



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

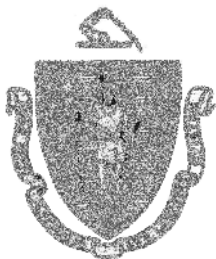
For the Period January 1, 2010 through December 31, 2010

NAIC COMPANY CODES: 17000, 41360, 10017
NAIC GROUP CODE: 0586

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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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

November 21, 2011

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

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

at their home offices located at:

1100 Crown Colony Drive
Quincy, MA 02269

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Arbella Mutual Insurance Company, Arbella Protection Insurance Company and Arbella Indemnity Insurance Company (collectively, “the Company”) for the period January 1, 2010 to December 31, 2010. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted concurrently as these companies are under common control and have common management, systems, processes and controls. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2010 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 management, control and general supervision of the examination staff of the Division, including procedures more efficiently addressed by the recently completed Division financial examination. For those objectives, examination staff discussed procedures expected to be performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was or would be adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The business 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.

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

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

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EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and required actions and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a “finding,” or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken shall be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and required actions and, if applicable, subsequent Company actions made, as part of the examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report and Appendix A 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 company operations/management, complaint handling, marketing and sales, producer licensing and policyholder service. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION IV-PRODUCER LICENSING

STANDARD IV-2

Finding: For one of the appointment terminations, the Company did not terminate the appointment in the OPRA System, and for the remaining four tested appointment terminations, the Company did not enter the terminations in the OPRA System within 30 days of the effective date of the termination in violation of M.G.L. c. 175, § 162T and Division guidelines.

Observation: The Company properly notified the agents of the pending appointment terminations in compliance with statutory requirements.

Required Actions: Generally, the appointment terminations should be effective when the agents’ duties to service their business are complete. Thus, the effective date of the appointment termination should generally be the first day that all business serviced by the agent is no longer in force. That same effective date should be the date entered in the OPRA System, but in no case should the date entered in the OPRA System be greater than 30 days after the appointment termination effective date. The Company shall communicate this policy to the staff and develop new procedures to ensure that termination dates are consistently determined, properly and timely entered in the OPRA System. Finally, the Company shall conduct an internal audit of the new appointment termination procedures by September 30, 2012 and report the results to the Division.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: M.G.L. c. 175, § 113B requires issuance of timely at-fault surcharge notices to operators in accordance with the Company's rating plan. RNA tested one private passenger automobile claim that resulted in an at-fault determination to an operator of the insured vehicle in which the required surcharge notice was not properly issued to the operator because the at-fault determination changed during the claim investigation.

Observations: Other than as noted above, based upon testing, the Company generally calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Required Actions: The Company shall ensure that when the final liability determination changes during a claims investigation, that the at-fault indicator within the underwriting system is consistent with the Company's final at-fault determination. Also, see testing of documentation of at-fault determinations in Claims Standard VII-5.

STANDARD VI-7

Findings: None.

Observations: Based upon testing and review of the information available, the Company's declinations were not unfairly discriminatory. The Company's standard private passenger automobile and homeowners declination notices appear to meet statutory notice requirements. The Company's policy of using insurance scores for homeowners minimum underwriting requirements complies with statutory and regulatory requirements. However, Company does not have homeowners declination data, which is retained by the agents. A declination is defined by the Division as one where an applicant submits a formal signed application for coverage to the Company or the agent, or when the Company or the agent inquires about an applicant's insurance score from a consumer reporting agency, and as a result of the application submission, or the receipt of the insurance score from the consumer reporting agency, is declined coverage either by the Company or agent. The Company has instructed its agents to retain information supporting declined homeowners applications for five years, including Fair Credit Reporting Act ("FCRA") declination notices provided to these applicants, and has monitored agents for compliance with these requirements.

Required Actions: The Company shall obtain from its agents or its consumer reporting agency, a periodic listing, at least quarterly, of homeowners' coverage applicants who were declined coverage. The declination listing should be used to complete annual audits of agents, on a test basis, for compliance with declination procedures, including evidence that the agents provided FCRA notices to these applicants. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by December 31, 2012, and report the results of the audit to the Division.

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SECTION VII-CLAIMS

STANDARD VII-5

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented its claim handling. However, RNA tested one private passenger automobile claim that resulted in an at-fault determination to an operator of the insured vehicle. The required surcharge notice was not properly issued to the operator because the at-fault determination changed during the claim investigation and was not properly documented in the claim file. Other than as noted above, 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.

Required Actions: The Company shall ensure that when the final liability determination changes during the claim investigation, the at-fault indicator within the claims system shall be consistent with the Company's final at-fault determination. The Company shall ensure that its next claim internal audit tests for compliance with this statutory requirement. Also, see testing of at-fault determinations in Underwriting and Rating Standard VI-1.

Subsequent Actions: As a result of our examination, the notice to the operator has been issued.

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COMPANY BACKGROUND

Arbella Mutual Insurance Company (“Mutual”) is the ultimate controlling entity of the Arbella Group and owns 99% of a downstream holding company, Arbella, Inc. Mutual writes personal lines automobile, homeowners, fire and umbrella policies in Massachusetts only. Arbella, Inc. owns 100% of Arbella Protection Insurance Company (“Protection”) and 100% of Arbella Indemnity Insurance Company (“Indemnity”). Protection writes commercial automobile, commercial multi-peril, and workers’ compensation policies in New England, with the vast majority of its business written in Massachusetts. Indemnity writes workers’ compensation and preferred risk commercial automobile policies in Massachusetts and Rhode Island, with the bulk of business written in Massachusetts.

Mutual’s statutory surplus as of December 31, 2010 is \$473.8 million with statutory admitted assets of \$1 billion. Protection’s statutory surplus as of December 31, 2010 is \$95.9 million with statutory admitted assets of \$245.0 million. Indemnity’s statutory surplus as of December 31, 2010 is \$17.8 million with statutory admitted assets of \$41.7 million. The Company maintains an A.M. Best financial strength fleet rating of A- (Excellent) with a stable outlook.

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. See Standards VI-25 and VII-14 for additional discussion with regard to Commonwealth Automobile Reinsurers ("CAR") and Massachusetts Workers' Compensation Rating and Inspection Bureau ("WCRIB") audit results. See Standard VI-13 for a discussion of premium audits.

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 and Audit Committee are ultimately responsible for compliance matters. The Audit Committee's membership consists of three independent directors and one director, who is not independent since he provides legal services for the Company. The Company's General Counsel reports to the Board of Directors and the Audit Committee regarding legal and compliance matters. Finally, the Company's internal audit function reports to the Audit Committee.
- The Company's internal audit department staff conducts financial, operational and compliance audits. Information technology internal audits are outsourced to a large auditing firm. The Company's internal audit plan is presented to, and approved by, the Audit Committee, which monitors the progress of the audit plan. A summary of audit results is presented to the Audit Committee.
- The Company's Operations Department conducts monthly quality assurance tests of personal lines new business, renewal business and endorsements to evaluate the timeliness and accuracy of transaction processing. Any errors noted are corrected, and the results of the quality assurance testing are incorporated in the staffs' annual performance reviews.
- Quality assurance reviews of commercial lines underwriting are performed at least annually and targeted to current concerns and potential problems. All commercial lines were reviewed in 2010, and only workers' compensation is being reviewed in 2011.
- Personal lines agency audits are conducted by the Company, with each agency audited at least once every four years, with problem agencies audited more frequently. The audit procedures differ each year, but generally include evidence of signed applications, account credit support, declination notices and compliance with agency contractual requirements. The results are communicated to the agencies, and any necessary follow up is completed.
- Commercial lines agency audits are annually completed for 40 commercial policies to ensure that supporting documentation is consistent with that submitted to the Company.
- The Company regularly conducts commercial policy premium audits including its worker's compensation business.
- The Company's claims quality assurance review process evaluates claims for adherence to Company policies and procedures. For auto claims, seven claim files are reviewed for each claim representative per quarter by the claims team manager. For other claim types, claims from each claims representative are randomly selected for periodic review and evaluation.

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- The Company is subject to periodic premium and loss data audits by 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.
- The WCRIB serves as a rating organization and statistical agent for Massachusetts-licensed insurers. The WCRIB conducts periodic audits of the Company's worker's compensation premium and claims statistical data.
- The Department of Industrial Accidents ("DIA") has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. The DIA has not conducted any recent audits of the Company's quarterly assessment calculations.

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 selected internal audit reports, evidence of underwriting and claim quality assurance audits, evidence of agency field audits, recent CAR audits and the most recent WCRIB 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 internal audit reports, evidence of underwriting and claim quality assurance audits, evidence of agency field audits, recent CAR audits and the most recent WCRIB audit reviewed by RNA provided detailed information on the procedures performed, audit findings and recommendations. The review of these audits 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 was included in the scope of the recently completed statutory 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.

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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").
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the National Insurance Crime Bureau ("NICB").
- All Company directors and employees are annually required to attest that they are in compliance with the Code of Ethics including the conflict of interest policy.
- Prospective employees are asked about their criminal backgrounds on employment applications and must attest to not having been convicted of a felony.
- The Company has implemented Office of Foreign Asset Control compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any payees, customers 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 reviewed 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 was included in the scope of the recently complete 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.

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

- The Company's sales distribution is through independent agents. The Company verifies that agents are properly licensed as Massachusetts producers prior to contracting with them. The Company's standard agent contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, advertising, indemnification, underwriting policies, errors and omissions coverage and expirations ownership.
- Information technology internal audits are outsourced to a large auditing firm. The Company's internal audit plan, which includes such audits, is approved by the Audit Committee, which monitors the progress of the plan.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys.

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 new and renewal business testing, RNA reviewed producer documentation that supports the new or renewal business sold. As part of claims testing, RNA reviewed work completed by outside defense counsel.

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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, which are monitored by the Office of the General Counsel.
- 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.

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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.

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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.
--

The objective of this Standard relates to privacy matters included elsewhere in this section.

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.

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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 personal lines underwriting testing and all 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 50 private passenger automobile and 35 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 personal lines underwriting and all claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with personal lines underwriting and all 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 personal lines underwriting and all 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 personal lines underwriting and all claims.

Recommendations: None.

Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

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.
- The Company's internal audit function conducts information technology audits, which address information security and access controls.

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- 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. Review of information technology access and authorization controls was also included in the scope of the recently completed statutory financial examination of the Company.

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.
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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 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 personal lines' policy administration and claims systems compile and retain underwriting and claims data for inclusion in the NAIC Market Conduct Annual Statement.
- The Company's personal markets' policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.

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 personal lines underwriting and claims processing. RNA also reviewed the 2010 NAIC Market Conduct Annual Statement Massachusetts data for unusual results and concerns. RNA reviewed the homeowners underwriting and claims data filed with the Division in 2010.

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Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2010 NAIC Market Conduct Annual Statement Massachusetts data indicated no unusual underwriting or claims data. RNA's review of the homeowners underwriting and claims data filed with the Division in 2010 indicated no unusual data or concerns.

Recommendations: None.

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.
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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 regulatory complaints are written and directed to the Compliance Specialist, who records the complaint in the regulatory complaint register. The Compliance Specialist forwards the complaint to the appropriate business unit for response and preparation of the complaint tracking sheet. Internet complaints and phone calls with questions or concerns are addressed by the appropriate business unit. Internet complaints are tracked on separate internet complaint registers.
- Claims-related complaints are also tracked by the claims department on the claims complaint register. A claims manager prepares the complaint response, which is reviewed by the Vice-President of Claims. The response is provided to the Compliance Specialist, who records the response date in the regulatory complaint register. Other business units have similar procedures for responding to regulatory complaints.
- The Company's policy is to respond to regulatory complaints within 14 days when possible.
- The Company provides a telephone number and address in its written responses to regulatory complaints and consumer inquiries and on its web-site.
- The regulatory complaint registers 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.
- Claims complaint statistics are compiled from regulatory complaint registers and reviewed by management and the Board of Directors.

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 registers for 2009-2011 to evaluate the Company's compliance with statutory complaint requirements and reviewed procedures to summarize claims-related complaint activity. RNA also reviewed the Company's regulatory complaint registers from 2009-2011 to determine whether they properly contained all Division complaints. Finally, RNA reviewed claims complaint statistics compiled from regulatory complaint registers for reasonableness and consistency.

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Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's regulatory complaint registers included all statutorily-required database elements and that the regulatory complaint registers were complete. Finally, the Company's claims complaint statistics appear reasonable and consistent.

Recommendations: None.

Subsequent Actions: The Company has begun to track complaints on its regulatory complaint register by statutory entity, since the Division tracks them in that manner.

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 22 regulatory complaints and three internet complaints from the 2009-2011 period, to evaluate the Company's compliance with statutory complaint requirements. 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.
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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.

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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 22 regulatory complaints and three internet complaints from the 2009-2011 period, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. 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.

Recommendations: None.

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 22 regulatory complaints and three internet complaints from the 2009-2011 period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely each of the tested Division complaints within 14 days, unless additional time to respond was approved by the Division. Internet complaints also appeared to be addressed timely. 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 radio, print and mail insert advertising to the public and brochures regarding personal and commercial lines products for general public use.
- The Company approves agency advertising where the Company's name is mentioned.
- Product brochures are developed by teams, which include subject matter experts in product design, underwriting, actuarial 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 approval of all materials by the Office of 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 nine advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. RNA selected five of those materials for evidence of Office of General Counsel 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: RNA noted that the five selected materials had evidence of Office of General Counsel approval prior to use. All sales materials reviewed appeared accurate and reasonable, and the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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:

- Newly appointed agents receive on-site training or training through Arbella University regarding the Company's products and compliance matters.
- The Company's seven Massachusetts field marketing representatives periodically visit all independent agencies to provide training and guidance regarding underwriting guidelines, new products, use of the Company's agent portal, and general policies and procedures.
- The Company conducts regional sales meetings and educational sessions for its agents twice a year.
- Continuing education requirement compliance is monitored by the agents. The agents receive reimbursement for educational costs from the Company.

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 agent training materials to understand the nature and breadth of the Company's producer training. RNA reviewed four agent training presentations for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's agent training processes appear adequate. Based upon testing, agent training materials appear accurate and reasonable.

Recommendations: None.

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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing agent communications to understand the nature and breadth of such communications. RNA evaluated the Company's agent portal to understand how policies and procedures are communicated to agents. Finally, RNA reviewed agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for agent communications appear appropriate and reasonable. RNA noted no evidence of unreasonable agent communications as part of new and renewal business testing.

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 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:

- The Company uses approximately 450 independent agencies and individual agents to produce business.
- The Company's field marketing representatives recruit experienced producers, who wish to sell the Company's products. A written application must be completed by any producer seeking an agency appointment 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 agent appointments require the approval of a committee comprised of representatives of marketing, commercial and personal lines underwriting, and operations.
- The Company's standard agency contract's terms and conditions address agent authorities, premium accounting and remittance, contract termination, commissions, advertising, indemnification, underwriting policies, errors and omissions coverage and expirations ownership.
- The agencies are required to maintain E&O coverage in the amount of \$1 million per claim and \$3 million in aggregate.
- All agents are appointed through the Division's On-Line Producer Appointment ("OPRA") System.
- Agent commissions are paid monthly based on prior month activity. Agent advances are rare, but the Company may advance a portion of future profit sharing payments.
- Annual disclosure is made to policyholders regarding the payment of commissions to agents as a result of the policyholders' business.
- The Company completes an annual reconciliation of its agent appointment and termination records with the OPRA System, and makes corrections to the records as necessary.

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 contracting and processing of agent appointments. RNA selected 50 private passenger automobile, 35 homeowners, eight commercial automobile, seven commercial multi-peril and 10 workers' compensation policies issued or renewed during the examination period, to determine whether the agent for each policy was included on the Division's list of the Company's appointed agents.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed at the time of the sale.

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.

Refer to Standard IV-1.

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:

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the termination.
- Agency appointment terminations are reported timely to the agent and are to be reported to the Division through the OPRA System.
- The Company completes an annual reconciliation of its agent appointment and termination records with the OPRA System, and makes corrections to the records as necessary.

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 agent contracting and appointment termination processing. Since there are few appointment terminations with effective dates in 2010 and 2011, RNA selected five appointment terminations from the Company's appointment termination listing and compared those to information on the Division's OPRA System. Further, RNA reviewed evidence that notice to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Finding: For one of the appointment terminations, the Company did not terminate the appointment in the OPRA System, and for the remaining four tested appointment terminations, the Company did not enter the terminations in the OPRA System within 30 days of the effective

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date of the termination in violation of M.G.L. c. 175, § 162T and Division guidelines.

Observation: The Company properly notified the agents of the pending appointment terminations in compliance with statutory requirements.

Required Actions: Generally, the appointment terminations should be effective when the agents' duties to service their business are complete. Thus, the effective date of the appointment termination should generally be the first day that all business serviced by the agent is no longer in force. That same effective date should be the date entered in the OPRA System, but in no case should the date entered in the OPRA System be greater than 30 days after the appointment termination effective date. The Company shall communicate this policy to the staff and develop new procedures to ensure that termination dates are consistently determined, properly and timely entered in the OPRA System. Finally, the Company shall conduct an internal audit of the new appointment termination procedures by September 30, 2012 and report the results to the Division.

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 agent contracting, appointments and terminations. In conjunction with testing of 50 private passenger automobile, 35 homeowners, eight commercial automobile, seven commercial multi-peril and 10 workers' compensation policies issued or renewed, and five appointment terminations 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.

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Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent contracting and appointment termination processing. RNA selected five 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.

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.

<u>Standard IV-6. Producer account balances are in accordance with the producer’s contract with the insurer.</u>

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the recently completed statutory financial examination of the Company.

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 direct bills most policyholders 30 - 45 days prior to the policy renewal effective date. A policy declaration page indicating the coverage type, policy limits and premium due is sent with the policy renewal and billing notice.
- Billing of personal lines customers is primarily by direct bill in a maximum of 10 installments, payroll deduction or electronic funds transfer. Throughout the policy period, direct billed policyholders are billed 20 days in advance of the due date. A 20% down payment is generally required at the application date. For payroll deducted premiums, employers are billed monthly. A small number of personal lines policies are agency billed.
- If installment payments are not timely made, or there are insufficient funds in the policyholder's account, a notice to the policyholder is sent stating that the policy will cancel in 23 days if the payment is not made. If after 23 days no payment has been made, a letter is sent notifying the policyholder that the policy has been cancelled.
- Billing of commercial lines policyholders is by installment direct bill, in a maximum of nine installments, or by agency bill. Certain commercial policies including workers' compensation policies are subject to retroactive premium adjustments through premium audits for changes in the risk.
- Customer service representatives answer general questions about the policyholder's policy or billing and can make billing, address or name changes.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.

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.

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:

- Company policy is to cancel policies upon notification from the agent of the policyholder's request, 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.

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 six private passenger automobile, six homeowners, five commercial automobile, five commercial multi-peril and five workers' compensation 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.

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

- Customer service representatives answer general questions about the policyholder's policy or billing and can make billing, address or name changes.
- The Company considers its producers as having the primary relationship with the policyholder. Since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through their agent. Policyholders who request such changes through customer service can be transferred to the agents for servicing.
- The Company monitors customer service call centers to ensure that adequate resources are available to address customer inquiries.
- Internet inquiries are addressed by the appropriate business unit. Requests are tracked for completion and documented.

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. Finally, RNA reviewed documentation of internet inquiries showing that requests were investigated and completed.

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 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:

- The Company has policies and procedures designed to locate lost owners via Company records, inquiries of agents and searches of public databases. For un-cashed checks, after six months, the accounting department provides the claims, billing and research departments a list of un-cashed checks to research. Further research is conducted and the Company sends a letter to the last known address in an attempt to locate the owner. If there is no response or the letter is returned, the item is tracked for escheatment. Two months prior to escheatment deadlines, the Company makes a final attempt to locate the owner for un-cashed checks greater than \$100.
- Company policy requires that un-cashed checks including claims and premium refunds be reported and escheated when the owner cannot be located. Further, the Company annually reports escheatable funds to the State Treasurer by November 1st as required by statute.
- The Company's internal audit function has conducted an internal audit of procedures to locate lost owners and escheatment.

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.

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 six private passenger automobile, six homeowners, five commercial automobile, five commercial multi-peril and five workers' compensation 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 agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide, or ask the agent to 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

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inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

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 Standard VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's agents submit personal lines applications electronically using a web-based agent portal. The electronic applications interface with the Company's underwriting and policy administration systems, which are used for quoting, rating and underwriting policy applications.
- The Company's agents submit commercial lines application data and billing mode information either in paper form, facsimile, or by electronic mail. The application information is input into the Company's underwriting and policy administration system, which is 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 and commercial automobile rates are filed with the Division and approved prior to use.
- Private passenger automobile underwriting criteria include, driving history, loss history, and youthful driver status. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The low mileage discount form, which verifies actual private passenger automobile mileage, must be completed annually to receive the low mileage discount.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules.
- Company policy requires that homeowners and commercial property/liability rates are based on Insurance Services Office ("ISO") rates, and the Company files such rates with the Division for approval prior to use.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, seniors, new construction, security features, safety features, multi-year renewals, and higher deductibles.
- Commercial property/liability rating criteria include territory, coverage amount and type, property age, protection class and structure type. For business owner policies, rates are generally based on the number of employees, payroll and type of business code.
- The Company uses workers' compensation rates determined by the WCRIB, which serves as a rating organization and statistical agent. The WCRIB files its rates with the Division on behalf of the Company. Such rates are generally based on the number of employees, payroll and job classification code. The WCRIB also serves as the Division's assigned risk pool administrator.

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and the DIA's coverage verification entity. The WCRIB conducts periodic audits of the Company's workers' compensation statistical reporting.

- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations.
- All of the Company's rates are maintained electronically. The Company has policies and procedures for making changes to premium rates and testing those changes prior to loading in the policy administration systems.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information, including evidence of testing of rate changes. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test rate classifications and underlying policy information. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements. In addition, RNA selected seven private passenger and one commercial automobile, four homeowners, one commercial multi-peril and five workers' compensation policies issued or renewed during the examination period to test the accuracy of the rated premium. For these policies, RNA verified that each policy's premium agreed with the Company's rates filed with the Division. RNA reviewed the policies and procedures for making changes to premium rates and testing those changes prior to loading in the policy administration systems. In addition, RNA reviewed the 2009 CAR private passenger automobile audit report and the 2011 CAR commercial automobile audit report on the Company's compliance with CAR premium statistical coding requirements. RNA also reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: M.G.L. c. 175, § 113B requires issuance of timely at-fault surcharge notices to operators in accordance with the Company's rating plan. RNA tested one private passenger automobile claim that resulted in an at-fault determination to an operator of the insured vehicle in which the required surcharge notice was not properly issued to the operator because the at-fault determination changed during the claim investigation.

Observations: Other than as noted above, based upon testing, the Company generally calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Required Actions: The Company shall ensure that when the final liability determination changes during a claims investigation, that the at-fault indicator within the underwriting system is consistent with the Company's final at-fault determination. Also, see testing of documentation of at-fault determinations in

Claims Standard VII-5.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

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 agents, who are required to provide them to consumers.
- The Company conducts periodic agency field audits to monitor compliance with recordkeeping requirements such as the maintenance of signed applications and underwriting support.

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 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages. Finally, RNA reviewed an example of a completed agency field audit during the examination period.

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,

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regulations and bulletins.

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

- The Company has procedures for paying agent commissions in accordance with written contracts.
- The Company's producer contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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 commission processing and producer contracting. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period to review commissions paid to producers and for indications of rebating, commission cutting or 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. Finally, commissions paid appeared reasonable.

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. See Standard VI-7 for testing of declinations. 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 in accordance with statutory requirements.
- Private passenger automobile underwriting is generally automated. Electronic applications are rated and processed using standard underwriting algorithms.
- Written Company underwriting guidelines for homeowners and commercial lines products are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

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- Certain risks are referred to the underwriting department to determine whether they should be rated, accepted or rejected.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

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 Automobile Insurer's Bureau of Massachusetts ("AIB") Massachusetts Private Passenger Automobile Form 8th Edition, which has been approved by the Division.
- Company policy requires that all homeowners, commercial property/liability and workers' compensation 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 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed

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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.
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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, which are designed to reasonably assure consistency in classification and rating.
- Applications submitted by agents are reviewed by the underwriting department to ensure that they are complete and internally consistent.
- Any significant changes in policy coverage must be requested through the agents, who must timely process such requests.
- Pre-insurance inspections are generally required for new coverage of used private passenger automobiles, unless the applicant has been insured with the Company for three consecutive years. Waivers from pre-insurance inspections are allowed for hardship reasons, a lack of inspection facilities near the applicant, producer book of business transfers, and for automobiles ten years and older.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. Also, RNA verified that for the 50 private passenger automobile policies tested, the Company complied with pre-insurance inspection requirements when necessary. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. In addition, private passenger automobile policies were issued in compliance with pre-insurance inspection requirements.

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.
- Insurance applications for all lines of business may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines. In addition, homeowners' applicants may be declined for coverage if the applicants do not meet minimum insurance score thresholds set by the Company.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company requires agents to provide personal lines applicants with declination notices when applicants do not meet the Company's minimum standards for coverage.
- The Company's commercial lines declinations are communicated to the agents by the underwriting department. The agent will notify the applicant that coverage has been denied or find another carrier to accept the risk.
- The Company conducts periodic agency field audits to monitor compliance with recordkeeping requirements including agents' retention of personal lines declination notices for a period of five years.

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 10 private passenger automobile, three commercial automobile, two commercial multi-peril, and one workers' compensation declination processed during the examination period to ensure that declinations were not unfairly discriminatory. RNA could not select any homeowners declinations for testing, since the Company does not have homeowners declination data, which is retained by the agents. RNA also reviewed examples of standard private passenger automobile and homeowners declination notices for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing and review of the information available, the Company's declinations were not unfairly discriminatory. The Company's standard private passenger automobile and homeowners declination notices appear to meet statutory notice requirements. The Company's policy of using insurance scores for homeowners minimum underwriting requirements complies with statutory and regulatory requirements. However, Company does not have homeowners declination data, which is retained by the agents. A declination is defined by the Division as one where an applicant submits a formal signed application for coverage to the Company or the agent, or when the Company or the agent inquires about an applicant's insurance score from a consumer reporting agency, and as a result of the application submission, or the receipt of the insurance score from the consumer reporting agency, is declined coverage either by the Company or agent. The Company has instructed its agents to retain information supporting declined homeowners applications for five years, including Fair Credit Reporting Act ("FCRA") declination notices provided to these applicants, and has monitored agents for compliance with these requirements.

Required Actions: The Company shall obtain from its agents or its consumer reporting agency, a periodic listing, at least quarterly, of homeowners' coverage applicants who were declined coverage. The declination listing should be used to complete annual audits of agents, on a test basis, for compliance with declination procedures, including evidence that the agents provided FCRA notices to these applicants. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by December 31, 2012, and report the results of the audit to the Division.

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 and commercial automobile policies are a result of nonpayment of premium, driver license suspension, or material misrepresentation, and most occur within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder and the agent at least 20 days prior to the cancellation effective date.
- Company-initiated cancellations of homeowners and commercial multi-peril policies are a result of nonpayment of premium, changes in the risk, or material misrepresentation, and most occur within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder and the agent at least five days prior to the cancellation effective date.

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- Company-initiated cancellations of workers' compensation policies are provided in accordance with statutory requirements. Written notice of cancellation is sent to the policyholder and the agent
- Written non-renewal notices for unacceptable private passenger automobile, commercial automobile, homeowners and commercial multi-peril risks are provided to agents approximately 45 days prior to the non-renewal effective date. The notices state the specific reason for non-renewal, and the agents are to communicate the pending action and the specific reason for it to the policyholders within 15 days of receipt. Written non-renewal notices for unacceptable workers' compensation risks are provided to the agents within a reasonable period prior to the non-renewal effective date.

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 10 private passenger and two commercial automobile, five homeowners, and one commercial multi-peril company-initiated cancellation transactions for testing. RNA also selected nine private passenger and three commercial automobile, seven homeowners, one commercial multi-peril and one workers' compensation non-renewal transactions for testing. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: For the company-initiated cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were 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, the legal department must approve rescissions, which are given only for significant material misrepresentations or fraud. Generally, the Company would cancel coverage mid-term in such cases.

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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 inquired about any rescissions during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable. The Company states that no rescissions were processed during the examination period.

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 Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information, including evidence of user testing of rate changes. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test rate classifications. In addition, RNA selected seven private passenger and one commercial automobile, four homeowners, one commercial multi-peril and five workers' compensation policies issued or renewed during the examination period to test the accuracy of the rated premium. RNA verified that policy credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company consistently applies credits and deviations on a non-discriminatory basis in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses whether schedule rating or individual risk premium modification plans are based on objective criteria and appropriately documented. 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 determining schedule rating and individual risk premium modification plans.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company-required forms and instructions.
- Underwriting personnel are required to approve schedule rating and individual risk premium modification plans, and ensure that such decisions are documented in the underwriting files.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. The WCRIB conducts periodic audits of the Company's worker's compensation statistical reporting.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting process. RNA selected seven commercial multi-peril and 10 workers' compensation policies issued or renewed during the examination period, to test that schedule rating and individual risk premium modification plans are objective and documented. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's schedule rating and individual risk premium modification plans are objective and documented in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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.

Objective: This Standard addresses the use of loss costs and expense multipliers filed with the Division. 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 the use of loss costs and expense multipliers.
- The WCRIB approves the use of loss costs and expense multipliers, and such deviations are filed with the Division.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. The WCRIB conducts periodic audits of the Company's worker's compensation statistical reporting.
- The underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting and rating process. RNA selected 10 workers' compensation policies issued or renewed during the examination period, to test the use of loss costs and expense multipliers as filed with the Division. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly use loss costs and expense multipliers as filed with the Division.

Recommendations: None.

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

Objective: This Standard addresses the performance of premium audits to verify proper rating factors. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for conducting premium audits to verify rate factors.
- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with Company policies and procedures.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting and rating process. RNA selected eight commercial automobile, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to seek evidence that the Company conducted premium audits to verify rate factors, when applicable. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly conduct premium audits and verify rate factors.

Recommendations: None.

Standard VI-14. Verification of experience modification factors.

Objective: This Standard addresses the use of experience modification factors. 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 verifying experience modification factors.
- The WCRIB approves experience modification factors, and such deviations are filed with the Division.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment

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calculations. The WCRIB conducts periodic audits of the Company's worker's compensation statistical reporting.

- The underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting and rating process. RNA selected 10 workers' compensation policies issued or renewed during the examination period to test for the use of experience modification factors as filed with the Division. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company generally appears to properly use experience modification factors as filed with the Division.

Recommendations: None.

Standard VI-15. Verification of loss reporting.
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Objective: This Standard addresses the maintenance and verification of accurate loss histories. 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 the maintenance and verification of accurate loss histories.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. The WCRIB conducts periodic audits of the Company's worker's compensation statistical reporting.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating process. RNA selected 10 workers' compensation policies issued or renewed during the examination period to test maintenance and verification of accurate loss histories. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to maintain and verify accurate loss histories.

Recommendations: None.

Standard VI-16. Verification of regulated entity data provided in response to the NCCI call on deductibles.
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No work performed. This Standard is not covered in the scope of examination because the Company is not subject to NCCI data calls.

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.
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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 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.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation 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 evaluated certain complaints to ensure that underwriting is completed at or near inception of the coverage. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

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.
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See Standard VI-13 for premium audits and Standard I-1 for audits by internal and external auditors.

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 Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period, to test for the use of policy forms and approved endorsements in compliance with statutory requirements. Finally, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

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 agent is responsible for obtaining the VIN and vehicle symbol when the application is completed. For electronically submitted applications, the applicant must supply such vehicle information when prompted.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN and vehicle symbol.
- 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 50 private passenger and eight commercial automobile issued 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.

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.

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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 underwriting department to determine whether they should be accepted or rejected.

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 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation 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.
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No work performed. This Standard is not covered in the scope of examination because the Company does not offer mass marketing plans.

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 group products.

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.

See Standard VI-8 for testing of this Standard.

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 producer 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, ISO or the WCRIB.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- The DIA has the authority to conduct periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers' Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The DIA has not conducted a recent audit of the Company's workers' compensation premium assessment calculations. The WCRIB conducts periodic audits of the Company's worker's compensation statistical reporting.
- The Company's underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported 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 interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed during the examination period to test data coding for selected policy determinants. Also, RNA reviewed the 2009 CAR private passenger automobile audit report and the 2011 CAR commercial automobile audit report on the Company's compliance with CAR statistical coding requirements for key underwriting data determinants. Finally, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation premium statistical reporting requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded. The CAR audit reports indicate the Company generally codes automobile policies accurately. The WCRIB audit report indicates the Company generally codes workers' compensation policies accurately.

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.
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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.
- 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. Personal lines applications are to be retained by the agents for a period of five years.
- Underwriting personnel review commercial lines applications submitted by agents for determination of whether the risks should be accepted or rejected.
- The underwriting department is subject to periodic home office quality assurance audits to ensure compliance with Company underwriting and rating guidelines, with results reported to management.
- The Company conducts periodic agency field audits to monitor compliance with recordkeeping requirements such as the maintenance of signed applications and underwriting support.

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 50 private passenger and eight commercial automobile, 35 homeowners, seven commercial multi-peril, and 10 workers' compensation policies issued or renewed 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 evaluated certain complaints to ensure that underwriting decisions were properly supported. Also, RNA reviewed evidence of quality assurance testing performed in 2010 and 2011. Finally, RNA reviewed evidence that the Company completes periodic agency field audits to monitor compliance with recordkeeping requirements such as the maintenance of signed applications.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. The Company appears to complete periodic agency field audits to monitor compliance with recordkeeping requirements such as the maintenance of signed applications.

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 claims function is organized by line of business and function. Functional teams include: homeowners, commercial liability, commercial and personal property, automobile bodily injury, automobile medical pay, automobile glass, and workers' compensation. The functional teams are further organized within a supervisory structure. Additional specialized functional units include the SIU, subrogation, and automobile claims centers that handle appraisals and physical damage claims.
- Written policies and procedures govern claims handling processes. Claims are processed using electronic work flow systems to document claims activities and decisions through history notes. The systems incorporate a document management system for electronic cataloging, storage and retrieval.
- First notice of loss is typically reported through the Company's 800 telephone number, by a fax, 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 claim file.
- Once a claim is reported, Company policy is to contact the claimant and other parties within 24 hours and to assign a claims adjuster. For workers' compensation claims, the policy is to contact the injured worker, the employer and the medical provider within two days. The case is immediately assigned to a case manager for handling.
- Company policy is to investigate all claims in a timely manner in accordance with its policies, procedures, and regulatory requirements.
- 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's SIU assists with claims where fraud indicators are present. Company policy is to report fraud to the IFB, when fraud is believed to have occurred and to comply with CAR's SIU performance standards. All auto thefts are reported to the NICB.
- Company policy requires the use of DIA workers' compensation claim forms and reporting notices.
- Company policy is to accept or reject all workers' compensation claims within 14 days of the claim filing, in compliance with DIA regulatory requirements. Catastrophic cases are evaluated by occupational and rehabilitation specialists, who may periodically assess the injured worker.
- When a decision to terminate workers' compensation benefits is made, the Company provides notice in accordance with statutory requirements. If a claimant disagrees with the termination

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decision, the claimant may file a complaint with the Company. In addition, claimants may appeal termination decisions through the DIA.

- Claim activity is monitored by management using monthly reporting of claim volume, aging, reserve adjustments, payment activity and trends. Supervisors review individual claim file activity, particularly for larger claims.
- The Company has established a quality assurance review process, whereby claims are reviewed and evaluated for adherence to Company policies and procedures. For auto claims, seven claim files are reviewed for each claim representative per quarter by the claims team manager. For other claim types, claims from each claims representative are randomly selected for periodic review and evaluation. The results of the reviews are documented in written management reports.
- The Company conducts post-claim payment surveys to first party insured personal lines and commercial auto claimants regarding their satisfaction with claims handling.

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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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: RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-3. Claims are resolved in a timely manner.
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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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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 handling claims are generally 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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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 providing timely responses 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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied

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or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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. However, RNA tested one private passenger automobile claim that resulted in an at-fault determination to an operator of the insured vehicle. The required surcharge notice was not properly issued to the operator because the at-fault determination changed during the claim investigation and was not properly documented in the claim file. Other than as noted above, 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.

Required Actions: The Company shall ensure that when the final liability determination changes during the claim investigation, the at-fault indicator within the claims system shall be consistent with the Company's final at-fault determination. The Company shall ensure that its next claim internal audit tests for compliance with this statutory requirement. Also, see testing of at-fault determinations in Underwriting and Rating Standard VI-1.

Subsequent Actions: As a result of our examination, the notice to the operator has been issued.

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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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.

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 processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements. Further, upon evaluation of claims-related complaints, such claims generally 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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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.

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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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

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 12 private passenger and commercial automobile claims, ten homeowners claims, one commercial multi-peril, and two workers' compensation claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

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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. Full claim settlement attestation is required for certain liability claims through a written settlement agreement. 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.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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.

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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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two 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 a format required by ISO.
- The Company reports workers' compensation loss data to the WCRIB in the format required by the WCRIB. Loss data is automatically provided monthly from the Company's claim system. The WCRIB reviews the loss data submitted for evidence of any loss code errors and communicates any such errors to the Company, which responds to the inquiry.
- The Company provides the WCRIB with periodic data reconciliations.
- 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 and commercial automobile claims including 40 paid claims, 12 denied or closed-without-payment claims and six open claims for testing. Also, RNA selected homeowners claims including 20 paid claims, 10 denied or closed-without-payment claims and five open claims for testing. In addition, RNA selected commercial multi-peril claims including five paid claims, one closed-without-payment claim and one open claim for testing. Finally, RNA selected workers' compensation claims including six paid claims, one closed-without-payment claim, one denied claim, and two open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete. RNA reviewed the 2009 CAR private passenger automobile audit report and the 2011 CAR commercial automobile audit report on the Company's compliance with CAR statistical coding requirements for key loss data determinants. In addition, RNA reviewed the 2009 WCRIB audit report on the Company's compliance with workers' compensation loss statistical reporting.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. The CAR and WCRIB audit reports indicated the Company generally codes loss data accurately. 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

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requirements.

Recommendations: None.

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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 2010 *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 Producer Licensing, Underwriting and Rating, and Claims.

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ACKNOWLEDGEMENT

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

The undersigned's participation in this comprehensive 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), administration and preparation of the comprehensive examination report.

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

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