



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Bunker Hill Insurance Company

Boston, Massachusetts

For the Year January 1, 2003 through December 31, 2003

NAIC COMPANY CODE: 10394

NAIC GROUP CODE: 0415

EMPLOYER'S ID NUMBER: 04-3292991



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Office of Consumer Affairs and Business Regulation
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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

December 7, 2004

Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Division of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

BUNKER HILL INSURANCE COMPANY

at its home office located at:

695 Atlantic Avenue
Boston, MA 02111

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of Bunker Hill Insurance Company (“the Company”) for the year January 1, 2003 to December 31, 2003. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete 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 *NAIC Market Conduct Examiner’s Handbook*, (“the Handbook”) the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed in under this examination were:

- 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 run their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins 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 VI A. of the Handbook.

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the report results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations 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 should be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company.

All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.state.ma.us/doi.

IV. PRODUCER LICENSING

STANDARDS IV-1 AND IV-2 (PAGES 21 AND 22)

Findings: None.

Observations: Based on the results of our testing new and renewal business written, RNA noted that several of the Company’s appointed agents were not listed on the Division’s list of the Company’s appointed agents. A list of such agents was provided to the Division for their review to ensure that such agents were licensed at the time of sale. Based upon our testing, RNA noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed agents. RNA also noted the Company does not perform criminal background checks or require E&O insurance coverage as part of its agent contracting and appointment procedures.

Recommendations: RNA recommends that the Company work with the Division to reconcile its agent licensing and appointment records with the Division’s records as of a date certain and modify its appointment procedures, as necessary, to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§162I and 162S.

Additionally, RNA recommends that the Company begin conducting criminal background checks on producers prior to contracting with them and appointing them as agent to facilitate compliance with 18 U.S.C. § 1033 and Division of Insurance Bulletin 98-11. Additionally, the Company should consider requiring that its agents maintain E&O coverage to mitigate risks to the Company resulting from an agent’s actions.

STANDARD IV-3 (PAGE 23)

Findings: The results of our testing showed that the Company was not notifying the Division when agents are terminated. As a result of this examination, the Company has begun to notify the Division when agents are terminated. See also Standard IV-5 concerning failure to report cause of terminations when termination is “for cause.”

Observations: None.

Recommendation: RNA recommends that the Company work with the Division to reconcile its terminated agent records with the Division’s records as of a date certain and to continue to communicate to the Division a record of all terminated agents as required by law.

STANDARD IV-5 (PAGE 24)

Findings: Based on the testing noted above, the Company’s internal records adequately document reasons for agent terminations. None of the terminations RNA tested was for cause as defined in M.G.L. c. 175, § 162R. However, the Company’s policy does not require notification to the Division of the reason for termination when the termination is for cause.

Observations: None.

Recommendations: RNA recommends that the Company adopt a policy and procedures to notify the Division of the reason for termination when the termination is for cause, as required by law.

VI. UNDERWRITING AND RATING

STANDARD VI-1 (PAGE 30)

Findings: Five HO-3 policies rates differed from those filed by \$1-2 per policy. The differences are a result of minor rounding errors in rate tables filed with the Division. The Company asserts that such policyholders were charged the proper premium and that the rate tables filed with the Division were erroneous. The Company has corrected the errors in its rate tables filed with the Division for 2004.

One HO-6 policy rate differed from those filed by \$1-2. The differences are a result of the Company’s systemic methodology which rounds results of certain calculations in a manner that yields a slightly different premium than that calculated from rate tables filed with the Division. The Company has stated that it will soon correct its rounding methodology to conform to rate tables filed with the Division or file new rates per the Division’s direction.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that for 44 of the 50 policies tested, premiums and discounts are

calculated in compliance with statutory requirements. For the other six, the degree of error is very small and resulted only from the rounding methodology.

Recommendations: The Company should file amended rate information with the Division as soon as possible and implement a procedure to ensure that all future system changes or enhancements result in rates used that will comply with filed rates.

STANDARD VI-15 (PAGE 38)

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies (eight new and 42 renewal), it appears that policy files adequately supported decisions made except for one new business policy where the signed application could not be located.

Recommendations: The Company should ensure that the agent retains an original or imaged copy of signed applications for a reasonable period. The Company should consider periodic on-site visits to certain agents to inspect documentation retention efforts and results.

FOR INFORMATION PURPOSES ONLY

COMPANY BACKGROUND

The Company is headquartered in Boston, and is a subsidiary of the Plymouth Rock Group. The Company offers homeowners coverage in Massachusetts. The Company's statutory surplus as of December 31, 2003 is \$8.7 million with statutory admitted assets of \$37.6 million. Premium earned was \$15.6 million, and the net loss was \$.3 million for 2003. The Company's A.M. Best rating is B+ (Very Good) as of December 30, 2003. The Company contracts with approximately 120 Massachusetts independent agencies.

The examination was conducted concurrently with examinations of Company affiliates, Plymouth Rock Assurance Corporation and Pilgrim Insurance Company as certain systems, processes and controls are common to operations of one or more of these affiliated companies.

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

FOR INFORMATION PURPOSES ONLY

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 company has an up-to-date, valid internal, or external, audit program.

Objective: This Standard is concerned with whether there is an audit program function that provides meaningful information to management.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has an internal audit function and is also audited annually by an independent accounting firm.
- The Company responds to internal and external audit recommendations to correct, modify and implement procedures.
- The Company has adopted edit and audit procedures to screen and check data submitted to the Company's statistical agent, Insurance Services Office.

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: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

No work performed. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

* * * * *

Standard I-3. The company has an anti-fraud plan in place.

Objective: This Standard is concerned with whether the Company has an anti-fraud plan that is adequate, up-to-date and in compliance with applicable statutes and is implemented appropriately.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a Special Investigative Unit (“SIU”) dedicated to the prevention and handling of fraudulent activities. The SIU is part of the Company’s parent company which provides investigative services to all of the holding company operating subsidiaries.
- The SIU holds periodic meetings with representatives from various departments at the Company including those in claims, internal audit, underwriting, sales and customer service.
- Potential fraud activity is tracked by the SIU and investigated with the assistance of other departments as necessary. Such activity is reported to the regulators as necessary.

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

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

No work performed. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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Standard I-5. The company is adequately monitoring the Managing General Agents (MGA).

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

* * * * *

Standard I-6. Company contracts with MGAs comply with applicable statutes, rules and regulations.

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

* * * * *

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as determining if the Company is in compliance with record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: The Company's home office record retention policies are described for each Standard, as applicable. In addition, Company policy requires that its producers keep complete records and accounts of all insurance transactions. The Company's standard producer contract requires insurance records and accounts be kept current and identifiable. The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable including a reasonable after the termination of a producer 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 performed various procedures throughout this examination which related to review of documentation and record retention.

Transaction Testing Results: Such testing results are noted in the various examination areas.

Recommendations: None.

* * * * *

Standard I-8. The company is licensed for the lines of business that are being written. M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the lines being written by a Company are in accordance with the authorized lines of business. Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. Additionally, M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Certificate of Authority for the Company 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 company cooperates on a timely basis with examiners performing the examinations. M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the exam. M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

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.

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Standard I-10. The company 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 maintains privacy of consumer information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal 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 interviewed Company personnel with responsibility for policyholder services and reviewed its privacy notice adopted in June 2001.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

* * * * *

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

The objective of this Standard was included for review in each Standard where such policy or procedure for the management of insurance information exists or should exist.

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FOR INFORMATION PURPOSES ONLY

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 or grievances are recorded in the required format on the company complaint register. M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time it took to process each complaint.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.

The Massachusetts complaint data for 2003 is as follows:

MA Complaints	Total
Claims	3
Total	3

MA Complaint Resolution	Justified	Not Justified	Total
Claims	0	3	3
Total	0	3	3

The determination of whether a complaint was "Justified" or "Not Justified" was made by the Company's compliance staff.

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

Transaction Testing Procedure: RNA reviewed each of the Massachusetts complaint files from 2003 to evaluate compliance with M.G.L. c. 176D, § 3(10). For the three complaints, RNA reviewed the complaint files noting the response date and the documentation supporting the

resolution of the complaint. Also, RNA compared the Company's complaint register to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

Observations: For the three complaints tested, RNA noted that the Company appears to maintain complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10).

Recommendations: None.

* * * * *

Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders. M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether (a) the Company has documented procedures for complaint handling as required by M.G.L. c. 176D, § 3(10), (b) the procedures in place are sufficient to require satisfactory handling of complaints received as well as conducting root cause analyses in areas developing complaints, (c) there is a method for distribution of and obtaining and recording response to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: Refer to Standard II-1.

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 three Massachusetts complaint files from 2003 to evaluate this Standard. Also, RNA interviewed management and staff responsible for complaint handling and examined evidence of the Company's processes and controls. In addition, to determine whether or not the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders were reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendations: None.

* * * * *

Standard II-3. The company should take 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 response to the complaint fully addresses the issues raised.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.
- Company policy requires that any complaint response fully addresses the issues raised.

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 three Massachusetts complaint files from 2003 to evaluate this Standard.

Transaction Testing Results:

Findings: None.

Observations: For the three complaints tested, documentation appeared to be complete including correspondence, original documentation and the Company's complaint summary. In addition, policyholders with similar fact patterns appeared to be treated consistently and reasonably.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of allowing 14 days from the date that the notice of complaint is sent to the insurer by the Division for the insurer to respond to the Division. For complaints received by the Company directly, the Company policy is to diligently respond to the complaint as soon as possible.

Controls Assessment: Refer to Standard II-1.

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 three Massachusetts complaint files from 2003 to evaluate timely response.

Transaction Testing Results:

Findings: None.

Observations: For the three complaints tested, resolution appeared to be reasonably timely and generally within the 14 day period requested by the Division.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

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. M.G.L. c. 176D, § 3; Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. Pursuant to M.G.L. c. 176D, §3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the company appearing on the certificate of authority and the address of its principal office.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company's policy is that the website discloses the Company's name and the Company's address.

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

Transaction Testing Procedure: RNA reviewed all advertising and sales materials for compliance with statutory and regulatory requirements. RNA also reviewed the Company's website for appropriate disclosure of its name and address and consistency with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with whether all of the Company's producer training materials are in compliance with state statutes, rules and regulations.

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

- The Company has distributed a general information packet focusing on products, underwriting, rating and its web pay application.
- Periodic bulletins are posted on the website throughout the year noting changes in policies, practices and 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 reviewed the general information packet and the bulletins to agents for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's general information packet and bulletins to agents appear to be accurate and reasonable.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

Controls Assessment: Periodically the Company communicates information via bulletins to agents noting changes in policies, practices and 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 reviewed the Company's bulletins to agents for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's bulletins to agents appear to be accurate and reasonable.

Recommendations: None.

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Standard III-4. Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations. M.G.L. c. 175, § 193R
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No work performed. This Standard not covered in scope of examination because the Company does not offer mass merchandising or group marketing plans as defined in statute or any affinity group discounts.

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FOR INFORMATION PURPOSES ONLY

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. Company records of licensed and appointed (if applicable) producers agree with department of insurance records. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S. Division of Insurance Bulletin 98-11.

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division. M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletin 98-11, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company maintains an automated producer database that interfaces with underwriting, policyholder service and producer compensation systems.
- All producers are required to enter into a written contract with the Company prior to their appointment.
- The Company does not perform criminal and financial background checks on producers, or require evidence of the producer's E&O, prior to contracting with them and appointing them as agents.
- The Company completes background checks for new employees.
- The Company's policy is to seek approval of the Division regarding the hiring of any "prohibited person" as noted above in instances where the Company wishes to employ such a person.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them and appointing them as agents.
- The Company's appointment procedures are designed to comply with the Division's requirements prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as agent within 15 days from the date the agent's contract is executed.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments. RNA selected 50 sales for the period January 1, 2003 through December 31, 2003. For each of the sales, RNA verified that the Company's agent was included on the Division's list of the Company's appointed agents. Additionally, any agent not located on the Division's list was provided to the Division for review and to ensure that the producer was licensed at the time of sale.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing new and renewal business written, RNA noted that several of the Company's appointed agents were not listed on the Division's list of the Company's appointed agents. A list of such agents was provided to the Division for their review to ensure that such agents were licensed at the time of sale. Based upon our testing, RNA noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed agents. RNA also noted the Company does not perform criminal background checks or require E&O insurance coverage as part of its agent contracting and appointment procedures.

Recommendations: RNA recommends that the Company work with the Division to reconcile its agent licensing and appointment records with the Division's records as of a date certain and modify its appointment procedures, as necessary, to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§ 162I and 162S.

Additionally, RNA recommends that the Company begin conducting criminal background checks on producers prior to contracting with them and appointing them as agent to facilitate compliance with 18 U.S.C. § 1033 and Division of Insurance Bulletin 98-11. Additionally, the Company should consider requiring that its agents maintain E&O coverage to mitigate risks to the Company resulting from an agent's actions.

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Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S Division of Insurance Bulletin 98-11.

Objective: Refer to Standard IV-1.

Controls Assessment: Refer to Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: Refer to Standard IV-1.

Transaction Testing Results: Refer to Standard IV-1.

Recommendations: Refer to Standard IV-1.

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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. M.G.L. c. 175, § 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has implemented procedures to provide notification of termination to producers.
- The Company has not implemented procedures to provide notification of termination to the Division.

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

Transaction Testing Procedure: RNA selected a three terminated agents from the Company's records and requested documentation supporting the reporting of the terminations to the Division.

Transaction Testing Results:

Findings: The results of our testing showed that the Company was not notifying the Division when agents are terminated. As a result of this examination, the Company has begun to notify the Division when agents are terminated. See also Standard IV-5 concerning failure to report cause of terminations when termination is "for cause."

Observations: None.

Recommendation: RNA recommends that the Company work with the Division to reconcile its terminated agent records with the Division's records as of a date certain and to continue to communicate to the Division a record of all terminated agents as required by law.

* * * * *

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

Objective: The Standard is concerned that the Company has a policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

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 selected 50 sales for the period January 1, 2003 through December 31, 2003. For each of the sales, RNA reviewed documentation for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Through our testing noted above, no evidence of unfair discrimination against policyholders was noted as a result of the Company's policies regarding producer appointments and terminations.

Recommendations: None.

* * * * *

Standard IV-5. Records of terminated producers adequately document reasons for terminations. M.G.L. c. 175, § 162R and 162T.

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause.

Controls Assessment: Refer to Standard IV-3.

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 obtained a listing of terminated agents and reviewed the reasons for termination for each agent.

Transaction Testing Results:

Findings: Based on the testing noted above, the Company's internal records adequately document reasons for agent terminations. None of the terminations RNA tested was for cause as defined in M.G.L. c. 175, § 162R. However, the Company's policy does not require notification to the Division of the reason for termination when the termination is for cause.

Observations: None.

Recommendations: RNA recommends that the Company adopt a policy and procedures to notify the Division of the reason for termination when the termination is for cause, as required by law.

* * * * *

Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.

Objective: The Standard is concerned with whether the Company's contract with the producer limits excessive balances with respect to handling funds.

Controls Assessment: Due to the nature of the Standard, no controls assessment was made. Further a majority of the Company's policies are billed on a direct basis mitigating the possibility for excessive balances from producers.

Controls Reliance: Not applicable.

Transaction Testing Procedure: Since the Company direct bills or payroll deducts premiums in most instances, debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the statutory financial examination of the Company.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

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. M.G.L. c. 175, §§ 193B and 193B ½.

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. Pursuant to M.G.L. c. 175, §§ 193B and 193B ½, premiums may be paid in installments with interest charged on the unpaid balance due as of the billing date.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The policyholder receives a renewal notice from the Company prior to the effective date of the renewal asking the policyholder to request any changes in coverage or endorsements prior to the renewal date.
- Billing notices are generated automatically through the policy administration system approximately 21-30 days before policy expiration for renewal policies.
- Most policyholders elect direct billing which occurs on a monthly or annual basis. Other policyholders elect to pay through payroll deduction with participating employers which occurs throughout the year.
- For installment payments, Company policy is to charge a \$4 monthly service fee.

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 services and reviewed billing notice dates and monthly service fees for 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003, billing notices appeared to be mailed with an adequate amount of advance notice. Monthly service fees on installment payments appeared to be properly applied.

Recommendation: None.

* * * * *

Standard V-2. Policy issuance and insured requested cancellations are timely. M.G.L. c. 175, §187B.

Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely. Pursuant to M.G.L. c. 175, § 187B, the insurers are required to return premium upon the request to cancel by the policyholder in a reasonable time. Policy issuance review is included in Underwriting and Rating Standard VI-16. Return of premium testing is included in Underwriting and Rating Standard VI-25.

Controls Assessment: The following key observations were noted in conjunction with the review of cancellation and withdrawals under this Standard:

- Company policy is to cancel the policy upon notification from the agent of the policyholder's request.
- Company policy is to process premium refunds within approximately five days.

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 services and tested 10 mid-term cancellations of which four were insured initiated cancellations for the period January 1, 2003 through December 31, 2003 to ensure that the request was processed timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon our sample of insured requested mid-term cancellations for the period January 1, 2003 through December 31, 2003, each appeared to be processed timely.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants. For discussion of written complaint procedures, see the Complaint Handling section.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's customer service representatives answer a policyholder's questions about his or her policy, billing or claims matters. Customer service representatives also can make address or name changes to policies.

- The Company considers its agents as having the primary relationship with the policyholder, and since customer service representatives are not licensed agents, endorsements and policy changes must be requested by the policyholder through the agent. If a policyholder requests such changes through customer service, the policyholder will be transferred to the agent for servicing.
- The Company has four individuals in customer service who handle policyholder requests. As such, the Company does not maintain formal performance metrics to monitor customer service response efforts.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting and rating, policyholder service and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of general correspondence between policyholders and the Company with regard to underwriting and rating, policyholder service and claims, it appears that correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department in accordance with their policies and procedures.

Recommendations: None.

* * * * *

Standard V-4. Claims history and loss information is provided to insured in timely manner.

Objective: This Standard is concerned with whether the Company provides history and loss information to the insured in a timely manner.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's agents have access to claims history and paid loss information for each of their policyholders via the Company's website.
- The Company's policy is to ask the agent to provide the policyholder, when requested, the same claims history and paid loss information that the Company provides to their agents on a timely 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 discussed with Company personnel policy and procedures for how the Company responds to policyholder inquiries on claims history and paid loss information.

Transaction Testing Results:

Findings: None.

Observations: Company personnel could not recall an instance where a policyholder had requested claims history and paid loss information. RNA noted no evidence of the Company being non-responsive to policyholder inquiries. Policy and procedures for how the Company responds to policyholder inquiries on claims history and paid loss information appears adequate and reasonable.

Recommendations: None.

* * * * *

Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.

No work performed. This Standard is not applicable as the Company does not enter into assumption reinsurance agreements.

* * * * *

FOR INFORMATION PURPOSES ONLY

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. All rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan. M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175 §§ 111H and 193R; M.G.L. c. 175A, §§ 5, 6 and 9; 211 CMR 131.00.

Objective: This Standard is concerned with the accuracy of the Company's policy premiums, i.e., whether proper premiums are charged using proper rates. Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowners insurance rates, the Commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates also shall consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

Under M.G.L. c. 175A, § 5, casualty and surety rates also must be based, in part, on past and prospective loss experience, catastrophe hazards and include a reasonable margin for underwriting profits and contingencies. Additionally, these rates should not be excessive, inadequate or unfairly discriminatory. Casualty and surety rates must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Additionally, insurers must use filed rates unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage shall be subject to rules and regulations set forth by the Commissioner and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company policy requires that homeowners rates be based on ISO rates and requires that Company rates be filed with the Division for approval prior to use to comply with statutory and regulatory requirements noted above.
- Rating criteria include territory, coverage amount and type, property age, protection class, structure type, as well as discounts for home and auto coverage, new construction, security features and claim free accounts.
- The Company's process for rating is electronic and is designed to ensure that consistent and filed rates are used when business is written.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies (eight new and 42 renewal) for the period January 1, 2003 through December 31, 2003 for testing of rates, classifications and premium discounts. For each of the policies, RNA verified that the policy premium and discounts complied with statutory and regulatory requirements.

Transaction Testing Results:

Findings: Five HO-3 policies rates differed from those filed by \$1-2 per policy. The differences are a result of minor rounding errors in rate tables filed with the Division. The Company asserts that such policyholders were charged the proper premium and that the rate tables filed with the Division were erroneous. The Company has corrected the errors in its rate tables filed with the Division for 2004.

One HO-6 policy rate differed from those filed by \$1-2. The differences are a result of the Company's systemic methodology which rounds results of certain calculations in a manner that yields a slightly different premium than that calculated from rate tables filed with the Division. The Company has stated that it will soon correct its rounding methodology to conform to rate tables filed with the Division or file new rates per the Division's direction.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that for 44 of the 50 policies tested, premiums and discounts are calculated in compliance with statutory requirements. For the other six, the degree of error is very small and resulted only from the rounding methodology.

Recommendations: The Company should file amended rate information with the Division as soon as possible and implement a procedure to ensure that all future system changes or enhancements result in rates used that will comply with filed rates.

* * * * *

Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely. M.G.L. c. 175, §§ 99 and 99A.
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Objective: This Standard is concerned with whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations and provided timely. Pursuant to M.G.L. c. 175, § 99 and 99A numerous disclosures and requirements must be included on a standard fire policy.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that policies provide substantially similar disclosures as noted above.
- 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 agents are accurate and complete including use of all Company required forms and instructions.
- If information or forms are missing, requirements are updated and a letter is sent to the agent requesting those missing forms and 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 interviewed Company personnel with responsibility for the underwriting process. RNA reviewed common policy forms for compliance with required disclosures to insureds in accordance with statutory and regulatory guidelines.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of common policy forms, the Company's policies appear to comply with required disclosures to insureds in accordance with statutory and regulatory guidelines.

Recommendations: None.

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<p>Standard VI-3. The company does not permit illegal rebating, commission cutting or inducements. M.G.L. c. 175, §§ 182, 183 and 184; M.G.L. c. 176D, § 3(8).</p>

Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and that producer commissions adhere to the commission schedule. Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any rebate of premiums, any other benefits or any valuable consideration or inducement not specified in the contract.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has procedures to pay producers' commissions in accordance with home office approved written contracts.
- The producer contracts and home office policies and procedures are designed to comply with provisions contained in statutory underwriting and rating requirements which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In connection with the review of producer contracts, new business materials, advertising materials, producer training materials and manuals, RNA inspected such materials for indications of rebating, commission cutting or inducements. RNA also selected two agencies each for the months of May and November 2003. RNA obtained the monthly commission statements for the selected agencies noting the premium activity and related commission payments were reasonable and did not indicate any unusual commission activity.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to prohibit illegal acts including special inducements and rebating are functioning in accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

* * * * *

Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis. M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175, §§ 111H, 193R and 193T; M.G.L. c. 175A, §§ 5, 6 and 9; 211 CMR 131.00.

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of credits and deviations. Pursuant to M.G.L. c. 174A, § 5, fire rates shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available. In considering catastrophe hazards with respect to homeowners insurance rates, the commissioner shall consider catastrophe reinsurance and factors relating thereto. Fire rates also shall consider a reasonable margin for underwriting profit and contingencies. Finally, such rates shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 6 requires the filing of fire rates with the Commissioner and M.G.L. c. 174A, § 9 requires insurers to use such filed rates, unless the insurer obtains approval from the Commissioner for a rate deviation.

Under M.G.L. c. 175A, § 5, casualty and surety rates also must be based, in part, on past and prospective loss experience, catastrophe hazards and include a reasonable margin for underwriting profits and contingencies. Additionally, these rates should not be excessive, inadequate or unfairly discriminatory. Casualty and surety rates must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Additionally, insurers must use filed rates unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. M.G.L. c. 175, § 193T prohibits rate discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on "sound actuarial principles or is related to actual experience." M.G.L. c. 175, § 111H requires that any policy

providing lead liability coverage shall be subject to rules and regulations set forth by the Commissioner and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges in accordance with M.G.L. c. 174A, § 5, M.G.L. c. 175, § 193T and M.G.L. c. 175A, § 5.
- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company policy requires that homeowners rates be based on ISO rates and requires that Company rates be filed with the Division prior to use to comply with statutory and regulatory requirements noted above.
- Rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and auto coverage, new construction, security features and claim free accounts.
- The Company's process for rating is electronic and is designed to ensure that consistent and filed rates are used when business is written.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of rate classifications and premium discounts. For each of the policies, RNA verified that credits and deviations were consistently determined and non-discriminatory.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that credits and deviations were consistently determined and non-discriminatory.

Recommendations: None.

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Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.
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No work performed. This Standard is not covered in the scope of examination because the Company does not offer commercial policies subject to schedule rating or individual risk premium modification plans.

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Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-8. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-9. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-10. Verification of company 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 does not offer workers' compensation insurance.

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Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks. M.G.L. c. 175, § 4C, 95B and 193T.

Objective: This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance. Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status,

the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in the amount or payment of premiums or rates charged, in the length of coverage, or in any other of the terms and conditions of a residential property insurance policy based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse. M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on “sound actuarial principles or is related to actual experience.”

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175, §§ 4C, 95B and 193T.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a 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 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, RNA noted no evidence that the Company’s underwriting practices are unfairly discriminatory.

Recommendations: None.

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Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable). M.G.L. c. 175, §§ 99, 99B, 111H and 192; 211 CMR 131.00.
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Objective: This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval. Pursuant to M.G.L. c. 175, § 99 homeowners policy forms must conform to the standards for policy language set forth in that section and, according to M.G.L. c. 175, § 99B, condominium and tenant policies must be filed with the Division for prior approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division for prior approval. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage shall be subject to rules and regulations set forth by the Commissioner and 211 CMR 131.00 requires that forms be filed with and approved by the Division for homeowners lead liability coverage.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that agents use one of the Company's approved policy forms and approved endorsements when providing a quote to consumers.
- Company policy requires that all changes to policy forms and endorsements be filed and approved by the Division.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of the use of Company approved policy forms and endorsements. RNA also performed inquiry to review evidence of approval of policy forms by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that the Company is using Company approved policy forms endorsements. RNA also reviewed evidence of approval of policy forms by the Division.

Recommendations: None.

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Standard VI-13. Producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

See Standards IV-1 and IV-2 in the Producer Licensing Section.

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Standard VI-14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.
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Objective: This Standard is concerned with whether 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating at or near the inception of coverage.
- Rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and auto coverage, new construction, security features and claim free accounts at or near the inception of coverage.
- The Company's process for rating is electronic and is designed to ensure that consistent and filed rates are used when business is written at or near the inception of 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 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of the coverage.

Recommendations: None.

* * * * *

Standard VI-15. File documentation adequately supports decisions made.

Objective: This Standard is concerned with whether policy file documentation adequately supports decisions made in underwriting and rating.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- In most instances, much of the policy source information and related documentation is maintained and controlled by the independent agent.
- Written policies and procedures in agent contracts are designed to reasonably assure that the agent will retain adequate documentation including a signed application and endorsements for new policies, unless the policy was obtained by the Company as a result of a transfer of a book of business from another carrier.
- Information on territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and auto coverage, new construction, security

features and claim free accounts often are entered in the Company's policy system by the agent. Otherwise, such information is entered in the policy system by the Company.

- Company supervisors review the applications completed by agents for completeness and internal consistency.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of whether the policy files adequately support decisions made.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies (eight new and 42 renewal), it appears that policy files adequately supported decisions made except for one new business policy where the signed application could not be located.

Recommendations: The Company should ensure that the agent retains an original or imaged copy of signed applications for a reasonable period. The Company should consider periodic on-site visits to certain agents to inspect documentation retention efforts and results.

* * * * *

Standard VI-16. Policies and endorsements are issued or renewed accurately, timely and completely.

Objective: This Standard is concerned with whether the Company issues policies and endorsements timely and accurately.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires the use of Company policy forms and endorsements which are approved by the Division.
- Agents are required to use such forms and endorsements as guidelines when providing quotes to consumers.
- Company supervisors review all applications completed by agents to ensure that they are complete and internally consistent.
- Company procedures include mailing renewal notice 21-45 days prior to the policy renewal effective date.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing of whether new and renewal policies including endorsements were issued timely and accurately.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company issues new and renewal policies, including endorsements, timely and accurately.

Recommendations: None.

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Standard VI-17. Audits when required are conducted accurately and timely. M.G.L. c. 175, §§ 4A and 4B.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer policies where premium audits are conducted.

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Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized. 211 CMR 94.08.

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

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Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices. M.G.L. c. 176D, §§ 3(4) and 3A.

Objective: This Standard is concerned with whether the Company has engaged in any collusive or anti-competitive underwriting practices. Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance to enter into any agreement or to commit, or to commit, any act of boycott, coercion or intimidation resulting in, or tending to result in, unreasonable restraint of, or monopoly in, the business of insurance.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating at or near the inception of coverage.
- Rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and auto coverage, new construction, security features and claim free accounts at or near the inception of coverage.

- The Company's process for rating is electronic and is designed to ensure that consistent and filed rates are used when business is written at or near the inception of 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 50 new and renewal homeowners policies for the period January 1, 2003 through December 31, 2003 for testing whether any underwriting practices appear to be collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, RNA noted no instances where the Company's underwriting policies and practices appear to be collusive or anti-competitive.

Recommendations: None.

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Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans M.G.L. c. 175, § 193R.

No work performed. This Standard not covered in scope of examination because the Company does not offer mass merchandising or group marketing plans as defined in statute or any affinity group discounts.

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Standard VI-21. 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.

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Standard VI-22. Rejections and declinations are not unfairly discriminatory. M.G.L. c. 175, §§ 4C, 95B and 193T.

Objective: This Standard is concerned with the fairness of application rejections and declinations. Pursuant to M.G.L. c. 175, § 4C, no insurer shall take into consideration when deciding whether to provide, renew, or cancel homeowners insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant or insured. M.G.L. c. 175, § 95B notes that no insurer shall cancel, refuse to issue or renew, or in any way make or permit any distinction or discrimination in the amount or payment of premiums or rates charged, in the length of coverage, or in any other of

the terms and conditions of a residential property insurance policy based upon information that an applicant or policy owner, or any member of their family, has been a victim of domestic abuse. M.G.L. c. 175, § 193T prohibits discrimination based on blindness or partial blindness, mental retardation or physical impairment, unless such discrimination is based on “sound actuarial principles or is related to actual experience.”

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175, §§ 4C, 95B and 193T.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a 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 and tested 25 non-renewal rejections and 10 mid-term cancellations, of which six were insurer initiated cancellations, for the period January 1, 2003 through December 31, 2003 for proper treatment.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our review of rejections and mid-term cancellations for the period January 1, 2003 through December 31, 2003, none appeared to be unfairly discriminatory.

Recommendations: None.

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Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines. M.G.L. c. 175, §§ 99, 187C and 193P.

Objective: This Standard is concerned with notice to policyholders for cancellation, non-renewal and declinations including advance notice before expiration for cancellation and non-renewals. Pursuant to M.G.L. c. 175, § 99, any Company may cancel coverage by giving the insured five days written notice of cancellation, and to the mortgagee to whom the policy is payable twenty days written notice of cancellation, except where the stated reason for cancellation is nonpayment of premium, where 10 days written notice of cancellation is required. M.G.L. c. 175, § 193P requires an insurer to give written notice of intent not to renew a policy to the insured at least forty-five days prior to the expiration of the policy accompanied by a writing stating the specific reasons for such decision. Pursuant to M.G.L. c. 175, § 187C any Company shall effect cancellation by serving written notice thereof as provided by the policy and by paying the full return premium due.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company cancellation policy requires written notice be given in accordance with statutory requirements.
- Company policy requires that notice of non-renewal be sent to the insured at least 45 days in advance of the termination effective date.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and tested 25 non-renewal rejections and 10 mid-term cancellations, of which six were insurer initiated cancellations, for the period January 1, 2003 through December 31, 2003 for compliance with notification requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of non-renewals and cancellations for the period January 1, 2003 through December 31, 2003, such notices appear to be in compliance with statutory requirements.

Recommendations: None.

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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. M.G.L. c. 175, §§ 99, 187C and 193P.
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Objective: Refer to Standard VI-23.

Controls Assessment: Refer to Standard VI-23.

Controls Reliance: Refer to Standard VI-23.

Transaction Testing Procedure: Refer to Standard VI-23.

Transaction Testing Results: Refer to Standard VI-23.

Recommendations: Refer to Standard VI-23.

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Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. M.G.L. c. 175, §§ 187B and 187C.

Objective: This Standard is concerned with return of the correctly calculated unearned premium when policies are cancelled in a timely manner. Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon policy termination. Additionally, in accordance with M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that premium refunds be properly calculated and paid timely.
- The company uses the pro-rata method to calculate the amount of the premium refund.

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 tested 10 cancellations for the period January 1, 2003 through December 31, 2003 for proper premium refund calculation and timely payment.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of cancellations for the period January 1, 2003 through December 31, 2003, premium refunds appear to be properly calculated and returned timely.

Recommendations: None.

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Standard VI-26. Rescissions are not made for non-material misrepresentation. M.G.L. c. 175, § 187D.

Objective: This Standard is concerned with whether decisions to rescind are made appropriately. M.G.L. c. 175, § 187D allows the cancellation of the policy for nonpayment of premium.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with M.G.L. c. 175, § 187D.

- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company does not rescind policies.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and the Company does not rescind policies. .

Transaction Testing Results:

Findings: None.

Observations: The Company does not rescind policies.

Recommendations: None.

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Standard VI-27. All policies are correctly coded.
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Objective: This Standard is concerned with the accuracy of statistical coding.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Company policy requires that homeowners rates be based on ISO rates and requires that Company rates be filed with the Division prior to use to comply with statutory and regulatory requirements.
- Rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and auto coverage, new construction, security features and claim free accounts.
- The Company's process for rating is electronic and is designed to ensure that consistent and filed rates are used when business is written.
- The Company's policies and procedures require that Company personnel confirm that the coding as reported by the agent is correct and current.
- The Company has a process to correct data errors and make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 new and renewal homeowners policies for the period

January 1, 2003 through December 31, 2003 for testing of statistical coding of key policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 50 new and renewal homeowners policies, it appears that the Company has proper procedures to address statistical coding of key policy determinants.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

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 company with the claimant is within the required time frame. M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard is concerned with the timeliness of the Company's contact with the claimant. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Written claim forms received via fax or mail are acknowledged and a written response is made within two or three business days after notification of the claim is provided.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy is to contact all injured persons, or their legal representatives, within two or three business days of receipt of a claim.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management periodically reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and 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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the initial response by the Company was acknowledged in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and that the initial contact by the Company with the claimant was timely. Based upon the results of our testing, it appears that the Company's processes to report and respond to claims are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

* * * * *

Standard VII-2. Investigations are conducted in a timely manner. M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to investigate all claims in a timely manner.
- Refer to Standard VII-1.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the investigation by the Company was conducted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to report and investigate claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

* * * * *

Standard VII-3. Claims are resolved in a timely manner. M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, § 28, 112.

Objective: The Standard is concerned with the timeliness of the Company's claims settlements. Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. In addition, if an insurer makes a practice of unduly engaging in litigation or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G. L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the general court.

M.G.L. c. 175, § 112 states that liability of any company under any policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to resolve all claims in a timely manner.
- Refer to Standard VII-1.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted whether the claim was resolved by the Company in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For each of open and closed claims selected for testing, RNA noted the claims were handled and adjudicated according to the Company's policies and procedures and resolved in a reasonably timely manner. Further, for each of the selected claims, RNA verified the date the claim was reported to the Company and noted whether the claim was resolved in a timely manner. Based upon the results of our testing, it appears that the Company's processes to resolve claims timely are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations None.

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Standard VII-4. The company responds to claim correspondence in a timely manner. M.G.L. c. 176D, § 3(9)(b) and 3(9)(e).

Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to respond to all claim correspondence in a timely manner.
- Refer to Standard VII-1.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the timeliness of the Company's responses to claims correspondence.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and responses to claims correspondence were timely. Based upon the results of our testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

* * * * *

Standard VII-5. Claim files are adequately documented.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Claim processing guidelines require that key information be completed, signed, and included in the file, including:

- o Notice of loss with relevant date of loss, loss description, and involved parties.
- o Relevant reports from investigating police authorities.
- o Applicable medical reports and other investigative correspondence.
- o Other pertinent written communication.
- o All legal correspondence.
- o Documented or recorded telephone communication.
- o Claim activity is logged and documented in chronological order.
- o Claim reserve evaluations, adjustments and assessments are documented.
- o Source correspondence and investigative reports are scanned and maintained electronically.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management periodically reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and 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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims RNA reviewed the claim files and noted whether claim file documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to document claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

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Standard VII-6. Claim files are handled in accordance with policy provisions and state law. M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 96, 97, 97A, 100, 102, 111F, 112, 112C, 193K; M.G.L. c. 139, § 3B.

Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice.

M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 96 limits the Company's liability to the actual cash value of the insured property when a building is totally destroyed by fire. In addition, if the insured has paid premiums on a coverage amount in excess of said actual cash value, the statute states the insured shall be reimbursed the proportionate excess of premiums paid with interest at six percent per year.

M.G.L. c. 175 § 97 requires the Company to pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. Further, when a claim for loss or damage to property exceeds five thousand dollars, M.G.L. c. 175 § 97A requires the Company to ensure the claimant submits to the Company a certificate of municipal liens from the collector of taxes of the city or town wherein such property is located. The Company shall pay to the city or town any amounts shown on the certificate of municipal liens as outstanding on the date of loss. The provisions of M.G.L. c. 175 § 97A do not apply to certain owner-occupied dwellings.

M.G.L. c. 139, § 3B prohibits the Company from paying claims covering loss or damage to a building or other structure (defined as "dangerous" pursuant to M.G.L. c. 143, § 6) in excess of one thousand dollars without having given 10 days written notice to the building commissioner or inspector of buildings appointed pursuant to the state building code, to the fire department, and to the board of health, in the city or town where the property located.

M.G.L. c. 175, § 100 sets forth standards for selecting a referee if the parties to a claim fail to agree as to the amount of loss. In addition, M.G.L. c. 175 § 102 states the failure of the insured under a fire policy to render a sworn statement shall not preclude recovery if the insured renders a sworn statement after receiving a written request for such sworn statement from the Company. M.G.L. c. 175, § 102 further defines requirements related to such a request for a sworn statement made by the Company.

M.G.L. c. 175, § 112 states that liability of any company under any policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors, licensed in Massachusetts pursuant to M.G.L. c. 112.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claim notifications are maintained on a mainframe based automated claims management system.
- All claims investigations are handled by adjusters up to a defined dollar limit to their settlement authority.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F and 112C to furnish medical reports and/or the amount of the insured's policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company has procedures to reimburse excess premiums, as such situations arise, pursuant to M.G.L. c. 175, § 96, where insured values exceed the actual cash value claim of a property.
- The Company has procedures to determine if mortgagees should be paid a portion of a loss in accordance with policy terms as required by M.G.L. c. 175 § 97. Similarly, such procedures, determine if municipal liens exists where the defined claim amounts exceed five thousand dollars to comply with the requirements in M.G.L. c. 175, § 97A.
- The Company has not had a claim situation arise whereby a referee was appointed to comply with requirements in M.G.L. c. 175, § 100.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 102 to ensure request of claimants for sworn statements related to fire losses are written.
- The Company has procedures to comply with requirements in M.G.L. c. 139, § 3B to ensure proper notice is given to municipal building authorities where claim amounts exceed one thousand dollars covering "dangerous" buildings.
- The Company's policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations as required by M.G.L. c. 175 § 193K.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management periodically reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and 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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. Further, for each of the selected claims, RNA verified the claim was handled in accordance with policy provisions, statutory and regulatory requirements, as applicable.

Transaction Testing Results:

Findings: None.

Observations: For the 43 closed claims and seven open claims selected for testing, RNA noted three claims had a written request for disclosure of the insured's liability policy limits. The Company responded to the request within 30 days as required by M.G.L. c. 175, § 112C in that case. RNA noted six claims selected for testing that required notice to the municipal building authorities as required by M.G.L. c. 139, § 3B. The Company provided such notices as required. Based upon the results of our testing, it appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements, are functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate.
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Objective: The Standard is concerned with the Company's usage 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claims investigations are handled by adjusters up to a defined dollar limit to their settlement authority.
- The Company uses reservation of rights and excess of loss letters when circumstances warrant.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims RNA reviewed the claim files and noted whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. RNA noted no instances where a reservation of rights letter or excess loss letter was used. RNA did review model correspondence for such letters, and such model correspondence appeared accurate and proper. Based upon the results of our testing, it appears that the Company's processes to utilize reservation of rights and excess loss letters to claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.
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Objective: The Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process including subrogated claims.
- Company policy is to resolve all subrogated claims in a timely manner.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims RNA reviewed the claim files and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted no instances where subrogation recoveries to the insured were applicable to the claim. RNA did review the process for making subrogation recoveries, and such processes appeared fair and reasonable. Based upon the results of our testing, it appears that the Company's processes to make subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-9. Company claim forms are appropriate for the type of product.

Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Industry standardized claims reporting forms are utilized which are appropriate for the Company's line of business.
- Claim processing guidelines require that key documentation be completed, signed, and included in the file, including: notice of loss with relevant date of loss, description, and involved parties.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims RNA reviewed the claim files and noted whether the claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to document reported claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-10. Claim files are reserved in accordance with the company's established procedures.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to evaluate claims timely and establish adequate reserves on all reported claims.
- Claim processing guidelines require that key information be completed, signed, and included in the file, including:
 - Notice of loss with relevant date of loss, description, and involved parties.
 - Relevant reports from investigating police authorities.
 - Applicable medical reports and other investigative correspondence.
 - Other pertinent written communication.
 - All legal correspondence.
 - Documented or recorded telephone communication.
 - Claim activity is logged and documented in chronological order.
 - Claim reserve evaluations, adjustments and assessments are documented.
 - Source correspondence and investigative reports are scanned and maintained electronically.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management periodically reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and 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 claims reserving processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims reserving policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted that claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For each of the claims selected for testing, RNA noted that claim reserves were evaluated, established and adjusted according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to evaluate, establish and adjust claim reserves are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

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Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law. M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that denials must include contractual basis for non-payment and inform the claimant of their right to appeal.
- All claim notifications are maintained on a mainframe based automated claims management system.
- All claims investigations are handled by adjustors not to exceed a defined dollar limit to their settlement authority.
- Claims management can access the claims system to monitor open claims.
- A written explanation of all denied claims and closed-without-payment claims is provided to a claimant.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. Of the 50 claims selected, RNA noted 16 of the claims were closed without payment. RNA verified the date the claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled the claim timely and properly before closing it.

Transaction Testing Results:

Findings: None.

Observations: For the 16 claims closed without payment tested, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or delay payment of claims.

Recommendations: None.

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<u>Standard VII-12.</u> Cancelled benefit checks and drafts reflect appropriate claim handling practices.
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Objective: The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claims investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- Company procedures verify the proper payee and amount and amount prior to check issuance.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims payment processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims payment policies and procedures. For each

of the selected claims, RNA reviewed the claim files and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: For all claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of our testing, it appears that the Company's processes to issue claim payment checks are appropriate and functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-13. 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. M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h); M.G.L. c. 175, § 28.

Objective: The Standard is concerned with 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 what the policy contract provides for. Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or printed advertising material accompanying or made part of an application. Moreover, if an insurer makes a practice of unduly engaging in litigation or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G. L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the general court.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Claims handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Company policy is to contact all injured persons or, their legal representatives, within two business days of receipt of a claim.
- All injured persons claims are handled by claims staff dedicated to handling injury claims in which the claimant is typically represented by an attorney.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management periodically reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 43 claims closed during 2003 and an additional seven claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. Of the 50 claims selected, RNA noted three of the claims involved litigation in a bodily injury claim. RNA verified the date the claim was reported, reviewed correspondence and investigative reports and noted the whether the Company handled the claim timely and properly.

Transaction Testing Results:

Findings: None.

Observations: For the three claims selected that involved litigation, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to instigate litigation.

Recommendations: None.

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Standard VII-14. Loss statistical coding is complete and accurate. M.G.L. c. 175A, § 15; 211 CMR 15.00.
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Objective: The Standard is concerned with the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner in accordance with the rating system on file with the Commissioner and the Commissioner may designate rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.00, the Commissioner established and fixed various statistical plans to be used in relation to homeowners insurance, and related coverages, in accordance with M.G.L. c. 175A, § 15(a).

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to report loss data to appropriate rating bureaus timely and with complete and accurate loss data.
- The Company reports loss data to Insurance Services Office (ISO) in a format required by ISO. ISO is a nationally recognized rating bureau that provides the insurance industry with loss data used for rate filings.
- Detailed claim data is reported quarterly to ISO. 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 data for completeness and accuracy. Exceptions reports are generated to ensure the loss data is properly reported.

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 loss statistical reporting processes and obtained documentation supporting such processes. RNA reviewed detailed reports from ISO showing the Company's loss data in summary format. RNA reviewed the ISO reports for reasonableness compared to Company statistical data for one quarter in 2003. RNA noted no unusual results or differences in the data.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to report loss statistical data to rating bureaus timely and accurately and its processes are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

SUMMARY

Based upon the procedures performed in this comprehensive 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 *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. RNA has made recommendations to address various concerns related to producer licensing and underwriting and rating.

FOR INFORMATION PURPOSES ONLY

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 (“comprehensive 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 (NAIC) and the *NAIC Market Conduct Examiners’ 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 course of the examination is hereby acknowledged.

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