division's market conduct examination staff, including procedures more efficiently addressed in the Division's financial examination of the Company. To ensure that they adequately addressed the market conduct objective, where appropriate, INS and the Division staff relied on procedures performed by the Division's financial examination staff as part of statutory financial examinations. The operational areas 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.

The Handbook provides guidance on optional processes and procedures for use during the examination and includes an approach designed to detect incidents of deficiency through transactional testing. The examination also has an operational and management assessment component. The assessment promotes an understanding of the key controls used to operate the business and to meet essential business objectives, including measures designed to ensure compliance with applicable laws and regulations to market conduct activities.

This examination report constitutes a "Report by Test," as described in Chapter 15, Section A of the Handbook. An examination "finding" represents a violation of Massachusetts insurance laws, regulations, or bulletins. While an "observation" recognizes a departure from industry best practice. The recommendations accompanying the observation provide acceptable alternative practices. The Division recommends that Company management evaluate any "finding" or "observation" for applicability to other jurisdictions. When applicable, the Company should take corrective actions in all jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify improper or non-compliant business practices does not constitute acceptance of such practices. The Company shall report to the Division any such corrective actions taken.

REQUIRED ACTIONS

SECTION VI-UNDERWRITING AND RATING

Rating Practices

Finding: The Company failed to include in their rate filing with the Division of Insurance the rate for Risk Factor Identification ("RFID") 1-751, the \$300 Part 7 & 9 deductible factors as required by M.G.L. c. 175E, § 7.

Required Actions: The Company must file the deductible factors with the Division.

Subsequent Action Completed by the Company: The Company filed a corrected rate filing with the Division on November 3, 2022, under SERFF Filing #: ARMU-133439908, and the Division approved the filing on November 30, 2022.

Vacated At-Fault Accident Determination Practices:

Finding: In two (2) of the 25 vacated at-fault accident determinations, the insured received the adjustment premium return more than 30 days after the Company received the notice of the reversal determination. As a result, the Company did not process the adjusted premium return according to the requirements in M.G.L. c. 175E, § 7A, and Bulletin 2010-11. The Company did correctly process the remaining twenty-three (23) transactions.

Required Actions: The Company must update the vacated at-fault determination process to avoid future delays.

Subsequent Action Completed by the Company: The Company revised the vacated surcharge process by incorporating controls that will prevent future delays, such as those identified in the audit sample. The Company has provided the examiners with a copy of the updated process.

Underwriting Declination Practices:

Finding: The Company did not provide the Fair Credit Reporting Act (“FCRA”) Adverse Action Notices to seven (7) of the 25 homeowner applications denied due to an unacceptable credit insurance score. The FCRA Adverse Action Notice requirements are found at 15 U.S.C. § 1681m § 615(a) and M.G.L. c. 93, § 62. The Company provided the appropriate Notices to the remaining eighteen (18) declinations.

Required Actions: The Company must create a process to ensure that all applicants declined due to credit-related issues receive the FCRA Adverse Action Notice.

Subsequent Actions Completed by the Company: The Company implemented a process to ensure the capture of all applicants declined due to the applicant’s credit score. On a biweekly basis, analysts pull new applications where Arbella declined coverage due to the applicant’s credit scores. The analysts enter the pertinent data onto a spreadsheet and send the document to the mailroom staff, who then distribute the Adverse Action Notices to all applicable applicants.

SECTION VII-CLAIMS

Claims Handling Practices:

Finding: The Company failed to maintain a copy of the letter sent to the municipal authorities for one homeowner claim over \$1,000 as required by M.G.L. c. 139, § 3B. Other than the one (1) instance noted based on testing, the Company paid or denied all claims following contract provisions and statutory requirements.

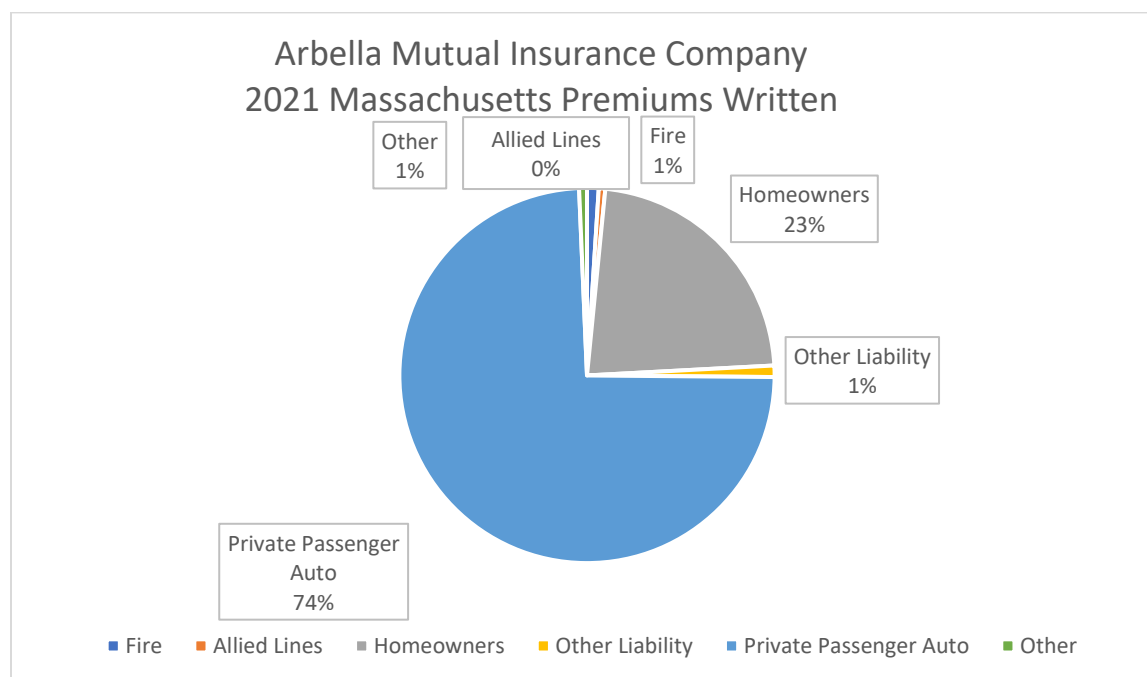
Required Action: The Company must maintain copies of all correspondence sent to municipal authorities related to the requirements of M.G.L c. 139 § 3B. The Company should remind the Claims staff in writing of the importance of maintaining the required copies of the correspondence.

Subsequent Action Completed by the Company: None.

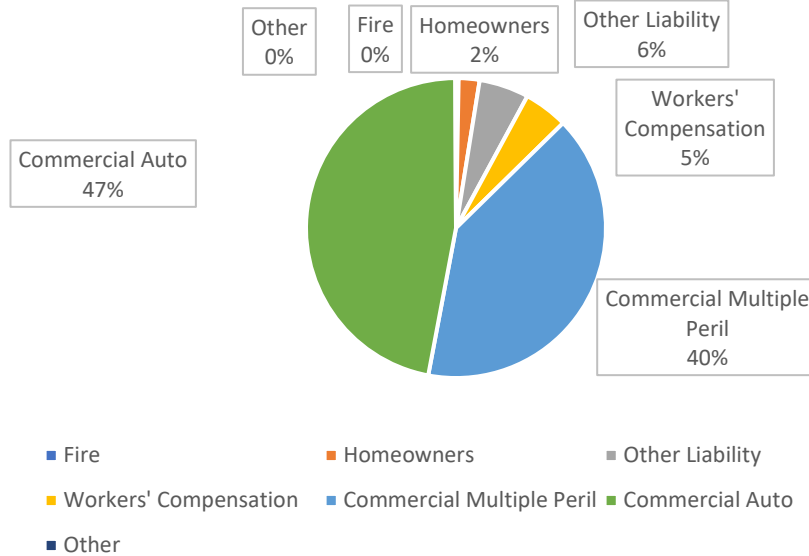
COMPANY BACKGROUND

The Company was formed as a mutual insurance company pursuant to Chapter 189 of the Acts of 1988. The Company was incorporated under the laws of the Commonwealth of Massachusetts on August 26, 1988, and began business on October 1, 1988. The Company was created as part of an agreement between the Division and the Kemper Group (“Kemper”), which permitted Kemper to cease writing its personal auto insurance lines in Massachusetts. The Company has no ownership or management ties to any Kemper Company and is not a member of the Kemper Group.

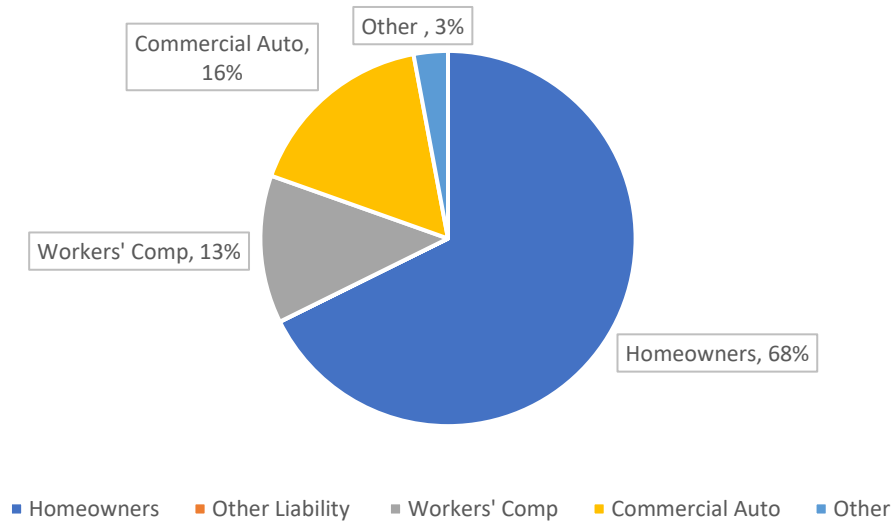
The Company has more than \$800 million in revenue and approximately \$1.8 billion in assets and is part of an inter-company pooling arrangement with other affiliates of the Arbella Insurance Group. The following is a list of the companies in the pool; the companies’ respective pooling percentages and their state of domicile are as follows: AMIC, 76% of the pool, domiciled in MA; lead company, APIC, 16% of the pool, domiciled in MA; AIIC, 3% of the pool, domiciled in MA, and Covenant, 5% of the pool, domiciled in Connecticut. The charts below detail each company’s premium percentages in 2021 for Massachusetts.



Arbella Protection Insurance Company 2021 Massachusetts Premiums Written



Arbella Indemnity Insurance Company 2021 Massachusetts Premiums Written



The Company maintains a financial strength rating of A (Excellent) with a stable outlook from A.M. Best.

The following financial information is as of or for the year ended December 31, 2021:

Arbella Mutual Insurance Company	
Admitted assets	\$1,820.8 billion
Statutory surplus	\$ 930.4 million
Massachusetts business - direct written premium	\$ 563.1 million
Arbella Protection Insurance Company	
Admitted assets	\$ 392.9 million
Statutory surplus	\$ 141.4 million
Massachusetts business - direct written premium	\$ 218.1 million
Arbella Indemnity Insurance Company	
Admitted assets	\$ 65.5 million
Statutory surplus	\$ 24.1 million
Massachusetts business - direct written premium	\$ 28.7 million

I. COMPANY OPERATIONS/MANAGEMENT

Corporate Governance:

Summary of Company Policies and Procedures:

- The Company's Board of Directors ("Board" includes the President and Chief Executive Officer ("CEO") and 13 directors with experience in several critical disciplines, including insurance, finance and accounting, technology, human resources, leadership, operations, general business management, and strategy, law, and consumer rights.
- Two (2) committees elected by the Board of Directors of note include:
 - Executive and Corporate Governance Committee. The Executive and Corporate Governance Committee ("Executive Committee") members include five (5) Board members, three (3) of whom are independent. The Executive Committee meets at least twice a year and more frequently as needed to conduct business that is essential to the operation of Arbella.
 - Audit Committee. The Audit Committee has a membership of six (6) Board members, four (4) of whom are independent and meet at least four times per year. The Audit Committee chooses and retains Arbella's external auditors and reviews their annual audit plan and proposed reports. In addition, the Audit Committee reviews with management and the external auditor, financial statements prior to filing with the Division. In addition, the Director of Internal Audit reports functionally to the Audit Committee of the Board of Directors and administratively to the Chief Financial Officer.
- The Office of General Counsel ("OGC") oversees Corporate Compliance for Arbella. The General Counsel serves as Arbella's Compliance Officer. The General Counsel reports to the CEO and is a member of the Executive Forum, which consists of executives representing all functions within the Company, and generally meets every other week. The General Counsel attends all Board of Director meetings and meets in executive session with the Board's Audit Committee at each meeting. The General Counsel reports to the Audit Committee at every meeting and provides an annual review of the corporate compliance function. OGC works closely with the Internal Audit department and confers with the Director of Internal Audit regarding compliance policies and audits related to compliance with laws and corporate policy.
- The Board of Directors, through its Technology and Data Analytics Committee, oversees Arbella's Information Security Program. The Executive Forum, which consists of executives representing all functions within the Company, including the Chief Information Officer, is responsible for developing, implementing, and maintaining Arbella's Information Security Program.

Examination Procedures Performed: INS interviewed Company personnel responsible for corporate governance, internal and external audit, compliance risk assessment, and quality assurance processes.

Examination Conclusions: Arbella appears to have adopted policies and procedures to ensure that appropriate audits or reviews are generally conducted timely with documented results.

Antifraud Efforts:

Summary of Company Policies and Procedures:

- The Vice President of Claims, working with the General Counsel, is responsible for the oversight of anti-fraud activities. In addition, the Company's Special Investigative Unit ("SIU") is within the claims division and conducts many antifraud measures, including investigations.
- The SIU Referral Guidelines summarize the steps the claim handlers should take to identify the red flags for potential fraud and the process of making the referral to SIU.
- The Company screens all new employees via a Criminal Offender Record Information check. Additionally, for promotions to Manager level and above, the Company performs a criminal check if it has been more than five (5) years since the Company completed the last assessment.
- Arbella's antifraud plan summarizes all related antifraud efforts and requires management and employees to take reasonable precautions to prevent and detect potential insurance fraud.
- In addition, the guidelines summarize the actions an employee should take if they have concerns that another employee is engaged in fraudulent activity.
- Arbella reports all incidents of suspected fraud to the Insurance Fraud Bureau ("IFB") after completing an investigation. Also, Arbella reports all auto theft claims to the National Insurance Crime Bureau ("NICB") through the Insurance Services Office ("ISO"). The Company's SIU is responsible for referring fraudulent claims to the NICB and the IFB when the Company believes fraud has occurred.
- Arbella has implemented the Office of Foreign Asset Control's ("OFAC") compliance user manual. The manual identifies the impacted business units, defines the user roles, and includes detailed user instructions and an overall communications plan. In addition, the Claims Department has its user manual, which identifies the procedures that Company follows in its daily business operations to comply with OFAC.

Examination Procedures Performed: INS interviewed Company personnel responsible for antifraud initiatives, compliance procedures, and code of ethical conduct policies. In addition, INS reviewed Company policies and procedures to address anti-fraud initiatives as part of claims and underwriting testing.

Examination Conclusions: The Company has adopted reasonable anti-fraud procedures. Based upon underwriting and claims testing, the Company appears to have reasonably designed antifraud initiatives in place to detect, prevent, and investigate fraudulent insurance acts.

Third-Party Outsourcing:

Summary of Company Policies and Procedures:

- Arbella's sales distribution in Massachusetts is primarily through independent agents, except for the Company's wholly-owned insurance agency, Bearingstar Insurance, Inc. (See discussion in producer licensing on page 14 regarding producer controls and procedures.)
- Independent claim appraisers are utilized as needed and provide on-site inspections and investigations for claims.
- Arbella contracts vendors to provide auto glass claims and car rental coverage services. The Company oversees and monitors vendors' service performance. Enterprise and Hertz have representatives in Arbella offices.
- Vendors do not make any payments on behalf of the Company.

Examination Procedures Performed: INS interviewed management about its use of third-party administrators who perform Company functions and the monitoring procedures conducted over these third parties.

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

Record Retention:

Summary of Company Policies and Procedures:

- Arbella has adopted record retention requirements for documents and records.
- The requirements include record management maintenance and disposal guidelines, including document-specific retention timelines.
- Annually, all Arbella managers must verify their retention schedules are current regarding their business needs and that documents are maintained and destroyed as detailed in each department's schedules.
- All employees must review the record retention policy annually and maintain Company records as per the schedule.

Examination Procedures Performed: INS obtained a summary of the Company's record retention policies and procedures and evaluated them for reasonableness.

Examination Conclusions: The Company's record retention policies appear reasonable as the procedure requires all employees to ensure compliance.

Privacy Compliance:

Summary of Company Policies and Procedures:

- The Office of the General Counsel ("OGC") oversees privacy compliance, with the General Counsel serving as the Privacy Officer. OGC works closely with the Assistant Vice President of IT Security, who reports to the Chief Information Officer.
- When a new personal lines policy is issued, the Company provides a consumer privacy notice to applicants. In addition, the Company also has its privacy notice available on its website.
- Arbella only shares nonpublic personal information with nonaffiliated third parties as permitted by the exceptions in the Gramm-Leach-Bliley Act §502 and 16 C.F.R. Part 313, so no opt-out notice is required.
- Arbella has developed and implemented information technology security policies and practices to safeguard non-public personal and health information.
- Arbella restricts access to electronic and operational areas to employees with specific job responsibilities necessitating the information available in these areas; if an employee with access changes positions, the Company will reevaluate the employee's needs for access to policyholder personal information.

Examination Procedures Performed: INS interviewed Company personnel responsible for privacy compliance and reviewed supporting documentation. As part of the review of files process INS:

- a) Randomly selected 25 private passenger automobile policies, 25 homeowner policies, and 25 fire policies issued during the examination period to test whether the Company provided a consumer privacy notice.

- b) Reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used, or disclosed non-public personal financial information.

Examination Conclusions: Based on INS review and testing, the Company's privacy practices meet Massachusetts and Federal statutory and regulatory requirements.

II. COMPLAINT HANDLING

Summary of Company Policies and Procedures:

- Complaints may come in through various means, including from a regulator (i.e., Attorney General's Office or Department of Insurance), the Better Business Bureau, or directly from a consumer through Arbella's website, corporate email box, or by letter.
- Any written complaint or grievance received from the Division of Insurance or the Attorney General's office is considered a governmental complaint and coordinated through the Office of the General Counsel.
- Corporate Communications ("CC") review consumer and Better Business Bureau complaints and then logs and disseminates the complaints to the appropriate department for response.
- CC and the OGC distribute the complaints to the appropriate business unit for investigation and timely response. CC and OGC ensure that the unit provides a timely response.
- A manager in the business responds to all complaints.
- Arbella's complaint register includes, but is not limited to, the date the complaint was received, the name of the complainant, the nature of the complaint, the name of the Company person responding, the due date, Division number, date of response, and disposition of each complaint.
- The governmental complaint register is provided to executive management when the Company notes trends or unusual activity. The non-governmental complaint registers are provided to executive management semi-annually.
- Annually, the General Counsel reports to the Executive Forum on complaint activity providing year-over-year analysis regarding the number and nature of the complaints.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its website.
- The Company monitors social media websites. If the Company notes a negative post or comment, the appropriate area reaches out to the consumer and requests that they provide the complaint in writing.

Examination Procedures Performed: INS interviewed management and staff responsible for complaint handling and examined evidence of the Company's related processes and controls. Further, INS:

- a) Reviewed the Company's complaint registers for 2021 to evaluate compliance with complaint requirements and ensure that they contained all Division complaints.
- b) Reviewed all 28 governmental complaints to assess the Company's compliance with statutory complaint requirements. INS reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints, the proper disposal of complaints, and the timeliness of the Company responses, and
- c) reviewed all 32 consumer complaints to assess the Company's compliance with statutory complaint requirements. INS reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints, the proper disposal of complaints, and the timeliness of the Company responses.

Examination Conclusions: Based on testing, the Company's complaint registers and procedures meet Massachusetts statutory and regulatory requirements.

III. MARKETING AND SALES

Summary of Company Policies and Procedures:

- Although Arbella's sales distribution in Massachusetts is primarily through independent agents, sales also occur through Arbella's wholly-owned insurance agency, Bearingstar Insurance, Inc.
- Arbella's Corporate Communications Department produces many types of home-office sales and advertising material. The materials can include general public advertising, products for agents, media, and billboards.
- If an independent agent creates advertising using an Arbella logo, the Agent must submit the materials to the Corporate Communications department for approval.
- Arbella provides general insurance knowledge, safety tips, and newsletters not only for the agents' use but also for company advertising.
- Arbella creates social media advertisements for internal corporate use and agents' use.
- Arbella has field representatives who manage the independent agency force. The field representatives conduct periodic agency visits to provide training and answer questions about the Company's products, processing requirements, and underwriting guidelines.
- Arbella offers mass marketing plans to various business groups. The related affinity group discounts are filed with the Division for approval per statutory and regulatory requirements for mass marketing plans.

Examination Procedures Performed: INS interviewed Company personnel responsible for reviewing, approving, and maintaining sales and advertising materials and obtained supporting documentation. Further, INS:

- a) Reviewed a sample of the sales and marketing materials for any evidence of the use of unapproved sales and marketing materials,
- b) Agent communications as part of new and renewal business testing for reasonableness, and
- c) evaluated the use of affinity group discounts as part of new and renewal business testing.

Examination Conclusions: Based on the testing conducted by INS, the Company's marketing practices meet Massachusetts statutory and regulatory requirements.

IV. PRODUCER LICENSING

Summary of Company Policies and Procedures:

- The independent agent contracts contain authority and duties of the parties, commission rates, premium accounting for agency and company billed business, termination & suspension, cooperation with the Company, underwriting authority, indemnification, advertising, and confidentiality provisions. The contract also gives the agent exclusive control over expirations and the agent's records. Additionally, the agreement requires independent agents to maintain an errors & omissions insurance policy and comply with continuing education requirements. Arbella processes agent appointments and terminations through the Division's Online Producer Appointment ("OPRA") System.
- Licensing reviews the list of appointed producers on the Division's website to determine which agencies' licenses are due to renew the next month. Licensing will then send an email to those agents reminding them to get their licenses renewed. The following month, Licensing will check the license status, and if the holder renews the license, the Company will re-appoint the producer.
- Annually, as part of the annual appointment renewal process with the Division, Licensing does a complete reconciliation of their records with the OPRA system.
- Arbella's agency terminations are provided through written notice to the agency at least 180 days prior to the termination effective date. The Company also provides information on agent appointment terminations to the Division through the OPRA System, with the termination effective date in the OPRA System as the date that renewal business submissions will no longer be accepted.
- Terminations "for cause" are rare and handled according to the agency contract with the termination reason provided to the Division.

Examination Procedures Performed: INS interviewed individuals responsible for producer contracting and processing agent appointments and terminations. Further, INS

- a) tested 25 private passenger automobile policies, 25 homeowner policies, and 25 fire insurance policies issued or renewed during the examination period to determine whether the sale agents held Massachusetts licenses by searching the National Association of Insurance Commissioners ("NAIC") licensing portal, and;
- b) reviewed the completeness of the Company's register of agency terminations.

Examination Conclusions: Based on testing, the Company's producer licensing, agent appointment, and agent termination practices meet Massachusetts statutory and regulatory requirements.

V. POLICYHOLDER SERVICE

Insured-Requested Cancellations and Service Requests:

Summary of Company Policies and Procedures:

- To transfer their policy to a different insurance carrier, automobile policyholders must choose one of the following three options and submit the required documentation to Arbella (1) file a Form 2A-Notice of Transfer of Coverage, or (2) provide proof that the vehicle has been taken out of service, or (3) submit evidence that they have moved out of Massachusetts.
- Most policyholder service requests received by the Company from the agent are submitted through Arbella Connect (the Company's agent web-based portal).
- Policy cancellation requests from policyholders can be made through agents, who forward the request to the Company for processing through Arbella Connect. However, the Company will honor any written cancellation request received directly from the insured and provide the request to the agent for processing.
- Any unearned premium resulting from an insured-requested cancellation is refunded directly to the customer using a short rate or pro-rata calculations, whichever is applicable.
- On all policy transactions, Operations measure two key performance indicators; timeliness and quality. Arbella's quality goals are to issue transactions at a 97% accuracy on all policy transactions conducted in Operations. In addition, the Company's phone service goals are to answer 80% of the calls within 30 seconds or 60 seconds. Arbella measures the timeliness of transactions by transaction type (ex., new business policy issuance, renewal of a policy, or adding an endorsement to the policy).
- The Policy Operations department conducts a monthly quality review. Staff selects a random sample of at least 100 policy transactions, and team managers, managers, or senior team members complete all assessments.

Examination Procedures Performed: INS interviewed individuals responsible for policyholder service transaction processing. Further, INS tested ten (10) private passenger automobile insured-requested cancellations, ten (10) homeowner insured-requested cancellations, and ten (10) fire insured-requested cancellations from the examination period to determine whether the Company and agents processed the cancellations accurately and timely.

Examination Conclusions: Based on testing, the Company's handling of insured-requested cancellations meets Massachusetts statutory and regulatory requirements.

Premium Billing and Reinstatement Practices:

Summary of Company Policies and Procedures:

- The Company predominantly processes premium billing by direct billing to customers. Customers can pay the premium in full at inception and upon renewal or make payments in 12 monthly installments. However, a small percentage, primarily commercial policies, and although limited to fewer mass-market plans, a small number are Group billed.
- Arbella issues, bills, and administers Massachusetts auto policies through its Personal Lines Information System ("PLIS") system. It issues, bills, and administers all property policies, including umbrella, through its Cogen system.
- Arbella systems generally issue bills 20 days before the due date but not less than ten (10) days' notice.
- Sometimes, a customer does not pay installments when due or the customer's financial institution notifies Arbella of insufficient funds. In both "non-payment" situations, Arbella sends the insured an

automated notice of intent to cancel (using a Certificate of Mail) no less than 20 days before the cancellation effective date for the Auto, Home, and Dwelling Fire Policies. For Umbrella coverage, Arbella sends the notice no less than 30 days before the cancellation date.

- Customer Service determines policy reinstatement eligibility. If a policy is eligible, the representative will reinstate it with a No Loss Statement from the insured and any required payment.

Examination Procedures Performed: INS interviewed individuals responsible for handling premium billing and reinstatements. Examiners also reviewed billing notice dates in conjunction with new and renewal business testing.

Examination Conclusions: Based on the review, the Company's premium billing and reinstatement handling meet Massachusetts statutory and regulatory requirements.

Returned Mail, Unclaimed Checks, and Escheatment Practices:

Summary of Company Policies and Procedures:

- The Accounting group within the Finance department is responsible for ensuring compliance with escheatment policies on behalf of the Company. Company policy requires that un-cashed checks, including claims, premium refunds, commissions, and vendor payments, be reported and escheated when the Company cannot locate the intended recipient.
- When a check remains outstanding for more than four months, a reminder letter is sent to the payee advising them that the payment will become "stale" if not exercised within 180 days. Then, Arbella mails a second letter at six months, informing the customer that the check is stale and cannot be cashed. At this time, Arbella provides the payee with instructions for having the payment re-issued.
- Arbella's policy requires the accounting staff to send a due diligence letter for an outstanding check over \$100. In keeping with Massachusetts requirements, the Company sends letters at least 60 days before the due date, and customers have 30 days to respond.
- The funds are deemed abandoned property three years after efforts to reach the payee are exhausted.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

Examination Procedures Performed: INS interviewed individuals responsible for returned mail, unclaimed checks, and escheatment and reviewed supporting information, including the 2021 escheatment filing with the Massachusetts State Treasurer.

Examination Conclusions: Based on the review, Arbella's handling of returned mail, unclaimed checks, and escheatment meet Massachusetts statutory and regulatory requirements.

VI. UNDERWRITING AND RATING

Personal Insurance Sales, Underwriting, and Rating Practices:

Summary of Company Policies and Procedures:

- To obtain quotes, agents may use either Arbella Connect or the comparative rater, SinglePoint, which automatically feeds to the Arbella E-App and returns an accurate real-time rate to SinglePoint.
- Agents electronically submit application information to Arbella while retaining the signed applications in the agents' files. Agents may also submit paper applications directly to the Company. The Division approves the standard forms for the applications.
- The private passenger automobile/motorcycle, homeowners', and fire policies underwriting process is automated. Applications are accepted/rejected, electronically rated, and processed using standard underwriting algorithms. The Company's underwriting staff review applications as needed and answer questions from agents. Appropriate authority limits are assigned to each underwriter.
- The Company's underwriting system interfaces with the Massachusetts Registry of Motor Vehicles' system to obtain real-time information on Massachusetts and out-of-state drivers.
- For forms, the Company utilizes the Automobile Insurers Bureau of Massachusetts ("AIB") but does not utilize loss costs from any rating/advisory organization to develop their rates.
- The Company and its agents provide the automobile insurance buyer's guide to consumers.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- Private passenger automobile/motorcycle risk factors in the underwriting criteria include the number of violations, number of late/non-premium payments, cancellations notices, and driver experience, among other acceptable factors.
- For fire and homeowner forms, the Company utilizes ISO but does not utilize loss costs from any rating/advisory organization to develop their rates.
- The Company's underwriters have authority limits assigned to them. The underwriter reviews Company placement based on the risk for new business and verified loss history.
- Homeowners' underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type and discounts for security and safety features, and higher deductibles. In addition, the Company tests rates before use and loading into the Company's online quoting system.
- The Company uses credit-based scores for underwriting Massachusetts homeowners' policies. If the credit score fails to meet the minimum score required, the agent must obtain underwriting approval to bind the policy. If the Company declines the policy application due to an unacceptable credit score, the agent will send the applicant the FCRA Adverse Action Notice¹ determining coverage. In addition, the Company's underwriting staff may approve credit score exceptions for extraordinary life events, such as medical issues or a divorce, that can lead to lower scores with or without bankruptcy.
- The Company inspects all new business Dwelling Fire risks.
- Arbella submits the file to Myriad Development, Inc. ("Myriad") nightly for all new business homeowner risks. Myriad is a platform that weighs various property attributes contained in the program and automatically orders inspections on those properties that exceed the weighted threshold. The platform criteria include, for example, the Coverage A limits, number of families, year built, specific endorsements, policy type, protection class code, and roof type. In addition, considerations include unfenced pool, seasonal/secondary homes, number of claims, the total value of claims, and square footage if more than or equal to 5,000. If the criteria exceed the designated threshold, the Company

¹ This process was changed during the exam. The new process can be found under "Underwriting Declination Practices- Subsequent Actions Completed by the Company" on Page 4. Arbella's mailroom now sends the FCRA notice to the applicant.

conducts an inspection. There are four types of assessments exterior only, exterior with calculations (replacement cost), exterior/interior with calculations, and high value. Arbella also may order an inspection at renewal where the underwriter learns of new risk information or if the risk results from a book roll.

- For statistical reporting, the Company has developed testing procedures to ensure the accuracy and completeness of key statistical data. The Company reports monthly automobile premium statistical data to the Commonwealth Automobile Reinsurers (“CAR”) and quarterly homeowner premium data to ISO. Any errors exceeding acceptable tolerance levels must be corrected and resubmitted.

Examination Procedures Performed: INS interviewed Company personnel responsible for the underwriting and rating processes. In addition, INS selected 25 private passenger automobile, 25 homeowners, and 25 fire policies issued or renewed during the examination period to verify that each application was timely and correctly processed and that the policy’s premium and discounts complied with statutory and regulatory requirements and filed rates.

Examination Conclusions: Based on testing, the Company issues personal lines policies following statutory and regulatory requirements. The premium rates charged and the discounts applied for the tested policies comply with its policies, procedures, statutory requirements, and rates filed with the Division for homeowners and the fire policies. However, the testing identified the following finding regarding the private passenger automobile rates:

Rating Practices

Findings: The Company failed to include, in their private passenger automobile rate filing with the Division of Insurance, the rate for RFID 1-751, the \$300 Part 7 & 9 deductible factors as required by M.G.L. c. 175E, § 7.

Required Actions: The Company must file the deductible factors with the Division.

Subsequent Action Completed by the Company: The Company filed a corrected rate filing with the Division on November 3, 2022, under SERFF Filing #: ARMU-133439908. The Division approved the corrected filing on November 30, 2022.

Vacated At-Fault Accident Determination Practices:

Summary of Company Policies and Procedures:

- The Company procedures ensure that an at-fault driver, using Massachusetts standards of fault, and when the claim value exceeds \$1,000, is provided a “Notice of At-Fault Accident Determination.” The notice indicates that the at-fault accident will impact the driver’s Safe Driver Insurance Plan (“SDIP”) and that the driver may appeal the at-fault determination to the Division’s Board of Appeal (“BOA.”)
- Corrections are batched and transmitted weekly to the Registry of Motor Vehicles and Insurance Services Office. Also, Arbella sends a Safe Driver Insurance Plan file to PLIS nightly. PLIS transmits notification of the vacated surcharge, reviews impacted policies and makes appropriate policy premium corrections.
- The Company has elected to report its at-fault accident determinations to the industry database, the Comprehensive Loss Underwriting Exchange (“CLUE”). The Company notifies CLUE of all vacated at-fault decisions within 15 days of receipt of the vacated action.

Examination Procedures Performed: INS interviewed Company personnel responsible for processing vacated at-fault accident determinations. In addition, INS selected and tested 25 vacated at-fault accident

determinations by the “BOA”. INS testing seeks to verify the Company reported the vacated at-fault determination timely to CLUE. INS concluded that the Company is in compliance with the required annual reporting to the Merit Rating Board per 211CMR 134.

Examination Conclusions:

Findings: Two (2) of the 25 vacated at-fault accident determinations resulted in the insured not receiving the adjusted premium return within 30 days after the Company received the notice of the reversal decision. The Company did not process the adjusted premium return according to the requirements in M.G.L. c. 175E, § 7A, and Bulletin 2010-11. The Company correctly processed the remaining 23 vacated at-fault accident determinations,

Required Actions: The Company needed to update the vacate process control to avoid future delays. The Company has completed this action.

Subsequent Company Actions: The Company has updated the surcharge vacate process controls which will eliminate future delays such as those identified in the audit sample. The Company has provided the examiners with a copy of the updated process.

Underwriting Declination Practices:

Summary of Company Policies and Procedures:

- Company declination reasons include inadequate insurance to replacement value, coastal distance, dog breed, property occupancy, and insurance score.
- Company declination for private passenger auto include loss history, prior payment history, and driving history.
- Applications for private passenger automobile/motorcycle and homeowners’ coverage may be declined by the agent on the Company’s behalf or by the underwriting department if the risks do not meet the Company’s underwriting guidelines.
- When Arbella rejects an application for homeowners’ insurance based on the credit score, Arbella is responsible for sending the required FCRA adverse action notice directly to the applicant. If, because of credit, the policy is written in the higher than standard rate company, Arbella Protection Insurance Company, a disclosure is sent to the insured notifying them of the placement in the higher than standard rate company.

Examination Procedures Performed: INS interviewed Company personnel responsible for the underwriting and rating processes. In addition, INS selected 25 homeowners’ rejected applications and 25 private passenger automobile rejected applications to verify that the Company’s underwriting guidelines supported each declination. There were no fire policies declined during the examination period.

In addition, the Company responded that they do not maintain any documentation for declined automobile applications. The Company relies on the agents to inform the customer of Massachusetts Auto Insurance Plan (“MAIP”) eligibility.

Examination Conclusions:

Findings: The Company did not provide FCRA Adverse Action Notices to seven (7) of the 25 homeowner applications denied due to an unacceptable credit insurance score as required by the FCRA, 15 U.S.C. § 1681m § 615(a) and M.G.L. c. 93, § 62. The Company provided timely notices for the remaining 18 applicants.

Required Actions: The Company must create a process to ensure that all applicants declined due to credit-related issues receive the FCRA Adverse Action Notice.

Subsequent Company Actions: Arbella created and implemented a new process to ensure the Company captured all declined applicants due to credit scores. Under this process, Analysts pull insurance scores from new business quote applications stored in an internal data warehouse every two weeks. Then Analysts systematically identify the applications denied due to a credit score. Finally, they create a spreadsheet that identifies the applicants. The mailroom receives a spreadsheet copy and sends the Adverse Notices to all identified applicants.

Underwriting Cancellation and Non-Renewal Practices:

Summary of Company Policies and Procedures:

- The reasons for company-initiated underwriting cancellations within the first sixty days that a policy is in effect, and non-renewals for homeowner policies include inadequate insurance to replacement value, coastal distance, dog breed, property occupancy, and insurance score. After a homeowners policy has been in effect for sixty days or more, reasons for cancellation include nonpayment of premium or a material misrepresentation by an insured in obtaining the policy.
- Reasons for non-renewals of private passenger auto policies include loss history, prior payment history, and driving record. Reasons for cancellation include nonpayment of premium; fraud or material misrepresentation in the application for the policy or any renewal; or suspension of the driver's license of the insured.
- For cancellations, Arbella produces a legal notice of cancellation with the specific rationale for cancellation and mails it no less than 23 days for homeowners and auto policies and no less than 33 days for umbrella policies before the cancellation effective date.
- Umbrella application rejections are communicated directly to the agent, who notifies the applicant.
- For homeowners' policy *nonrenewal*, Arbella produces a notice and mails it no less than 48 days and no less than 33 days for umbrella policies prior to the effective date. The insured's copy and any third-party copies are mailed (using Certificate of Mailing), and Arbella sends an additional copy to the insured's agency via standard first-class mail.
- For private passenger auto nonrenewals, Arbella sends notices of non-renewal to the insurance producer so long as the producer is still an appointed Arbella agent. The producer must send a copy of the notice of non-renewal to the policyholder within 15 days of receiving the notice unless another insurer has issued a policy covering the vehicle.

Examination Procedures Performed: INS interviewed Company personnel responsible for the underwriting process. Additionally, INS tested 25 private passenger automobile, 25 homeowners, and 25 fire company-initiated underwriting cancellations/non-renewals to ensure compliance with the Company's underwriting guidelines and statutory requirements.

Examination Conclusions: Based on testing, the Company provided timely and adequate underwriting cancellation and non-renewal notices, with the specific reasons for the action disclosed correctly in the notice per statutory requirements. In addition, the specific reasons provided in the notices were reasonable and in compliance with the Company's underwriting guidelines.

VII. CLAIMS

Claims Handling Practices:

Summary of Company Policies and Procedures:

- The Claims Department consists of approximately 300 employees located in three (3) Massachusetts field offices and Arbella's home office in Quincy, Massachusetts.
- The three (3) field offices handle the private passenger automobile claims. The home office handles commercial automobile, homeowners, and commercial property claims.
- A claim manager reports through Senior Claim Leadership to the Vice President of Claims and supervises each functional area.
- Arbella Claim staff utilize an electronic handling and workflow claim system titled CWS to process Automobile and Homeowners property policy claims. In addition to capturing claim file documentation, history notes, and other necessary processing information, CWS is also a document management system.
- The Company's agents report most of Arbella's claims directly to the Claim Service Center. The Claim Service Center enters vital information into the claims system, establishes a claim number, and assigns a claims representative to handle the claim. The Claim Representative attempts to contact parties to the loss within one business day.
- If a call comes in after hours, and if it is not critical, the vendor can take initial claim information, and the customer will receive a call in the morning from a claim representative. However, if it is a critical claim, such as a house fire, the vendor will contact an on-call adjuster, and the insured will receive a call back within 30 minutes.
- When investigating auto claims, Arbella follows standard industry and CAR guidelines as well as Massachusetts standards of fault compensability and liability. The Claim Representative is responsible for evaluating the damages, estimating the cost of repairs, and determining coverage. Once compensability is determined, the Claims Department issues payments, less any deductible, within the coverage limits, policy provisions, and percentage of liability.
- In addition, the Claim Representative issues a reservation of rights and excess letters when potential coverage issues arise. If appropriate, the Claims Department will refer a matter to the Underwriting Department. Finally, claim professionals complete Department of Revenue checks on any payment equal to or above \$500 for any liability coverage paid.
- When the appraiser inspects the vehicle and declares a "total loss" under 211 CMR 133.04, the adjuster notifies the customer and transfers that portion of the claim to Arbella's Total Loss team for further handling.
- In settling total loss claims, Arbella adheres to the Governing Committee of CAR Performance Standards specified in 211 CMR 133.05. The value of the vehicle is assessed by the Total Loss Team using Mitchell Market Evaluation to determine the fair value. The total loss professional prepares an offer and presents it to the customer. Once the parties have agreed to a settlement figure, the adjuster secures all relevant documentation, including lienholder information and the vehicle title. Arbella issues payment to the vehicle owner, less salvage value if Arbella retains the vehicle. The salvage company disposes of the vehicle and returns any proceeds to Arbella as a credit against the claim file.
- When a third party is responsible for the loss, the claim is transferred to the claim subrogation team for recovery of certain issued payments. Once all potential exposures are resolved and all recovery options are exhausted, the claim professionals close claim files.
- An internally-developed bodily injury evaluation methodology serves to document the damages analyses. The Company makes settlement offers between the low and high settlement estimates, and management reviews any exceptions. Management approves specific individual claim settlement authority limits commensurate with the examiner's experience. Unit examiners and supervisors review

active bodily injury claims at the initial 30 and 60-day marks, after 90 days, and periodically after that. Additionally, the Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required.

- Claim professionals ensure that drivers determined to be “at-fault” after the Massachusetts standards of fault are applied and, when the claim value exceeds \$1,000, receive a “Notice of At-Fault Accident Determination.” The notice indicates the at-fault accident will impact the driver’s SDIP and that the driver may appeal the at-fault determination to the Board of Appeal.
- The Company reports at-fault accident determinations for claims paid over \$1,000 and all comprehensive claims and at-fault accident determinations to CLUE and the Merit Rating Board.
- “Reservation of rights” letters are issued with supervisory approval when potential coverage issues arise. In addition, a Department of Revenue check is performed as required by statute and documented in the claim files. Also, claims employees notify underwriting when they identify information of concern during the investigation. For property claims, the Company’s process for reporting claims above \$1,000 to municipal authorities is to send the required letter to the municipality shortly after receiving the claim.
- Arbella conducts audits of the branch offices. These audits include an in-depth review of the claims handling, proper handling of payments, and receipt and retention of appropriate claim documentation. This documentation includes but is not limited to, appropriate authorizations from insureds, settlement negotiations, and notification to municipalities and authorities. In addition, the auditors review the claims handlers’ ability to identify fraud and refer the matter to the SIU when appropriate. Finally, these audits cover compliance with regulatory requirements and Company procedures.
- Arbella conducts random post-claim payment customer satisfaction surveys of first-party claimants. Any negative comments are addressed through follow-up with the claimant with the results provided to the Chief Claims Officer.
- Arbella is subject to audits from CAR for compliance with claim standards, which specify timeframes for handling, reserving, and paying a claim.
- All premium written data is provided monthly to CAR, and the Company must correct any claim statistical errors exceeding standard CAR tolerance levels. In addition, Arbella uses ISO as its statistical reporting agent for homeowners’ claims and submits that data to ISO monthly.

Examination Procedures Performed: INS interviewed Company personnel responsible for the claims handling. INS selected 25 paid private passenger automobile and homeowner claims and 50 denied (or closed without payment) claims. Also, INS selected 25 paid fire claims and the total population of 41 denied or closed-without-payment fire claims for testing. INS verified the Company properly investigated, adjudicated, and paid or denied all claims following contract provisions and statutory requirements.

Examination Conclusions:

Finding: The Company failed to maintain a copy of the letter sent to the municipal authorities for one homeowner claim over \$1,000 as required by M.G.L. c. 139, § 3B. Other than the one (1) instance noted based on testing, the Company paid or denied all claims following contract provisions and statutory requirements.

Required Action: The Company must maintain copies of all correspondence sent to municipal authorities related to the requirements of M.G.L. c. 139 § 3B. The Company should remind the Claims staff in writing of the importance of maintaining the required copies of the correspondence.

Subsequent Action Completed by the Company: None.

SUMMARY

Based upon the procedures performed in this examination, INS 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 *2021 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations, and bulletins. INS has provided recommendations and required actions to address Underwriting, Rating, and Claims standards.

ACKNOWLEDGEMENT

This acknowledgment is to certify that the undersigned is duly qualified and, in conjunction with INS, applied certain agreed-upon procedures to the Company's corporate records 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. In addition, 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 Division acknowledges the cooperation and assistance extended to all examiners by the officers and employees of the Company during the comprehensive market conduct examination.



Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts



The INS Companies
Market Regulation Division
Philadelphia, Pennsylvania



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Market Regulation Division
Philadelphia, Pennsylvania