



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 Period January 1, 2007 through December 31, 2007

NAIC COMPANY CODE: 10394
NAIC GROUP CODE: 0415

EMPLOYERS ID NUMBER: 04-3292991



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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NONNIE S. BURNES
COMMISSIONER OF INSURANCE

April 9, 2009

The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

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 (the “Division”) conducted a comprehensive market conduct examination of Bunker Hill Insurance Company (“Bunker Hill” or “Company”) for the period January 1, 2007 through December 31, 2007. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The current 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 Eide Bailly, LLP (“Eide”) 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 Regulation Handbook*, (“the Handbook”) the market conduct examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the 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 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 and regulations related to market conduct activities.

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

EXECUTIVE SUMMARY

This summary of the 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.

SECTION I – COMPANY OPERATIONS / MANAGEMENT

STANDARD I-3

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company may not have performed a criminal background check on some employees hired prior to 2003. The Company began conducting background checks in 2003, but did not perform them retrospectively. Eide note that the Company does not currently perform background checks on producers.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective Company employees and producers.

SECTION IV – PRODUCER LICENSING

STANDARD IV-1

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company does not currently perform background checks on producers.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective producers.

STANDARD IV-2

Refer to Standard IV-1 for discussion and recommendations also applicable to this standard.

SECTION VII – CLAIMS

STANDARD VII-6

Transaction Testing Results:

Findings: The file for one claim of twelve tested did not contain documentation that the Company contacted a building inspector or other authority on damage in excess of \$1,000 caused by fire.

Observations: Eide noted no other violations of this statute during the remainder of the testing.

Recommendations: Eide recommends that the Company reiterate its record retention and claim documentation rules to all staff who handle complaints.

COMPANY BACKGROUND

The Company is headquartered in Boston, Massachusetts and is a subsidiary of the Plymouth Rock Group. The Company offers only homeowners coverage in Massachusetts. The Company's statutory surplus as of December 31, 2007 was \$20 million, with statutory admitted assets of \$41.6 million. Premium earned was \$20.8 million, and the net income was \$0.9 million for 2007. The Company's A.M. Best rating was B+ (Very Good) as of December 31, 2007. The Company contracted with approximately 140 Massachusetts independent agencies as of December 31, 2007.

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 utilizing the Handbook. The remainder of this report outlines the testing results by each major risk area as defined by the Handbook.

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 regulated entity has an up-to-date, valid internal or external audit program.
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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 Internal Audit Department (IAD) of Plymouth Rock Assurance Group performs all internal audit related functions of the Company.
- The IAD reports to the Chief Financial Officer, but has a direct line of reporting to the Audit Committee and holds periodic executive sessions with the Audit Committee to discuss the audit plan and any potential issues.
- All businesses, functions, and geographical locations of the Company are subject to review by the IAD.
- The IAD solicits input from the company's external auditors to assist in properly evaluating the Company's overall risks.
- The IAD annually examines the company's accounting and claim functions, and prepares a risk based audit plan for the company's other business areas. The frequency of the Company's audits is based upon IAD's overall risk and control assessment.
- The Company responds to internal and external audit recommendations to correct, modify, and implement procedures.
- The Company continuously audits its independent agencies.
- Audit research on the agencies covers many of the Handbook areas including:
 - Use of approved marketing materials
 - Communication of mandated disclosures
 - New business procedures
 - Product suitability
 - Licensing requirements
 - General supervision
- Upon completion of the audit, the auditor produces a report of audit findings and appropriate corrective actions, and discusses the report with Company management, the agency manager and the agency.

Controls Reliance: Controls tested via document 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:

Findings: None.

Observations: None

Recommendations: None.

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

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

Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

18 U.S.C. § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.

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

Pursuant to 18 USC § 1033, 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, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent

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

- The Company has a written antifraud plan.
- The Company has a Special Investigative Unit (SIU) dedicated to the prevention and handling of fraudulent activities.

- The SIU holds periodic meetings with representatives from various departments at the Company including claims, compliance, internal audit, underwriting, sales and customer service to identify potentially fraudulent activity.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments when required by statute. Such activity is reported to regulators as necessary.
- The SIU works with the Massachusetts Insurance Fraud Bureau to investigate and properly handle potential fraud.
- The Company's claims and underwriting personnel take part in ongoing continuing education, focused on identification and proper treatment of potentially fraudulent activity.
- The Company has performed criminal background checks for all new and prospective employees since 2003.

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: Eide interviewed individuals with responsibility for ensuring that the Company does not employ prohibited persons as defined in 18 USC § 1033, and reviewed procedures followed by the Company to ensure compliance.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company may not have performed a criminal background check on some employees hired prior to 2003. The Company began conducting background checks in 2003, but did not perform them retrospectively. Eide noted that the Company does not currently perform background checks on producers.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective Company employees and producers.

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

Eide obtained a copy of the Company's disaster recovery plan and reviewed it for reasonableness. All required activity for this Standard is otherwise included in the scope of the ongoing statutory financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.

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

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

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

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with the Commonwealth's 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 the producer to keep insurance records and accounts 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 time 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: Eide performed various procedures throughout this examination which related to review of documentation and record retention. Such testing results are noted in the various examination areas, with any exceptions noted in the Executive Summary along with the applicable standard.

Transaction Testing Results:

Findings: None.

Observations: None

Recommendations: None.

Standard I-8. The regulated entity 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 Company is operating within the requirements of its Certificate of Authority.

According to M.G.L. c. 175, § 32, a company must first obtain a certificate of authority from the Commissioner before any contracts or policies may be issued. A company may issue policies and contracts for lines of business allowed by M.G.L. c. 175, § 47.

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

- The Company's policy is to operate within the lines of business approved under its existing Certificate of Authority.

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: Eide reviewed the Company's Certificate of Authority, and compared it to the lines of business it writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company operates within the lines of business approved under its existing Certificate of Authority.

Recommendations: None.

Standard I-9. The regulated entity 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 examination.

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 acceptable.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 Code of Federal Regulations (CFR) Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of applicants and policyholders.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard customer, personal and health information.
- The Company's internal audit function has conducted reviews of privacy policies 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's 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. The Company also appears to have proper documentation to support any adverse underwriting decisions it makes.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it properly manages insurance information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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.

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

- The Company has a policy for informing and training its employees regarding its practices in handling and maintaining the privacy of personal information of applicants and policyholders.
- The Company's policy is to provide written notice of its privacy policy to each applicant and policyholder at the time of application for or renewal of a policy.

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: Eide interviewed Company personnel with responsibility for securing personal information about applicants and policyholders. Insurance information management standards were tested in each section on this examination.

Transaction Testing Results:

Findings: None.

Observations: Per Eide's review, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice that its privacy policy minimizes any improper intrusion into the privacy of policyholders, former policyholders and consumers that are not policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company disclosed privacy information to policyholders in accordance with its policies and procedures.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company provides personal consumer information to business partners or other third parties only to help provide essential services to the consumer, and therefore is not required to provide an opt out option.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company's privacy policies and procedures are adequate to protect nonpublic personal financial information.

Recommendations: None.

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

Health Insurance Portability and Accountability Act of 1996 (HIPAA); Public Law 104-191; 45 CFR Parts 160 and 164.

Objective: This Standard is concerned with ensuring that the Company's policies and procedures regarding nonpublic personal health information are in compliance with applicable statutes.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA); Public Law 104-191: 45 CFR Parts 160 and 164 sets proper procedure for inquiry, release, disclosure and maintenance of nonpublic personal health information.

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

- The Company stated that it does not sell any personal consumer information to third parties.
- Company policy is to disclose personal 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company's privacy policies and procedures are adequate to protect nonpublic personal health information.

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company has written policies and procedures in place for security of nonpublic policyholder and consumer information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose personal 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.

- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice that it has adequate and properly documented policies and procedures for the protection of nonpublic policyholder and consumer information.

Recommendations: None.

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 are recorded in the required format on the regulated entity complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer must maintain a complete record of all complaints it received since the date of its last examination. 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:

- The Company has written policies and procedures governing the complaint handling process.
- The Company records all complaints in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory definition.
- The Company has a consumer service team to receive and respond to complaints.
- The Company reviews all complaints from the Division, and forwards them to the appropriate manager for investigation and response.

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: Eide obtained complete complaint lists from the Company and the Division for the examination period, and found that both lists logged three complaints about the Company made to the Division during the examination period. All complaints were reviewed to ensure that they were handled in accordance with M.G.L. c.176, § 3(10).

Based on these findings and a planning risk assessment, Eide performed detail testing on claim handling and underwriting as outlined later in this report.

Transaction Testing Results:

Findings: None.

Observations: Eide 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 regulated entity 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 the Company has adequate complaint handling procedures, and communicates those procedures to policyholders.

Pursuant to M.G.L. c. 176D, § 3(10), the Company must be able to demonstrate that (a) the Company has documented procedures for complaint handling as required by the Division, (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analysis of 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: Eide reviewed a complete list of three Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard, and to ensure that the Company performs root cause analysis of complaints. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's complaint handling processes and controls. A sample of forms and billing notices was reviewed to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place, including root cause analysis, and communicates such procedures to policyholders.

Recommendations: None.

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

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised.

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: Eide reviewed three Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's complaint handling processes and controls.

Transaction Testing Results:

Findings: None

Observations: Eide noted that the Company responded to the issues raised in all the complaints tested in an appropriate and complete manner through its formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files.

Recommendations: None

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

Objective: This Standard is concerned with the time required for the Company to process each complaint.

Massachusetts does not have a specific complaint handling time standard in the statutes or regulations. However, established Division practice requires insurers to respond to the Division within 14 days of the date it receives any complaint from the Division.

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: Eide reviewed all three Massachusetts complaint files from the Division for the examination period to evaluate this Standard, and determined the reason for delay for any which exceeded the 14 day response time required by the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company responded to the issues raised in all the complaints tested in an appropriate and timely manner through its' formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files. All complaints reviewed were handled within 14 days as required by the Division.

Recommendations: None.

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. 175C, § 3; M.G.L. c. 175, § 18; 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 of its advertisements.

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 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. M.G.L. c. 175C, § 3 prohibits insurers from directing producers to not solicit business through the property joint underwriting association. M.G.L. c. 175, § 18 requires companies to conduct business only in the name on their license, and notes that any publication of the Company's assets must also include liabilities and surplus.

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

- The Company has written policies and procedures governing the advertising and sales material approval process.
- All advertising and sales materials produced by the Company are reviewed by its legal department for approval and compliance with statutory and regulatory requirements prior to use.
- All advertising and sales materials produced by the Company's independent producers must be reviewed and authorized by the Company's legal department prior to use.
- The Company has a website designed for use by consumers and producers which complies with Division Bulletin 2001-02.
- The Company discloses its history and facts such as contact and individual policy information on its website.

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

Transaction Testing Procedure: Eide reviewed direct advertising and sales materials produced by the Company and used during the examination period, for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has distributed a general information packet to producers focusing on products, underwriting, rating and its web pay application.
- The Company posts bulletins on its 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: Eide performed no transaction testing beyond inquiry and observation.

Transaction Testing Results:

Findings: None.

Observations: None

Recommendations: None.

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

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

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

- The Company periodically communicates information to agents via bulletins 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: Eide conducted interviews with key Company personnel to determine the type of communications with producers that generally occur, and reviewed examples of communications that occurred during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The Company's communications to producers appear accurate and reasonable.

Recommendations: None.

Standard III-4. Regulated entity mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

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.

IV. PRODUCER LICENSING

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

Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers agree with Department of Insurance records.

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, all persons who solicit, sell or negotiate insurance in the Commonwealth are required to be licensed for that line of authority. Further, producers shall not act as a producer of the Company unless they have been appointed by them pursuant to M.G.L. c. 175, § 162S. Pursuant to 18 USC § 1033, 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, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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 its 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 background checks on new producers.
- The Company requires appointees to provide a copy of their corporate and individual licenses during the appointment process.
- The Company uses the Division's OPRA website as a second check that the agent's corporate license is active.
- Agency contracts require them to report producer hirings and departures to the Company in writing.
- Agencies must annually notify the Company of changes to the producer listing upon license renewal.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company within 15 days from the date their contract is executed, or from the date the first coverage application is submitted.

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: Eide interviewed individuals with responsibility for producer contracting and processing of appointments, and reconciled the Division's producer listing to the Company's producer listing.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company does not currently perform background checks on producers.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective producers.

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 Bulletins 1998-11 and 2001-14

Refer to Standard IV-1 for discussion and recommendations also applicable to this standard.

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, §§ 162R and 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the Commonwealth and to the producer.

Pursuant to M.G.L. c. 175, § 162T, the regulated entity must notify the Division within 30 days of the effective date of a producer's termination, and of the cause of any "for cause" termination. M.G.L. c. 175, § 162R defines the reasons for which the Division may terminate a producer's license.

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

- Agency contracts require them to report producer hirings and departures to the Company in writing.
- Marketing representatives, who visit each agency monthly, inquire about any changes in personnel to ensure they are notifying the Company of any hiring or departures.

- Agencies are required to notify the Company annually of changes to the producer listing when the licensing renewal process is being completed.
- The Company notifies the Division of producer terminations on an as needed basis through OPRA.

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: Eide requested and reviewed documentation of the Company's reporting of all producer terminations from the examination period to the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company notifies terminated producers using a letter whose contents have been approved by the Division. When the termination is "for cause", the Company sends the notice to the producer via certified mail, return receipt requested. The Company notifies the Division of the termination consistent with statutory guidelines and procedures established by the Division.

Recommendations: None.

<p>Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.</p>
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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: Eide reviewed documentation, such as zip codes, from all sales selected for the examination period for evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Eide's testing noted no evidence of unfair discrimination against policyholders resulting from 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 a producer's termination, and of the cause for any such termination as defined in M.G.L. c.175, § 162R.

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: Eide obtained a list of producers terminated during the examination period, and reviewed the reasons for each termination.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing noted above, the Company's internal records adequately document reasons for producer terminations. None of the terminations tested were for cause as defined in M.G.L. c. 175, § 162R. The Company has procedures in place for notifying the Division of terminations whether "for cause" or "not for cause".

Recommendations: None.

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

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

V. POLICYHOLDER SERVICE

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

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

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 for renewal policies are generated automatically through the policy administration system approximately 35 days before policy expiration.
- Most policyholders elect direct billing on a monthly or annual basis. Other policyholders elect to pay through payroll deduction with participating employers, which occurs throughout the year. Lastly, other policyholders elect mortgagee billing where the bill is sent to the mortgagee for payment at the request of the policyholder.
- Company policy is to charge a monthly service fee for installment payments.

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: Eide interviewed Company personnel with responsibility for policyholder service. In conjunction with the underwriting and rating testing, Eide reviewed billing notice dates, fees and interest charges for 25 policies issued or renewed during the examination period. For each renewed policy, the date the renewal letter was sent to the policyholder, as tracked in the Company's database, was compared with the policy's effective renewal date.

Transaction Testing Results:

Findings: None.

Observations: Eide's review of the 25 tested policies issued or renewed during the examination period showed that billing notices for renewal policies were mailed 35 days prior to the policy expiration date.

Recommendations: None.

Standard V-2. Policy issuance and insured requested cancellations are timely.

M.G.L. c. 175, § 187B.

Objective: This Standard addresses the Company's procedures to ensure customer cancellation requests are processed timely.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return unearned premium in a reasonable time upon receipt of the policyholder's request to cancel.

Objectives pertaining to policy issuance are included in Underwriting and Rating Standard VI-6. Return of premium testing is included in Underwriting and Rating Standard V-7.

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 policies upon notification from the producer of the policyholder's request, and to process premium refunds in a timely manner.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.

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: During Eide's review of 25 policies in the underwriting and rating section, any cancellations were investigated to ensure that proper notice of cancellation was given and that any unearned premium was returned within a reasonable time period. Calculation of unearned premium is also covered in the financial examination.

Transaction Testing Results:

Findings: None.

Observations: The insured-requested cancellations tested were processed timely according to the Company's policies and procedures. Based upon the results of testing, the Company's processing of insured-requested cancellations appears to be functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants from the appropriate department. 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 policy, billing or claims matters. Customer service representatives can also make mailing address or name changes to policies.
- The Company considers its agents as having the primary relationship with the policyholder. Since customer service representatives are not licensed agents, policyholders must request endorsements and policy changes through the agent. If a policyholder requests such changes through customer service, the policyholder will be transferred to the agent for servicing.

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: Eide discussed correspondence procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of the underwriting and rating, policyholder service and claim standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders and the Company in 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. The complaint testing performed also supports the timeliness of the Company's responses to correspondence.

Recommendations: None.

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

No work performed. The Company did not enter into assumption reinsurance agreements during the examination period.

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

Objective: This Standard is concerned with whether the Company processes insured's requests accurately and completely from the information they receive.

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

- The Company has a variety of ways in which an insured may submit claims, including calling the Company, submitting a claim document to the company or notifying the producer of the claim.
- Issues that require additional review are handled separately from those that require standard responses. A "standard" response includes when the policyholder inquires about policy effective dates, status of their claim check, and other general information. Issues that could require additional review include when a policyholder disputes the amount of a claim payment after it has been adjusted, or has a formal complaint about the Company's actions related to any area from sales and underwriting, to processing a claim.
- Changes to existing policies are usually done through the insured's agent. Minor changes may be made by the Company via direct inquiry. Mortgagor requests made directly to the Company on behalf of the mortgagee are handled by the Company.
- The Company's policy is to contact an insured within 24 hours of receiving any written inquiry or voice message, and phone calls are immediately responded to during business hours.

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: Eide discussed endorsements, cancellations and change in information procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of the 25 policies in the underwriting and rating section.

Transaction Testing Results

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders, agents, or mortgagors and the Company with regard to policy changes, it appears that the Company accurately and completely processes policy transactions.

Recommendations: None.

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

M.G.L. c. 200A, §§ 7-7B, 8A and 9

Objectives: This standard is concerned with whether the Company makes reasonable attempts to locate missing policyholders or beneficiaries when necessary.

Pursuant to M.G.L. c. 200A, §§ 7-7B, 8A and 9 the amounts due to policy holders or beneficiaries are presumed abandoned if unclaimed for more than three years after the funds become payable. Annual reporting to the State Treasurer's Office regarding efforts to locate owners is required, and the statutes require payments to the State Treasurer's Office for escheated property.,

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

- The Company has formal procedures in place to contact missing policyholders and beneficiaries.
- The Company has a formal process for resolving returned mail.

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: Eide discussed endorsements, cancellations and change in information procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of the 25 policies and 12 claims in the policyholder service, underwriting and rating, and claims sections.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders, agents, or mortgagors and the Company with regard to policy changes, it appears that the Company accurately and completely processes policy transactions.

Recommendations: None.

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

M.G.L. c. 175, §§ 187C and 187D

Objective: This Standard is concerned with whether the Company refunds unearned premium from cancellation in a timely manner and in accordance with the statutes of the Commonwealth.

Pursuant to M.G.L. c. 175, § 187C written notices of cancellations are required from insurers. Pursuant to M.G.L. c. 175, § 187D insurers have the right to cancel a policy for non-payment of premium.

Controls Assessment: Refer to Standard V-4.

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: During Eide's review of the 25 policies in the underwriting and rating section, any cancellations were investigated to ensure that proper notice of cancellation was given and that any unearned premium was returned within a reasonable time period. Calculation of unearned premium is also covered in the financial examination.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the selected policies, the Company appears to be providing proper notice to policyholders regarding cancellations due to non-payment. Eide noted no instances where the unearned premium from a cancellation was not returned to the insured within a reasonable time frame. Eide also discussed calculation of unearned premium with the Division's financial examination team, and noted no concerns.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company responded to insured's requests accurately, completely, and within a reasonable time period.

Controls Assessment: Refer to Standard V-5.

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: During testing of 12 claims in the claims section, Eide examined whether the Company timely and properly handled all insured requests for claim history and loss information.

Transaction Testing Results:

Findings: None.

Observations: Based on Eide's review of 25 policy inquiries and 12 claims filed during the examination period, the Company timely responded to policyholder and claimant inquiries.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175, § 111H; 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 and catastrophe hazards, and must 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.

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 automobile coverage, new construction, security features and claim free accounts.
- The Company uses an electronic process for rating to ensure it uses consistent and filed rates 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: Eide interviewed the Company's underwriting personnel to gain understanding of the underwriting process. Eide selected a sample of 25 home owner policies issued or renewed during the examination period to test rates, classifications and premium discounts. Eide verified that each policy's premium, discounts and surcharges for multiple coverages complied with statutory and regulatory requirements, and had documentation to support the discounts and surcharges given. Eide also reviewed the underwriting file to ensure that sufficient underwriting information was available at the time of the underwriting decision.

Transaction Testing Results:

Findings: None.

Observations: Eide believes from its review of available documentation of rates and surcharges given that the Company applies rates and surcharges according to statutory requirements and regulatory information.

Recommendations: None.

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

M.G.L c. 174A, § 11; M.G.L. c. 175, §§ 99, 99A and 102D

Objective: This Standard is concerned with whether all mandated disclosures for rates and coverage's are timely provided to insureds in accordance with statutes and regulations.

Pursuant to M.G.L. c. 174A, § 11, the insurer will furnish to the insured any requested rate information in a timely manner. Pursuant to M.G.L. c. 175, §§ 99 and 99A, numerous disclosures and requirements must be included on a standard fire policy. M.G.L. c. 175, § 102D requires companies to disclose their participation in the National Flood Insurance Program.

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

- Company policy requires that policies include required statutory rate and other disclosures.
- 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.
- The Company sends a letter to the agent if information or forms are missing from new business applications.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and reviewed the information guides utilized for new business.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's inquiries and examination of policies, the Company appears to provide required coverage disclosures to insureds upon initial application in accordance with statutory and regulatory guidelines.

Recommendations: None.

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

M.G.L. c. 175, §§ 177, 182, 183 and 184; M.G.L. c. 176D, § 3(8).

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 producer 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 premium, any other benefits or any valuable consideration or inducement not specified in the contract. M.G.L. c. 175, § 177 prohibits insurers and producers from compensating unlicensed entities, but permits paying referral fees to unlicensed employees of licensed producers.

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

- The Company's producer contracts and home office policies and procedures are designed to comply with statutory underwriting and rating requirements that prohibit special inducements and rebates.
- The Company reviews all applications to determine that only appropriate discounts have been allowed.
- The Company performs monthly audits of randomly selected producers' underwriting and commission payment procedures, to ensure adherence with Company policies and applicable laws.

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: Eide reviewed new business materials including advertising, producer training materials and manuals used during the examination period, for indications of rebating, commission cutting or inducements. Eide selected a sample of 25 policies issued or renewed during the examination period, and reviewed the underwriting notes and documentary evidence for existence of illegal rebates, commission cutting or special inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 4C, 22, 95, 95B and 193T; M.G.L. c. 175C, § 4.

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, § 22 states that insurance companies may not issue policies which limit the jurisdiction of the courts of the Commonwealth. M.G.L. c. 175, § 95 states that insurance companies may not issue fire policies with limits in excess of the property's market value. 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." M.G.L. c. 175C, § 4 requires direct writers of basis property insurance to be members of the joint underwriting association.

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, § 4; M.G.L. c. 175, §§ 4C, 95B and 193T.

- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company is a member of the Massachusetts Property Insurance Underwriting Association.

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: Eide interviewed the Company's marketing and underwriting departments regarding risk acceptance and treatment of policyholders. Eide selected a sample of 25 policies issued or renewed during the examination period, and reviewed the policy, underwriting notes, and supporting documentation for evidence of discriminatory treatment.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company's processes for prohibiting discrimination are functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 99, 99B, 111H and 192; 211 CMR 131.00.

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, § 2B policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. 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 must also 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:

- Company policy requires that agents use one of the Company's approved policy forms and endorsements when providing a quote to consumers.
- Company policy requires that all changes to policy forms and endorsements be filed with 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected 25 homeowners' policies issued or renewed during the examination, period to test for the use of Company and Division approved policy forms and endorsements.

Transaction Testing Results:

Findings: None.

Observation: The Company appears to be filing all policy forms, contracts, certificates, endorsements and riders with the DOI as required.

Recommendations: None.

Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.
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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 notices to policyholders 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: Eide selected a sample of 25 policies issued or renewed during the examination period, to test whether all policies, riders and endorsements were handled accurately, timely and completely.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company processes policies, endorsements, and riders in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

Standard VI-7. 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.
- The Company's 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: Eide interviewed the underwriting department regarding cancellations and declinations, and selected a sample of 25 policies issued or renewed during the examination period to review the policy, underwriting notes, and supporting documentation for evidence of discriminatory cancellations or declinations.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company's processes for prohibiting discrimination are functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

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

M.G.L. c. 175, §§ 99, 187C and 193P.

Objective: This Standard is concerned with notice to policyholders for cancellations, non-renewals 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 20 days written notice of cancellation to the mortgagee to whom the policy is payable, 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 its intent to non-renew a policy to the insured at least 45 days prior to the expiration of the policy, including 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 that written notice be given to the insured in accordance with statutory requirements
- Company policy requires that notices of non-renewal be given 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 25 policies issued or renewed during the examination period for underwriting testing. Cancelled policies were examined to ensure that the reasons for cancellation, and the prior notice of cancellation, complied with statutory requirements. The reason for each policy's cancellation or non-renewal was compared to the Company's underwriting cancellation policy guidelines. Eide verified that the cancellation form used was the standard approved form, and that the date of the cancellation letter, when compared to the cancellation effective date, showed that timely notice was given within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to utilize standard approved forms for all cancellation notices, and to comply with statutory guidelines for timely notification to insureds.

Recommendations: None.

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

M.G.L. c. 175, § 187D.

Objective: This Standard is concerned with whether decisions to rescind and to cancel coverage 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 Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company does not rescind policies, but instead cancels them as of the date on which it determines rescission is appropriate.

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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 25 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. Eide reviewed the reason for cancellation of each of the selected cancelled policies, to ensure that it was within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of cancellations, it was noted that the Company does not rescind policies, but instead cancels them as of the date on which it determines that rescission is appropriate.

Recommendations: None.

Standard VI-10. Credits, debits 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; 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 shall also 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 must also be based, in part, on past and prospective loss experience and catastrophe hazards, and should 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. Insurers must use filed rates unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

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, § 9 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.
- Property insurance rating criteria include territory, coverage amount and type, property age, protection class and structure type, as well as discounts for home and automobile coverage, new construction, security features and claim free accounts.
- The Company uses an electronic rating process that 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 25 policies from all lines of business issued or renewed during the examination period, for underwriting and rating testing. Eide compared the credits and debits applied to the policies across the sample to ensure they were applied consistently on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of policies issued or renewed during the examination period, credits and debits are applied consistently based on objective criteria.

Recommendations: None.

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

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. The Company also does not offer workers' compensation insurance.

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

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

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

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

Standard VI-14. Verification of experience modification factors.

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

Standard VI-15. Verification of loss reporting.

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

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

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

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

Objective: This Standard 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.
- Property insurance rating criteria include territory, coverage amount and type, property age, protection class and structure type, as well as discounts for home and automobile coverage, new construction, security features and claim free accounts.
- The Company uses an electronic rating process that 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 25 homeowners policies issued or renewed during the examination period, to test whether underwriting, rating and classification are based on adequate information developed at or near the inception of coverage.

Transaction Testing Results:

Findings: None

Observations: Based on the results of testing, 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-18. Audits, when required, are conducted accurately and timely.

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

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

M.G.L. c. 175, §§ 2B, 22A, 99, 99B, 111H and 192; 211 CMR 131.00.

Objective: This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval.

M.G.L. c. 175, § 2B describes policy form language, and requires that all items forming a part of the contract be listed on the declaration page and filed with the Division. M.G.L. c. 175, § 22A states that such policy forms must be 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 must also be filed with the Division for prior approval. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage 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 endorsements when providing a quote to consumers.
- Company policy requires that all changes to policy forms and endorsements be filed with 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: Eide interviewed Company personnel with responsibility for the underwriting process and selected a sample of 25 policies issued or renewed during the examination period to test for the use of standard policy forms and approved endorsements in compliance with statutory requirements. The standard forms used for each policy, along with all endorsements effective on the policy, were compared to the forms approved by the Division. Eide ensured that all relevant aspects of the contract were listed on the policy declaration page.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Standard VI-21. The regulated entity 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 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.
- Property insurance rating criteria include territory, coverage amount and type, property age, protection class and structure type, as well as discounts for home and automobile coverage, new construction, security features and claim free accounts.
- The Company uses an electronic rating process that 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 25 policies issued or renewed during the examination period to test for evidence of anti-competitive language or collusive trends in the underwriting process.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, Eide noted no instances where the Company's underwriting policies and practices appeared collusive or anti-competitive.

Recommendations: None.

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

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

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

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

Standard VI-24. Cancellation/nonrenewal 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

Refer to Standard VI-8 for control assessments, testing procedures and testing results.

Standard VI-25. All policies are correctly coded.

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 that are designed to assure reasonable consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that the coding reported by the producer is correct and current.
- The Company has a process for correcting data errors and making any changes 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: Eide interviewed Company personnel with responsibility for the underwriting process, to determine whether there are sufficient controls to ensure accurate and timely completion of statistical reports. Eide randomly sampled 25 policies issued or renewed during the examination period to test the accuracy of statistical coding, and timely completion of statistical reports.

Transaction Testing Results:

Findings: None.

Observations: Through testing performed on the selected policies, the Company's statistical coding appears accurate.

Recommendations: None.

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

Objective: This standard is concerned with applications and enrollment forms to ensure they are fully completed, signed, and the file documentation supports the decision.

Controls Assessment:

- 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.

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: Eide verified that the application and enrollment forms in use during the examination period were properly completed, including any required signatures, and that file documentation supported the company's decisions.

Transaction Testing Results:

Findings: None.

Observations: EB noted that application and enrollment forms were accurately and fully completed, and file documentation properly supported the Company's decisions.

Recommendations: None.

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 regulated entity with the claimant is within the required time frame.

M.G.L. c. 176D, § 3(9)(b).

Objective: This Standard is concerned with the timeliness of the Company's initial contact with the claimant.

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claim 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 company policies and procedures govern the claims handling process.
- Written claim forms received via fax or mail are acknowledged in writing within two or three business days after receipt.
- 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 to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand the claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to test the timeliness of the Company's initial contact with claimants. Eide verified the date each selected claim was first reported to the Company, and noted whether the Company's initial response was made in a timely manner according to applicable statutes and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each of the 12 tested claims was reported and investigated according to the Company's policies and procedures, and that responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard is concerned with the timeliness of the Company's claim 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 claims.

Controls Assessment:

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

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: Eide interviewed Company personnel with responsibility for claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date that each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that in each of the 12 claims tested, the Company's processes for timely reporting and investigating claims functioned in accordance with their policies and procedures.

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 and 112.

Objective: The Standard is concerned with the timeliness of the Company's claim settlements.

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claim settlement practices include failing to effectuate prompt, fair and equitable settlement 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 such findings to the General Court. M.G.L. c. 175, § 112 states that the liability of any company under a motor vehicle liability policy, or under any other 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:

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

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: Eide interviewed Company claims personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported, and noted whether it was timely and reasonably resolved by the Company.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each tested claim was handled timely according to the Company's policies and procedures. Based upon the results of Eide's testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

Standard VII-4. The regulated entity 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 resolve all claims in a timely manner.
- Refer to Standard VII-1 for additional control assessments

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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether it timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all of the 12 claims tested were reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with their policies and procedures.

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 claim decisions.

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 to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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

Transaction Testing Procedure: Eide interviewed Company claim personnel to understand their claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that claims were reported and investigated according to the Company's policies and procedures, and that claim file documentation was adequate.

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 24E, 24F, 96, 97, 97A, 100, 102, 111F, 112, 112C, 186 and 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 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. M.G.L. c. 175, § 24E requires an insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires insurers to communicate with the Commonwealth regarding claimants with unpaid taxes. 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 \$5,000, 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, § 186 states that a misrepresentation by an insured must have the intent to deceive or increase an insurer's risk of loss to void a policy.

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. 175, § 112.

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

- Written company 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 adjustors up to a defined dollar limit to their settlement authority.
- The Company has procedures for complying 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 for complying 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 for reimbursing excess premiums pursuant to M.G.L. c. 175, § 96, when insured values exceed the actual cash value claim on a property.
- The Company has procedures for determining 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 exist where the defined claim amounts exceed \$5,000, to comply with the requirements in M.G.L. c. 175, § 97A.
- The Company did not have a claim during the examination period where a referee was appointed to comply with requirements in M.G.L. c. 175, § 100.
- The Company has procedures for complying with requirements in M.G.L. c. 175, § 102 to ensure claimants for fire losses provide sworn statements upon request.
- The Company has procedures for complying 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.
- Company 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 to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures.

Transaction Testing Results:

Findings: The file for one claim of twelve tested did not contain documentation that the Company contacted a building inspector or other authority on damage in excess of \$1,000 caused by fire.

Observations: Eide noted no other violations of this statute during the remainder of the testing.

Recommendations: Eide recommends that the Company reiterate its record retention and claim documentation rules to all staff who handle claims.

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

Objective: The Standard is concerned with the Company's use 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:

- The Company uses industry standardized claims reporting forms which are appropriate for the Company's lines of business.
- Company 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 of loss, and names of 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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all paid or closed without payment claims selected for testing were reported according to the Company's policies and procedures, and that claim file documentation was adequate. Based upon the results of Eide's testing, it appears that the Company's processes for documenting reported claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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

Objective: The Standard is concerned with the Company's process for establishing and monitoring claim reserves for reported losses.

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

- Written company policies and procedures govern the claims handling process.
- Company policy is to timely evaluate and establish adequate reserves on all reported claims.
- Company claim processing guidelines require that the following key information be completed, signed, and included in claim files:
 - 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 to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims reserving processes, and obtained documentation supporting such processes. Eide selected a sample

of 12 claims paid and closed during the examination period, to evaluate compliance with Company claim reserving policies and procedures. Eide verified the date each selected 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: Eide noted that claim reserves for each selected claim tested 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 testing, it appears that the Company's processes for evaluating, establishing and adjusting claim reserves are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

Standard VII-9. 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 claim 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 an unfair claim settlement practice.

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

- Company policy requires that claim denials include the 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 claim investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- A written explanation of all denied 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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled each claim timely and properly before closing or denying it.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each tested claim was handled according to the Company's policies and procedures. It appears that the Company's claim handling and denial practices are appropriate and comply with applicable statutes and Company policy.

Recommendations: None.

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

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 claim investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- Company procedures include verifying the proper payee and check amount prior to check issuance.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claim reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim payment processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim payment policies and procedures. Eide reviewed the file for each selected claim, and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each selected claim was reported and investigated according to Company policies and procedures, with adequate claim payment documentation. Eide noted no instances where claim payment practices, or investigation of suspicious claims, appeared inappropriate. Based upon the results of Eide's testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with their policies and procedures.

Recommendations: None.

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

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 such 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 claim settlements and payments.
- Company policy is to contact all injured persons or, their legal representatives, within two business days of receipt of a claim.
- Personal injury claims are handled by claims staff specially trained for such claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Senior management 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 claim processing times to monitor claims handling 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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date the tested claim was reported, reviewed related correspondence and investigative reports, and noted whether it was handled timely and properly.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard is concerned with the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits.

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 warranted.
- Reservation of rights letters are used very rarely; only under circumstances where the liability for claims payment has come into question.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid or closed without payment during the examination period, to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each claim selected for testing was reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Eide noted no instances where a reservation of rights letter or excess loss letter was used. Eide reviewed model correspondence for such letters, which appeared accurate and proper. Based upon the results of testing, it appears that the Company's processes for utilizing reservation of rights and excess loss letters for claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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

Objective: The Standard is concerned with the Company's timely and accurate reimbursement of a collected deductible when subrogation recoveries are made.

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

- The Company's written claim handling policies and procedures address 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.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a sample of 12 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of our testing, it appears that the Company's processes for making subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

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

M.G.L. c. 175A, § 15(a); 211 CMR 15.00.

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, and the rating system on file with the Commissioner. The Commissioner may designate a 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 timely report complete and accurate loss data to appropriate rating bureaus.
- The Company reports loss data to the 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.
- The company reports detailed claim data 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, and generate exception reports 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: Eide interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide 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 Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. Eide has made recommendations to address concerns in the areas of Company Operations / Management, Producer Licensing and Claims.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“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 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. In addition, Dorothy K. Raymond and James Wright of the Division’s Market Conduct Section participated in the examination, and in the preparation of this report.

The cooperation and assistance that 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 and
Examiner-In-Charge
Commonwealth of Massachusetts
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