



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

Report on the Comprehensive Market Conduct Examination of

Atlantic Charter Insurance Company
Endeavour Insurance Company
Independence Casualty Insurance Company
Boston, Massachusetts

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

NAIC COMPANY CODES: 44326, 10664, AND 11984
NAIC GROUP CODE: 1178

EMPLOYER ID NUMBERS: 04-3104363, 04-3323167 AND 20-1135209

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

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September 16, 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, Section 4, a comprehensive examination has been made of the market conduct affairs of

ATLANTIC CHARTER INSURANCE COMPANY
ENDEAVOUR INSURANCE COMPANY
INDEPENDENCE CASUALTY INSURANCE COMPANY

at their home offices located at:

25 New Chardon Street
Boston, MA 02114

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Atlantic Charter Insurance Company ("Atlantic"), Endeavour Insurance Company ("Endeavour"), and Independence Casualty Insurance Company ("Independence"), collectively referred to as 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, Section 4. The examination was conducted concurrently as all 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 concurrent Division financial examination. For those objectives, examination staff discussed procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was 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 were as follows:

- I. Company Operations/Management
- II. Complaint Handling
- III. Marketing and Sales
- IV. Producer Licensing
- V. Policyholder Service
- VI. Underwriting and Rating
- VII. 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.

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 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 complaint handling, producer licensing, marketing and sales, policyholder service, underwriting and rating, and claims. 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 I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-3

Findings: None.

Observations: RNA confirmed that the Company's documentation supports the above controls. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prosecute, and prevent fraudulent insurance acts. However, the Company did not have OFAC compliance procedures in place during the examination period.

Subsequent Events: The Company's OFAC compliance initiatives, including searches of the SDN database, were implemented in July 2011. The Company plans to develop an interface between the SDN database and its Tropics claims and policy administration system to automate the OFAC compliance process.

Required Actions: The Company shall monitor the newly implemented OFAC compliance procedures to ensure that they are properly and effectively implemented. Further, the Company shall develop and implement the Tropics interface as soon as practicable. Finally, the Company shall provide a report to the Division by October 31, 2011 on the status of these required actions.

COMPANY BACKGROUND

The Company is comprised of three related property/casualty insurance companies which are each 100% owned by Charter Management Company, Inc. ("Charter"). Charter is a privately-held corporation owned by Linda J. Sallop (68%) and Mitchel J. Weisman (32%). Linda Sallop is the Company's Chief Executive Officer. Ms. Sallop is also the 49% owner of the Sallop Insurance Agency ("SIA"). SIA is 39% owned by SIA employees through an employee stock ownership plan, and the remaining 12% is owned by another SIA principal. SIA is also a Massachusetts licensed producer and sells business for the Company. Michael Weisman is an attorney and serves as the Company's Executive Vice President. Mr. Weisman is also president of Sallop & Weisman, P.C. ("S&W") law firm, which is owned 50% each by Ms. Sallop and Mr. Weisman. S&W provides full time claims litigation services to the Company.

Atlantic was incorporated in January 1, 1991, Endeavour was incorporated August 19, 1996, and Independence was incorporated May 7, 2004. Endeavour and Independence cede 100% of their business written to Atlantic through quota share reinsurance agreements. Endeavour and Independence do not retain any underwriting risk. The Company sells workers' compensation policies in Massachusetts and New Hampshire through approximately 15 licensed producers who may act as brokers on the insureds' behalf. All premium, policyholder servicing and claims transactions are processed by employees of Charter through a management services agreement. The Company has no direct employees.

Atlantic's statutory surplus as of December 31, 2010 is \$57.8 million with statutory admitted assets of approximately \$157.7 million. Endeavour's statutory surplus as of December 31, 2010 is \$5.0 million with statutory admitted assets of \$5.0 million. Independence's statutory surplus as of December 31, 2010 is \$3.8 million with statutory admitted assets of \$3.9 million. The Group is rated A (Excellent) by A.M. Best.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.

Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Massachusetts Workers' Compensation Rating and Inspection Bureau ("WCRI") serves as a rating organization and statistical agent for Massachusetts licensed insurers. The Company's policy is to timely respond to the WCRI when it questions the Company about submitted premium and loss data.
- WCRI has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.
- The Department of Industrial Accidents ("DIA") conducts 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.

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 personnel with responsibility for the underwriting and claims processes and reviewed the DIA's most recent audit report.

Transaction Testing Results:

Findings: None.

Observations: The Company's last DIA audit for the period March 31, 1999 through December 31, 2003 was completed in April 2011 with no material findings indicating that the Company is generally in compliance with policies, procedures and regulatory requirements.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the ongoing 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.

Objective: This Standard addresses the effectiveness of the Company's antifraud plan. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company 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.
- The Company requires that the Board of Directors and officers annually certify compliance with the Company's conflict of interest policy.
- Prospective employees are asked about their criminal backgrounds during the employment application process and must attest to not having been convicted of a felony prior to being hired.
- The Company recently implemented Office of Foreign Asset Control ("OFAC") 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 for the above noted controls.

Transaction Testing Results:

Findings: None.

Observations: RNA confirmed that the Company's documentation supports the above controls. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prosecute, and prevent fraudulent insurance acts. However, the Company did not have OFAC compliance procedures in place during the examination period.

Subsequent Events: The Company's OFAC compliance initiatives, including searches of the SDN database, were implemented in July 2011. The Company plans to develop an interface between the SDN database and its Tropics claims and policy administration system to automate the OFAC compliance process.

Required Actions: The Company shall monitor the newly implemented OFAC compliance procedures to ensure that they are properly and effectively implemented. Further, the Company shall develop and implement the Tropics interface as soon as practicable. Finally, the Company shall provide a report to the Division by October 31, 2011 on the status of these required actions.

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

No work performed. All required activity for this Standard is included in the scope of the ongoing 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.

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's sales distribution is through brokers that are licensed as producers and submit business to the Company. The Company verifies that brokers are properly licensed for the lines of business to be sold in Massachusetts, prior to contracting with them as brokers and ensures that the brokers have met Massachusetts continuing education requirements. The Company's broker contract standard terms and conditions address broker authorities, premium accounting, broker change in control, contract termination, indemnification, commissions, and notice procedures.
- Voluntary direct assignment carrier ("VDAC") plan business must be accepted by the Company regardless of whether the Company has a contract with the producer who produced the VDAC plan business.
- A related party law firm provides full time claims litigation assistance to the Company.
- A related party brokerage firm is a producer for the Company.
- The Company's affiliated parent company performs all administrative functions as the Company has no direct employees.

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 and affiliated entities to perform Company functions, and the monitoring procedures conducted over third parties and affiliated entities. Further, RNA reviewed documentation related to the above parties as part of our new and renewal business 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 and affiliated entities that perform Company functions. As part of new and renewal business testing, RNA reviewed agent documentation that supports the new or renewal business sold.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is generally monitoring the activities of third parties and affiliated entities 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.
- The record retention requirements include 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ATLANTIC CHARTER INSURANCE COMPANY
ENDEAVOUR INSURANCE COMPANY
INDEPENDENCE CASUALTY INSURANCE COMPANY

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.

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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ATLANTIC CHARTER INSURANCE COMPANY
ENDEAVOUR INSURANCE COMPANY
INDEPENDENCE CASUALTY INSURANCE COMPANY

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11, I-12, I-15 and I-16:

- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with anyone for marketing purposes.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located.

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, and reviewed documentation supporting its privacy and information security policies and procedures and sought any evidence of improper privacy practices as part of claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review 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 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.

Controls Reliance: See Standard I-10.

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ENDEAVOUR INSURANCE COMPANY
INDEPENDENCE CASUALTY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA sought 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.

No work performed. The Company only sells policies to commercial enterprises and thus is not required to provide privacy notices to its customers.

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.

No work performed. The Company only sells policies to commercial enterprises and thus is not required to provide privacy notices or information about opt out rights to its customers.

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 and information security compliance, and reviewed documentation supporting its privacy and information security policies and procedures. RNA also sought any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
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ENDEAVOUR INSURANCE COMPANY
INDEPENDENCE CASUALTY INSURANCE 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 information security compliance, and reviewed documentation supporting its information security policies and procedures. Review of information technology access and authorization controls is also included in the scope of the ongoing 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 provides 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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No work performed. The Company only sells policies to commercial enterprises and thus is not required to provide personal lines data to the Division.

II. COMPLAINT HANDLING

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

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

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

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

- The Company considers any written complaint or grievance received from the Division or the Massachusetts Attorney General a governmental complaint. The Company's responses to governmental complaints are coordinated by the Company's Chief Financial Officer.
- All other written grievances are considered non-governmental complaints, which are handled directly by the individual business units.
- Governmental complaints are distributed by the Chief Financial Officer to the appropriate business unit for investigation and preparation of the response within 14 days. The response is reviewed by management before sending it to the regulator.
- The governmental complaint log is maintained by the Chief Financial Officer and includes the date received, Company, state, complainant, policy or claim number, person responsible, type, response date due, follow up comments from the regulator, disposition, action and disposition date.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its web-site.

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.

Transaction Testing Results:

Findings: None.

Observations: The Company has not received a governmental complaint since 2009. RNA confirmed that the Company's governmental complaint log included all statutorily-required database elements and that the governmental complaint log had no activity in 2010.

Recommendations: None.

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.

Transaction Testing Results:

Findings: None.

Observations: The Company has not received a governmental complaint since 2009. Based upon review, RNA noted that it appears that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders and consumers.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls.

Transaction Testing Results:

Findings: None.

Observations: The Company has not received a governmental complaint since 2009. Based upon review, RNA noted that it appears that the Company has adequate procedures in place to address complaints, and adequately finalizes and disposes of complaints according to its policies, procedures, and regulatory requirements.

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.

Transaction Testing Results:

Findings: None.

Observations: The Company has not received a governmental complaint since 2009. The Company appears to have adequate procedures in place 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 has adopted written policies and procedures for review and use of advertising and sales materials.
- The Company maintains copies of all of its advertising and marketing materials, which are reviewed and approved by the Company's management prior to use.
- The Company's advertising is limited and generally consists of promotional materials in industry periodicals, a brochure about the Company for brokers' use, and sponsorships at various broker events.
- 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 reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed sales and marketing materials for any evidence of the use of unapproved materials as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's website disclosure complies with Division requirements. 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:

- The Company provides training to brokers focusing on Company policies, practices and procedures
- The training includes matters relating to underwriting and rating, policyholder service, and claims.

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 broker training materials, and reviewed such materials in use during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing broker communications, and reviewed examples of such communications to brokers during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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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 does not appoint producers as agents. The Company has one employee who is also an agent.
- The Company's sales distribution is through brokers that are licensed as producers and submit business to the Company. The Company verifies that brokers are properly licensed for the lines of business to be sold in Massachusetts, prior to contracting with them as brokers and ensures that they have met Massachusetts continuing education requirements. VDAC plan business must be accepted by the Company regardless of whether the Company has a contract with the broker who produced the VDAC plan business.
- All prospective broker contracts are approved the Company's Chief Executive Officer. The Company verifies a prospective broker's errors and omission insurance coverage in connection with its broker contracting due diligence procedures.
- The Company's broker contract standard terms and conditions address broker authorities, premium accounting, broker change in control, contract termination, indemnification, commissions, and notice procedures.

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 broker contracting. RNA evaluated broker licensing in connection with testing of 25 workers' compensation policies issued or renewed during the examination period. RNA verified that for each of the tested policies, the broker was either a licensed producer or the broker produced VDAC plan business.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's brokers were properly licensed at the date of sale or the brokers submitted VDAC plan business to the Company.

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 producers in accordance with applicable statutes requiring notification to the state and the producer. See Appendix A for applicable statutes, regulations and bulletins.

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

- Although the Company generally does not use agents to produce business, the Company's policy would be to notify the Division of the reason for any agent terminations if the terminations were "for cause."
- The Company has a process for notifying brokers that their contracts have been terminated in accordance with the broker contract.

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 terminating broker and agent contracts and reviewed standard contract language.

Transaction Testing Results:

Findings: None.

Observations: The Company did not terminate any agents "for cause" and did not terminate any broker contracts during the examination period. Based upon inquiry and standard contract language review, the Company's process for notification of agent "for cause" terminations to Division, and termination of broker contracts appears to be in compliance with statutory and contractual requirements.

Recommendations: None.

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.

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Transaction Testing Procedure: RNA interviewed individuals with responsibility for broker contracting and terminations. In conjunction with testing of 25 workers' compensation policies issued or renewed during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's broker contracting 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 broker contracting and termination policies.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company did not terminate any brokers or agents during the examination period.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.

No work performed. This Standard is not covered in the scope of examination because the Company direct bills 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 ongoing 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.
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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:

- Policyholders may choose to pay their premiums in full, in eight or 10 installments, depending on the amount of the premium down payment.
- All policies are subject to a retroactive premium audit after the policy expiration date based upon actual exposures.
- Brokers receive renewal and billing notices from the Company at least 30 days prior to the effective date of the renewal. The broker sends a policy declaration page indicating the coverage type and limits with the applicable premium.
- The broker collects and remits to the Company a 10% or 25% premium down payment for new business.
- Brokers consult with the Company's underwriting representatives to answer questions from policyholders about billing.

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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard V-2. Policy issuance and insured requested cancellations are timely.
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Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder 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 a policy upon notification from the broker of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder pursuant to statutory and regulatory guidelines.

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 three 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 appeared to be processed accurately and timely.

Recommendations: None.

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

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

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

- The Company has underwriting representatives who assist brokers with policyholders' general questions about their policies or billing matters.
- The Company considers its brokers as having the primary relationship with the policyholder, who must request endorsements and policy changes through the broker. If a policyholder requests such changes directly with the Company, the policyholder will be referred to the broker for servicing.
- The Company has informal performance and work flow benchmarks that management monitors to ensure that adequate resources are available to address customer inquiries.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, rating, and policyholder service, 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:

- Company policy requires that un-cashed checks including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company has implemented procedures to locate lost owners via Company records and public databases.
- For un-cashed checks, the Company conducts further research and 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.

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- The Company annually reports escheatable funds to the State Treasurer by November 1st as required by statute.

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.

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 three 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 brokers have access to claims history and paid loss information.
- When requested by the policyholder, the Company states that it or the broker will provide the policyholder with its claims history and paid loss information.

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 and reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence of the Company being 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:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Brokers submit application data and billing mode information either in paper form, electronic mail or facsimile, which is also used for quoting, rating and underwriting.
- 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.
- The Company files its rates with 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 and the DIA's coverage verification entity. The WCRIB has not conducted a formal audit of the Company's worker's compensation statistical reporting.
- The Company participates in the assigned risk pool using the VDAC plan. In accordance with the VDAC plan, the Company accepts assigned risks as direct business without underwriting or rating the risks.
- The DIA conducts 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 Company's last DIA audit for the period March 31, 1999 through December 31, 2003 was completed in April 2011 with no material findings.
- All of the Company's voluntary market rates are maintained electronically. Prior to implementing rate changes, new rates are subject to user testing.

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 user testing of rate changes. In conjunction with new and renewal business testing, RNA selected 25 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 five workers' compensation policies issued or renewed during the examination period to test the accuracy of the policy's rated premium. RNA verified that each policy's premium agreed with the Company's rates filed with the WCRIB.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the WCRIIB.

Recommendations: None.

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 are designed to ensure that new business submissions from brokers 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.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has procedures for paying brokers' commissions in accordance with written contracts.
- The Company's broker 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 broker contracting. In connection with the review of broker contracts, RNA inspected new business materials, advertising materials, broker training materials and manuals for indications of rebating, commission cutting or inducements. Also, in conjunction with new and renewal business testing, RNA selected 25 workers' compensation policies issued or renewed during the examination period, to review commissions paid to brokers 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, and 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.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- All voluntary market 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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 workers' compensation policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting.

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:

- Company policy requires that all workers' compensation policy forms and endorsements be filed and approved by the Division prior to use.
- Brokers are required to use approved forms and endorsements when providing quotes to customers.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Applications submitted by brokers are reviewed by the underwriting department to ensure that they are complete and internally consistent.
- Any changes in policy coverage must be requested through the broker, who must timely process such requests.
- The DIA conducts 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.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.

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.
- Voluntary market insurance applications may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of voluntary market risks on a consistent and fair basis.
- Company policy requires brokers to provide voluntary market applicants with declination notices when applicants do not meet the Company's minimum standards for coverage.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected five declinations processed during the examination period to ensure that declinations were not unfairly discriminatory. RNA also tested declination notices for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: For the declinations tested, the Company provided timely notice to the broker with the reason for the declination when it declined to offer coverage. Based upon testing and review of the information available, Company declinations were not unfairly discriminatory.

Recommendations: None.

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 policy requires written notice of company-initiated cancellations to policyholders in accordance with statutory requirements. The Company's policy is to give written notice to the broker and to the policyholder and the specific reason for the cancellation at least 10 days prior to the cancellation effective date.
- Non-renewal notices are provided to the broker approximately 30 days prior to the policy renewal 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 three company-initiated cancellations and three non-renewal transactions for testing. All transactions were evaluated for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: For the company-initiated cancellations and non-renewals tested, the Company provided timely notice to the broker and the policyholder, as applicable, with the reason for the cancellation or non-renewal. Based upon testing and review of the information available

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information, company-initiated cancellation and non-renewal notices, appeared to be timely provided with the specific reason for the action properly disclosed.

Recommendations: None.

Standard VI-9. Rescissions are not made for non-material misrepresentation.

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, legal counsel would review rescissions, which are given only for significant material misrepresentations or fraud. Generally, the Company would cancel coverage mid-term in such cases.

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. In conjunction with new and renewal business testing, RNA selected 25 workers' compensation policies issued or renewed during the examination period, to test rate classifications and premiums charged. RNA verified that each policy's credits and deviations were consistently applied on a non-

discriminatory basis. In addition, RNA selected five workers' compensation policies issued or renewed during the examination period to test the accuracy of the policy's rated premium.

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 brokers 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 conducts 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 WCRIB has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

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 the DIA's most recent audit report. In conjunction with new and renewal business testing, RNA selected 25 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.

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 conducts 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 WCRIB has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

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 and reviewed the DIA's most recent audit report. RNA selected 25 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.

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.

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.

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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 and rating process. RNA selected 25 workers' compensation policies issued or renewed during the examination period, to look for evidence that the Company conducted premium audits to verify rate factors, when applicable.

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 conducts 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 WCRIB has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

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 and reviewed the DIA's most recent audit report. RNA selected 25 workers' compensation policies issued or renewed during the examination period to test for the use of experience modification factors as filed with the Division.

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.

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 conducts 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 WCRIB has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

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 and reviewed the DIA's most recent audit report. RNA selected 25 workers' compensation policies issued or renewed during the examination period to test maintenance and verification of accurate loss histories.

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.

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.

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.

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- 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 voluntary market risks on a proper, consistent and fair basis.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 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.

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.

Recommendations: None.

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

See Standard VI-13 for premium audits and Standard I-1 for audits by external auditors. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See 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 25 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.

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.

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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.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer automobile coverage.

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.

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 broker 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 voluntary market risks on a proper, consistent and fair basis.
- All voluntary market 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 25 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.

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. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the broker 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 the WCRIB.
- The DIA conducts 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 WCRIB has not conducted a formal audit of the Company's worker's compensation premium statistical reporting.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 workers' compensation policies issued or renewed during the examination period, to test data coding for selected policy determinants. RNA also reviewed the most recently completed DIA audit of the Company's compliance with workers' compensation-related requirements and discussed with management the procedures used by the WCRIB to monitor submitted premium data.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded. The DIA audit reports indicated the Company generally codes policies accurately. The Company noted that it timely responds to the WCRI when it questions the Company about submitted premium data.

Recommendations: None.

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

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Brokers 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 broker signatures.
- Underwriting personnel review the applications submitted by brokers for completeness and internal consistency.
- All voluntary market 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 25 workers' compensation policies issued or renewed during the examination period, to test whether the applications were properly completed and whether policy files adequately support the Company's decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were generally properly completed, and policy files adequately supported the Company's decisions.

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-12:

- Written policies and procedures govern the claims handling process.
- Written claim forms are received via fax, mail, electronically, from the employer, or from brokers. Company policy requires that a claim file be established within two business days after claim notification is received. Once a claim file is established, Company policy requires contact with the claimant within one business day.
- All claim files are maintained on a mainframe-based claims management system.
- Company policy is to investigate all claims in a timely manner in accordance with its policies, procedures, and regulatory requirements.
- Company policy is to contact all injured persons, or their legal representatives, within one business day of claim receipt.
- Company policy is to accept or reject all workers' compensation claims within 14 days of the claim filing, in compliance with DIA regulatory requirements.
- Company policy requires the use of DIA claim forms and reporting notices.
- Claims management has access to the claims system to monitor open claims.
- Claims management perform periodic quality assurance claim reviews to evaluate compliance with Company claims policies, and use exception reports to measure operational effectiveness and claim processing time.

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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

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, 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 of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

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.

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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted and resolved in a reasonable and timely manner.

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, with timely claim resolutions. Based upon testing, it appears that the Company's processes for timely investigating and resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the timeliness of the Company's response to all 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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company timely responded to claim correspondence.

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, with timely claim investigations. 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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures.

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.

Recommendations: None.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.

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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. 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 procedures and regulatory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also test reserving in conjunction with the ongoing 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 five claims denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company handled each claim timely and properly before closing or denying it.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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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 20 claims paid during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified that claim payment checks were appropriately issued.

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, with adequate claim payment documentation. Based upon testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. When applicable, RNA verified the date each selected claim was reported to the Company, reviewed correspondence and investigative reports, and noted whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims involving litigation appeared complete and supported the Company's conclusions. Based upon testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

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 20 claims paid or that remained open during the examination period; and five claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were warranted, and reviewed model correspondence.

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 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.

No work performed. This Standard is not covered in the scope of examination because the Company's workers compensation policies do have insured deductibles.

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 workers' compensation loss data to the WCRIB in the format required by the WCRIB.
- Detailed claim data is reported quarterly to WCRIB. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.
- Claims management personnel reconcile the underlying claim data for completeness and accuracy. Exception reports are generated to ensure the loss data is properly reported.

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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 to understand its loss statistical reporting processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for timely and accurately reporting loss statistical data to rating bureaus in accordance with its policies and procedures, as well as statutory and regulatory 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 required actions to address matters Company Operations/Management.

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 Insurance 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 National Association of Insurance Commissioners 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