



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

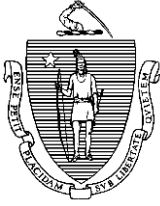
*Cambridge Mutual Fire Insurance Company*

*Andover, Massachusetts*

*For the Period January 1, 2004 through December 31, 2004*

**NAIC COMPANY CODE: 19771**

**EMPLOYERS ID NUMBER: 04-1144900**



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

One South Station • Boston, MA 02110-2208  
(617) 521-7794 • FAX (617) 521-7770  
Springfield Office (413) 785-5526  
TTY/TDD (617) 521-7490  
<http://www.state.ma.us/doi>

MITT ROMNEY  
GOVERNOR

KERRY HEALEY  
LIEUTENANT GOVERNOR

JANICE S. TATARKA  
DIRECTOR, CONSUMER AFFAIRS  
AND BUSINESS REGULATION

JULIANNE M. BOWLER  
COMMISSIONER OF INSURANCE

September 20, 2005

The Honorable Julianne M. Bowler  
Secretary, Northeastern Zone  
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 Bowler:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175, Section 4, a full comprehensive examination has been made of the market conduct affairs of

**CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY**

at its home office located at 95 Old River Road, Andover Massachusetts 01810. The following report thereon is respectfully submitted.

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## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (hereinafter “Division”) conducted a comprehensive market conduct examination of Cambridge Mutual Fire Insurance Company (hereinafter “Cambridge” or “Company”) for the period January 1, 2004 through December 31, 2004. The examination was called pursuant to authority in Massachusetts General Laws Chapter 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 (hereinafter “Eide”) were engaged to complete certain agreed-upon procedures.

## EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of Cambridge using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (hereinafter “Handbook”), the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control 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 a review of the Company’s policies and procedures regarding compliance with 18 U.S.C. §§ 1033 and 1034, as well as an assessment of the Company’s internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins related to market conduct activities.

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

All systems and personnel of the Company are shared with Merrimack Mutual Fire Insurance Company and Bay State Insurance Company through an inter-company pooling arrangement. Therefore, the control environment, systems environment and policies and procedures are shared amongst these entities. We conducted our testing on the overall operating environment while maintaining an understanding of each company within the organization.

## **Executive Summary**

The comprehensive examination was conducted concurrently with the Division's statutory financial examination of Cambridge. The financial examination performed limited compliance testing since the market conduct examination was also being conducted.

This summary of the examination is intended to provide a high-level overview of the reported results of the examination. The body of the report provides details of the scope of the examination, tests conducted, findings and conclusions, recommendations and 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. When applicable, corrective action should be taken by the Company for any finding contained herein. Any corrective action requires agreement of both the Company and the Division prior to implementation.

All Massachusetts insurance laws, regulations and bulletins cited in this report may be viewed on the Division's website at [www.state.ma.us/doi](http://www.state.ma.us/doi).

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 Cambridge.

## **SECTION I – COMPANY OPERATIONS / MANAGEMENT**

### **Standard I-3**

*Finding(s):* The Company does not perform criminal background checks on new employees, nor does it have procedures in place to ensure that existing employees are compliant with 18 U.S.C. § 1033 on an ongoing basis.

*Observation(s):* The Company requires all new and existing employees to annually sign an affidavit stating whether they have been convicted of a felony.

*Recommendation(s):* Eide recommends that the Company conduct criminal background checks for all new and existing employees.

## SECTION III – MARKETING AND SALES

### **Standard III-1**

*Finding(s):* The Company's website does not disclose its principal address as required by Division Bulletin 2001-02.

*Observation(s):* Excluding the Company's website, the results of our testing of marketing material showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3.

*Recommendation(s):* According to Division Bulletin 2001-02, an insurer must disclose on all marketing materials: (1) the exact name as it appears on their certificate of authority; (2) that it is licensed in the Commonwealth of Massachusetts and (3) the address of its principal office. Eide recommends that the Company incorporate these requirements into its website to bring it into compliance with Division Bulletin 2001-02.

## SECTION VII – CLAIMS

### **Standard VII-6**

*Finding(s):* According to M.G.L. c. 175, § 97A if a claim payment exceeds \$5,000, the company must obtain any liens from the city and pay the balance due before paying the claimant. For one claim, the Company did not inquire into outstanding liens on the property prior to payment of the claim.

*Observation(s):* Excluding the above exception, it appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

*Recommendation(s):* The Company's claim payment policies and its compliance with M.G.L. c. 175, § 97A should be reviewed to ensure that these laws are adequately addressed.

## COMPANY BACKGROUND

The Andover Group is comprised of three property and casualty companies connected through an inter-company pooling arrangement. Merrimack Mutual Fire Insurance Company, the founding company, began operations in 1828. Cambridge Mutual Fire Insurance Company was incorporated in 1833, and was acquired by Merrimack Mutual Fire Insurance Company in 1913. Bay State Insurance Company was added in 1955 and is organized as a stock company.

All three entities within the Andover Group specialize in providing homeowners, fire and commercial multiple peril lines. The majority of the Group's business is written in the Northeast region. Major direct written premium percentages by state during 2004 include: Massachusetts – 40.6%, New York – 16.5%, New Jersey 13.7%, Illinois – 10.6%, Connecticut – 5.6% and three other jurisdictions – 13.0%. The Company is one of the leading homeowners' writers in the state.

The companies share in premiums, losses and expenses, which are distributed among the member companies based on the following percentages: Merrimack Mutual Fire Insurance Company – 50%, Cambridge Mutual Fire Insurance Company – 35% and Bay State Insurance Company – 15%. For ease of operations, a majority of the Group's third party transactions are handled through Merrimack Mutual Fire Insurance Company. Ultimately, the other two companies receive their share of business through the pooling agreement.

The Andover Group's breakout by line of business for direct written premium during 2004 is shown in Table 1:

**TABLE 1**

Line of Business	Andover Companies	Percent of Total
Homeowners	\$ 217,999,000	53%
Commercial Multi Peril	109,262,000	26%
Fire	32,873,000	8%
Other Liab Occur	22,752,000	6%
Allied Lines	19,691,000	5%
Inland Marine	9,420,000	2%
<b>Total Direct Business</b>	<b>\$ 411,997,000</b>	<b>100%</b>

Table 1 shows that the Andover Group primarily writes homeowners and commercial multiple peril lines. The Andover Group has approximately 1,100 licensed local independent producers who distribute the various products throughout the Northeast region. The Company utilizes a standardized producer contract to establish the business relationship with producers, and has an automatic renewal with producers so that the arrangement is perpetual until cancelled by one of the parties.

The Company is rated A+ (Superior) by AM Best Company and ratings were stable over the examination period.

The key objectives of this examination were determined by the Division utilizing the Handbook. The remainder of this report outlines the testing and results by each major risk area defined by the Handbook.

## I. COMPANY OPERATIONS/MANAGEMENT

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

### **Standard I-1. The company has an up-to-date, valid internal, or external, audit program.**

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

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

- The Company does not have an internal audit function, but is audited annually by an independent accounting firm that tests internal controls.
- Formal procedure records are kept for the major areas of the company and are updated on an annual basis.
- The Company uses a job rotation system within the accounting department to mitigate fraud.
- The Company responds to external audit recommendations to correct, modify and implement 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:* Due to the nature of this Standard, no transaction testing was performed.

*Transaction Testing Results:* Not applicable.

*Recommendation(s):* None.

\* \* \* \* \*

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

Eide reviewed work performed by Division financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

\* \* \* \* \*



**Standard I-3. The company has 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 98-11 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 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 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 in the business of insurance unless and until such consent is granted.

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

- The Company has a written antifraud plan.
- With the help of the Massachusetts Insurance Fraud Bureau, the Company has a continuing education program in place for all claims and underwriting personnel.
- Company claims and underwriting personnel, on average, have over ten years of industry experience.
- Potentially fraudulent claims are brought to the attention of the Claims Examiner, and then referred to outside experts if the Claims Examiner determines further investigation is necessary.
- The underwriting department ensures the accuracy of applications through physical inspections of property, random field examinations, credit checks and information from outside sources.
- The Company does not perform criminal background checks for prospective employees, nor does it have procedures in place to ensure that existing employees are compliant on an ongoing 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 individuals with responsibility for ensuring that the Company does not willfully employ prohibited persons as defined in 18 U.S.C. § 1033, and reviewed procedures followed by the Company to ensure compliance.

*Transaction Testing Results:*

*Finding(s):* The Company does not perform criminal background checks on prospective employees, nor does it have procedures in place to ensure that existing employees are compliant with 18 U.S.C. § 1033 on an ongoing basis.

Observation(s): The Company requires all new and existing employees to sign an affidavit stating whether they have been convicted of a felony.

Recommendation(s): Eide recommends that the Company conduct criminal background checks for all new and existing employees.

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

Eide reviewed work performed by the Division's financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

\* \* \* \* \*

**Standard I-5. The company is adequately monitoring the activities of the Managing General Agents (MGAs).**

Eide performed no work on this standard, as the Company does not utilize MGAs.

\* \* \* \* \*

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

Eide performed no work on this standard, as the Company does not utilize MGAs.

\* \* \* \* \*

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with its 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: Company policy requires that its producers keep complete records and accounts of all insurance transactions. The Company's standard producer contract requires that insurance records and accounts be kept current and identifiable. The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable, including a reasonable 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.

Transaction Testing Results: Such testing results are noted in the various examination areas and include exceptions noted in the Executive Summary.

Recommendation(s): Such recommendations are noted in the various examination areas and include exceptions noted in the Executive Summary.

\* \* \* \* \*

**Standard I-8. The company is licensed for the lines of business that are being written.**

**M.G.L. c. 175, §§ 32 and 47.**

Objective: This Standard is concerned with whether the 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 operates 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 traced each line of business written in Massachusetts, as listed on the annual statement, to the Certificate of Authority obtained from the Division. Eide also met with the Division's financial examination team to discuss any notable issues that arose during the course of the financial exam.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company operates within the lines of business approved under its existing Certificate of Authority.

Recommendation(s): None.

\* \* \* \* \*

**Standard I-9. The company cooperates on a timely basis with examiners performing the examinations.**

**M.G.L. c. 175, § 4.**

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

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

*Controls Reliance:* Not applicable.

*Transaction Testing Procedure:* The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

*Transaction Testing Results:*

*Finding(s):* None.

*Observation(s):* The Company's level of cooperation and responsiveness to examiner requests was excellent.

*Recommendation(s):* None.

\* \* \* \* \*

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

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

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

- Company policy 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 using 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 Division's financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): It appears from our review of the Company's privacy notice that its 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.

Recommendation(s): None.

\* \* \* \* \*

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

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

\* \* \* \* \*

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

**Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.**

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

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

- 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.
- Company policy allows for the sharing of policyholder and personal information with affiliates.
- 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 are also provided to policyholders using 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 comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of policyholders, former policyholders and consumers that are not policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

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

**Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.**

Objective: This Standard is concerned with the Company's policies and procedures to ensure it provides consumers proper notification of privacy information.

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.
- Company policy allows for the sharing of policyholder and personal information with affiliates.
- 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 are also mailed to policyholders.
- 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the privacy policies of the Company, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our 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 their policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

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

**Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.**

Objective: This Standard is concerned with the Company's policies and procedures to provide consumers with an opt out option as required in the Gramm Leach Bliley Act.

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 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 to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices are also mailed to policyholders.



- 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 Division's financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company provides 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.

Recommendation(s): None.

\* \* \* \* \*

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

**Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.**

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

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 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 to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices are also provided to policyholders using 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 Division's financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

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**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 company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a policyholder or a consumer who is not a policyholder has authorized the disclosure.**

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

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 are also provided to policyholders using 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 Division's financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company's policies and procedures are adequate to protect nonpublic personal health information.

Recommendation(s): None.

\* \* \* \* \*

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

**Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313.**

Objective: This Standard is concerned with ensuring that the Company has written policies and procedures regarding the protection of nonpublic policyholder information.

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 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 to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices are also provided to policyholders using 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The Division's financial

examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and written documentation, it appears that the Company's policies and procedures for the protection of nonpublic policyholder and consumer information are adequate.

Recommendation(s): None.

\* \* \* \* \*

FOR INFORMATIONAL 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 company complaint register.**

**M.G.L. c. 176D, § 3(10).**

*Objective:* This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints received since 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:

- Written Company policies and procedures govern 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 requirement.
- The Company has a centralized function for receipt and processing of complaints to ensure consistency in handling and documentation.

*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 listings from the Company and from the Division for the examination period. We compared the two listings to ensure completeness, and found that the Division and the Company each had logged 9 complaints made to the Division during this period. We reviewed all complaints received by the Division and on the Company log to ensure that complaints were being handled in accordance with M.G.L. c. 176 § 3(10). Of the 9 complaints tested, one was justified and 8 were not justified based on a detailed review of the complaints. Review of the complaints also indicated the following:

Type of Complaint	Number of Complaints	Percent of Total
Claims Handling	6	67%
Underwriting	2	22%
Policyholder Services	1	11%
Marketing	0	0%
<b>Total</b>	<b>9</b>	<b>100%</b>

Based on these findings coupled with our planning risk assessment, Eide performed detail testing on claims handling and underwriting as outlined later in this report.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 9 complaints tested, 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).

Recommendation(s): None.

\* \* \* \* \*

**Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.**

**M.G.L. c. 176D, § 3(10).**

Objective: This Standard addresses whether (a) the Company has documented procedures for complaint handling as required by M.G.L. c. 176D, § 3(10), (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses 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 listing of the Massachusetts complaint files from both the company and the Division for the examination period to evaluate this Standard. In addition, Eide interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. A sampling of forms and billing notices sent to the policyholders was reviewed to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendation(s): None.

\* \* \* \* \*

**Standard II-3. The company 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 a complete listing of the Massachusetts complaint files from the examination period to evaluate this Standard. In addition, each complaint was examined to determine if any had exceeded the 14 day response time required by the Division.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 9 complaints tested, Eide noted that the Company responded to the issues raised through the formalized complaint process in a complete manner. In addition, there was adequate documentation to support complaint handling. Further, the Company appears to treat complainants with similar fact patterns in a consistent and reasonable fashion. Finally, complaint files were adequately documented for review purposes.

Recommendation(s): None.

\* \* \* \* \*

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, established Division practice requires insurers to respond to the Division within 14 days of the date on which it receives any notice of complaint from the Division. Company policy is to diligently respond to complaints it receives directly as soon as possible.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed a complete listing of the Massachusetts complaint files from the examination period to evaluate this Standard. In addition, Eide reviewed all

complaints to determine the reason for the delay for any which exceeded the 14 day response time required by Division communications.

Finding(s): None.

Observation(s): No complaint responses exceeded the 14 day response time required by the Division. Non-Division filed complaints are handled in a timely manner, averaging less than 10 days to adequately respond to the complaint. Based on our review, we found that the Company has adequate procedures, documentation and record retention to comply with M.G.L. c. 176D § 3(10).

Recommendation(s): None.

\* \* \* \* \*

FOR INFORMATIONAL PURPOSES ONLY

### III. MARKETING AND SALES

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

**Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.**

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

*Objective:* This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. Pursuant to M.G.L. c. 176D, § 3, it is 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.

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

- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company has a website designed for use by its producers.
- The Company does not utilize marketing to directly solicit consumers, but instead relies upon producers to market the Company's business through the independent producer relationship.

*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 producer-developed as well as direct advertising and sales materials produced by the Company for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and consistency with statutory and regulatory requirements.

*Transaction Testing Results:*

*Finding(s):* The Company's website does not disclose its principal address as required by Division Bulletin 2001-02.

*Observation(s):* Excluding the Company's website, the results of our testing of marketing material showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3.



Recommendation(s): According to Division Bulletin 2001-02, an insurer must disclose on all marketing materials (1) the exact name as it appears on the certificate of authority, (2) that it is licensed in the Commonwealth of Massachusetts and (3) the address of its principal office. Eide recommends that the Company incorporate these requirements into the Company's website to bring it into compliance with Division Bulletin 2001-02.

\* \* \* \* \*

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

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

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

- The Company has frequent meetings with all producers, and currently accepts both paper and internet submissions for underwriting and claims information. The Company provides its producers with training on products, as well as use of the web interface.

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 testing beyond inquiry and observation.

Transaction Testing Results: None.

Recommendation(s): None.

\* \* \* \* \*

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

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

Controls Assessment: The Company periodically communicates information to producers through various methods including face-to-face meetings, as well as paper and electronic communication.

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 personnel to determine what type of communications with producers generally occurs, and reviewed examples of communications that occurred during the examination period.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company's communications to producers on its website appear to be accurate and reasonable.

Recommendation(s): None.

\* \* \* \* \*

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

**Property/Liability; M.G.L. c. 175, § 193R.**

Objective: This Standard is concerned with whether the Company's mass marketing efforts are in compliance with applicable statutes, rules and regulations. Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby homeowners insurance is offered to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written Company underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges.
- The Company does not offer affinity group discounts.

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 marketing and underwriting processes. Eide selected 50 new or renewal policies during the examination period for testing of premium discounts. For each of the policies, Eide verified that the discount was properly applied and that no affinity group discounts were provided as stated by the Company.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide verified that the applicable premium discount for each of the 50 new or renewal policies tested was properly applied and approved by the Division.

Recommendation(s): None.

\* \* \* \* \*

#### IV. PRODUCER LICENSING

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

**Standard IV-1. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.**

**M.G.L. c. 175, §§ 162I and 162S.**

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

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

- The Company tracks the license status of all producers via an Excel spreadsheet.
- All producers are required to enter into a written contract with the Company prior to their appointment, which includes providing a listing of all the agency's individual producers if it has more than one.
- The Company verifies that all producers are properly licensed for the lines of business they will solicit, sell or negotiate in Massachusetts prior to contracting with them and appointing them as a producer. Producers are also required to send updated listings to the Company of all individuals employed to sell insurance products for the producer when employment changes occur.
- 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 as producer within 15 days from the date the producer's contract is executed, or 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, with the exceptions noted below.

*Transaction Testing Procedure:* Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected a sample of 50 sales during the examination period for testing. Eide verified that the producer for each of the sales was included on the Division's list of the Company's appointed producers. The Company also provided evidence of licensure for each producer not located on the Division's list. There were additional procedures required to reconcile the Company's list to the Division's list.

*Transaction Testing Results:*

*Finding(s):* None.

Observation(s): Based on the results of our testing new and renewal business written, Eide noted no violations of M.G.L. c. 175, §§ 162I and 162S, as all sales were produced by properly licensed producers.

Recommendation(s): None.

\* \* \* \* \*

**Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.**

**18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S Division of Insurance Bulletin 98-11 and 2004-14.**

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletin 98-11 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 in the business of insurance unless and until such consent is granted.

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

- The Company tracks the license status of all producers via an Excel spreadsheet.
- All producers are required to enter into a written contract with the Company prior to their appointment, which includes providing a list of all the agency's individual producers if it has more than one.
- The Company does not perform criminal and financial background checks on producers, or require evidence of the producer's E&O coverage, prior to contracting with them and appointing them as producers.
- The Company verifies that all producers are properly licensed for the lines of business they will solicit, sell or negotiate in Massachusetts prior to contracting with them and appointing them as a producer. Producers are also required to send updated listings to the Company of all individuals employed to sell insurance products for the producer when employment changes occur.
- 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 as producer within the earlier of 15 days from the date the producer's contract is executed or 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, with the exceptions noted below.

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected a sample of 50 sales from the examination period for testing, and verified that the producer for each sale appeared on the Division's list of the Company's appointed producers. The Company also provided evidence of licensure for any producer not located on the Division's list.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted the Company does not require evidence of the producer's E&O insurance coverage as part of its producer contracting and appointment procedures.

Recommendation(s): None.

\* \* \* \* \*

**Standard IV-3. Termination of producers complies with statutes regarding notification to the producer and notification to the state, if applicable.**

**M.G.L. c. 175, § 162T.**

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

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

- The Company has implemented procedures to notify producers of their termination.
- The Company has implemented procedures to notify the Division of terminations using a format the Division developed.

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 all producers from the Company's records that were terminated during the examination period, and requested documentation supporting the reporting of the terminations to the Division.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted that the Company notifies terminated producers using a letter whose contents have been approved by the Division. The Company notifies the Division of terminations consistent with procedures established by the Division.

Recommendation(s): None.

\* \* \* \* \*

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

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

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

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

Transaction Testing Procedure: Eide selected a sample of 50 sales during the examination period for testing. For each of the sales, Eide reviewed documentation, such as zip codes, for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide's testing found no evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

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

*Controls Assessment:* Refer to Standard IV-3.

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

*Transaction Testing Procedure:* Eide obtained a listing of producers terminated during the examination period and reviewed the reasons for each termination.

*Transaction Testing Results:*

*Finding(s):* None.

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

*Recommendation(s):* None.

\* \* \* \* \*

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

Eide reviewed work performed by Division's financial examination team, and found activity for this Standard was included in the scope of the statutory financial examination of the Company. It should be noted that a majority of the Company's policies are billed on a direct basis, mitigating the possibility for excessive balances owed by producers.

\* \* \* \* \*



## 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:

- A vast majority of business is conducted using the Company's direct bill program.
- Under the direct bill program, the policyholder receives a renewal notice from the Company 51-72 days prior to the effective date of the renewal, asking the policyholder to report requested changes in coverage.
- Billing notices are generated automatically through policy administration, and are sent along with the renewal notice for the direct bill program. The premium payment is due no later than the renewal effective date.
- Four payment plans are available under the direct bill program including:
  - Annual payment
  - Pay 3 equal installments
  - Pay in 5 payments with 20% down payment and 4 equal payments
  - Pay 9 payments with a 20% down payment and 8 equal monthly installments.The multiple payment plans have additional fixed fees ranging from \$10-\$40 depending on the number of installments selected.
- Some producers on the "Optional" direct bill program may select to use the producer billing system rather than the Company's system. This is only available to insureds that are extremely important to the producer, and the producer must keep a vast majority of the business under the Company's direct bill program.

*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 50 new and renewal policies 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:*

*Finding(s):* None.



Observation(s): Our review of the 50 new or renewal policies tested for the exam period appeared to show that billing notices for renewal policies were mailed 51-72 days prior to the policy expiration date, and approximately 30 days prior to the due date for new business. Fees and interest charges on installment payments appeared to be properly calculated and applied.

Recommendation(s): None.

\* \* \* \* \*

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

**M.G.L. c. 175, § 187B.**

Refer to the Underwriting and Rating Section Standards VI-16 and VI-23 for assessments and findings.

\* \* \* \* \*

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants from the appropriate department. For discussion of written complaint procedures, see the Complaint Handling section beginning on page 22 of this report.

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

- The Company considers its producers as having the primary relationship with the policyholder. Policyholders must request most endorsements and policy changes through the producer.
- Most correspondence from policyholders directed to the Company involves billing. The Billing Department is the first department notified when a policyholder telephones the Company about a billing issue, or includes billing-related correspondence with a premium payment.
- The Billing Department will forward the correspondence to a customer service representative in the Underwriting Department if it can not resolve a billing inquiry. If the policyholder service representative cannot provide an answer, they may get the producer involved to properly resolve the situation.
- The Company has no formal guidelines for the timeliness of responses to correspondence.
- Issues that require additional review are forwarded on to the appropriate department for handling.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of general correspondence between policyholders and the Company regarding 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 the Company's policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

<b>Standard V-4. Claims history and loss information is provided to insured in timely manner.</b>
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Objective: This Standard is concerned with whether the Company provides history and loss information to the insured in a timely manner.

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

- All claims are supervised and handled by the Company's claims examiners. The examiners receive notification of claims by mail, e-mail, or telephone from the producer, adjuster, or the insured.
- Claim adjusters typically contact the insured the same day as receiving the assignment.
- Claims are normally settled and paid within 60 days of being filed. Exceptions to this timeframe typically only exist when there are substantial losses or questions regarding liability.
- The Company timely provides claims history and paid loss information directly to policyholders upon request.

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

Transaction Testing Procedure: Eide discussed the Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information with Company personnel. Eide included timely response testing in the Claims Handling section as part of the transaction testing procedures.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of underwriting and rating, claims handling, complaints and policyholder service, Eide noted no evidence of the Company being non-responsive to policyholder inquiries. The Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendation(s): None.

\* \* \* \* \*

<b>Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.</b>
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Eide performed no work on this Standard, as the Company did not enter into assumption reinsurance agreements during the examination period.

\* \* \* \* \*

FOR INFORMATIONAL PURPOSES ONLY

## VI. UNDERWRITING AND RATING

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

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

**M.G.L. c 175, § 193R.**

**Homeowners; 211 CMR 131.00; M.G.L. c. 111 §§ 189A-199B; M.G.L. c. 174A § 6.**

*Objective:* This Standard is concerned with ensuring that the rates charged by the Company are filed and approved with the Division. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 131.00 requires insurers to make available liability coverage for those homeowner policies in compliance public health laws stated in M.G.L. c. 111, §§ 189A-199B. M.G.L. c. 174A, § 6 describes the annual rate filing requirements related to the fire and marine lines of business.

*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.
- The Company does not offer affinity group discounts.
- The Company makes available liability insurance for homeowner policies in compliance with M.G.L. c. 111, § 189A-199B.
- The Company files rates annually as required by M.G.L. c. 174A § 6.
- Policy rates, premiums and discounts are determined by past experience, and such rate information is submitted annually to the Division on a timely basis.
- Company policy requires a signed application to support discounts of 5% or less.

*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 an understanding of the underwriting process. Eide selected a sample of 50 new or renewal policies covering all lines of business during the examination period for testing of rates, classifications and premium discounts. For each of the policies, Eide verified that the policy premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements, and had documentation to support the discounts and surcharges given. In addition, Eide reviewed Company database information to ensure that sufficient underwriting information was available at the time the underwriting decision was made.

Transaction Testing Results:

Finding(s): None.

Observation(s): Through examining available supporting documentation of discounts and surcharges given, Eide believes that the Company is properly applying discounts and surcharges.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely.**

**M.G.L. c. 174A, § 11; M.G.L. c. 175A, § 11.**

Objective: This Standard is concerned with whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations, and are timely provided to insureds. Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer must furnish to the insured any requested rate information in a timely manner.

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

- The Company has written policies and procedures for processing new and renewal business.
- If information or forms are missing from new business or renewal applications, a letter is sent to the producer requesting the missing information, along with a checklist of all the information required to complete an application.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- The Company provides training to producers to remind them that they must give the information guide describing general policy provision to consumers when new business is written.
- Company policy is to provide the information guide to policyholders upon policy renewal, while producers provide the information guide when a new application is taken.

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. Through the interview process, we learned of the producer training that is provided to ensure that information guides are distributed to policyholders when new policies are issued. We reviewed the information guides that are utilized for new and renewal business, and found that they adequately meet the disclosure requirements of M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11. Since distribution of informational brochures is not tracked as part of the underwriting

process by either the producers or the Company, we substantiated compliance through document observation and corroborating inquiry.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our inquiries and observation of documents, the Company appears to provide required coverage disclosures to insureds upon initial application and renewal in accordance with statutory guidelines. Although the Company stated that the information guide for new business is provided by the producer, no evidence is available supporting these assertions. However, Eide is not aware of any information suggesting that policyholders have not received the information guide.

Recommendation(s): None.

\* \* \* \* \*

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

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

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 premiums or any other benefits or valuable consideration or inducement not specified in the contract.

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

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

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

Transaction Testing Procedure: In connection with the review of producer contracts, Eide interviewed individuals responsible for producer contracting, and reviewed new business materials including advertising, producer training materials and manuals for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Finding(s): None.

Observation(s): It appears from our testing that the Company's processes to prohibit illegal acts including special inducements and rebating are functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis.**

**M.G.L. c. 174A, § 5; M.G.L. c. 175 § 193R.**

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges on homeowner's insurance policies. M.G.L. c. 174A, § 5 states homeowner fire ratings will be determined by past claim history and will not be unfairly discriminatory. M.G.L. c. 175, § 193R permits affinity group discounts based on claims experience.

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

- The Company does not offer affinity group discounts.
- Written Company underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges for all 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 with responsibility for the underwriting process. Eide selected a sample of 50 new or renewal policies covering all lines of business during the examination period for testing of rate classifications, premium discounts and surcharges. For each of the policies, Eide verified that the premium discounts and surcharges for the multiple coverages of the policy complied with statutory and regulatory requirements.

Transaction Testing Results:

Finding(s): None.

Observation(s): It appears from our testing that policy premium, premium discounts and surcharges for multiple coverages are calculated in compliance with statutory and regulatory requirements.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.**

Eide performed no work on this standard, as it is not covered in the scope of examination.

\* \* \* \* \*

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

Eide performed no work on this Standard because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

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

Eide performed no work on this Standard because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-8. Verification of experience modification factors.**

Eide performed no work on this Standard because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-9. Verification of loss reporting.**

Eide performed no work on this Standard because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.**

Eide performed no work on this Standard because the Company does not offer workers' compensation insurance.

\* \* \* \* \*



**Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.**

**M.G.L. c 175, §§ 162F and 193T.**

**Homeowners; M.G.L c. 175, §§ 4C and 95B.**

Objective: This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance. Pursuant to M.G.L. c. 175, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. Pursuant to M.G.L. c. 175 § 4C, no insurance company engaged in the writing of homeowners insurance shall take into consideration the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or the disability of the applicant when deciding whether to provide, renew or cancel homeowners insurance. According to M.G.L. c. 175, § 162F, producers have the right to use personal insurance information in obtaining coverage. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support.

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

- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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 50 policies covering all lines that were issued or renewed during the exam period for testing of any unfair discrimination during underwriting. Fifteen of the tested policies were cancelled during the exam period, and these were compared to the other 35 policies to ensure that similar risks were not handled differently. All policies were also compared to others with similar circumstances to ensure that discounts and surcharges were applied in the same manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): The results of our testing of 15 policies cancelled during the exam period showed no evidence of Company underwriting practices that were unfairly discriminatory.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-12.** All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

**M.G.L. c. 175, §§ 2B, 22A and 192;**

**Homeowners; M.G.L. c. 175, §§ 99, 99A, 99B, 111H; 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; all items forming a part of the contract are 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 prior approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division for prior approval. Pursuant to M.G.L. c. 175, §§ 99, 99A and 99B, there are numerous disclosures and requirements that must be included on a standard fire policy. 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 utilizes industry standard forms for homeowners insurance, and has all forms and endorsements approved by the Division prior to their use.
- The Company requires its producers to use such forms and endorsements on a proper, consistent and fair basis when providing a quote to consumers.

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 50 policies covering all lines that were issued or renewed during the examination period for testing of the use of the standard policy form 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.

Transaction Testing Results:

Finding(s): None.

Observation(s): The results of our testing of 50 new or renewal policies from the examination period showed that the Company is using the approved standard policy forms and endorsements in compliance with statutory requirements.

Recommendation(s): None.

\* \* \* \* \*

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

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

\* \* \* \* \*

**Standard VI-14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.**

*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 policy expiration, or following a claim.

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

- Written Company policies and procedures are designed to assure reasonable consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges at the inception of coverage.
- The Company determines policy rates, premiums and discounts by past underwriting experience, and such rate information is submitted annually to the Division on a timely basis.
- Company policy requires a signed application to support discounts of 5% or less.

*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 50 policies covering all lines that were issued or renewed during the exam period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage. Discounts and surcharges given were traced to source documentation provided by producers. In addition, Eide reviewed database information to ensure that adequate information was available at the time of the underwriting decision.

*Transaction Testing Results:*

*Finding(s):* None.

*Observation(s):* Based on the results of our testing, it appears that the Company is properly underwriting, rating and classifying risks based on adequate information developed at or near the inception of the coverage.

*Recommendation(s):* None.

\* \* \* \* \*

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

Objective: This Standard is concerned with whether the Company has adequate documentation to support its underwriting decisions. This includes applications, support for discounts applied and physical inspections when required.

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

- Written Company policies and procedures are designed to reasonably assure that required information is obtained and maintained by either the Company or its producers.
- The Company educates producers through various means including on-site training, online information and written guidelines.
- Company policy requires a signed application to support discounts of 5% or less.

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 50 policies covering all lines that were issued or renewed during the examination period for testing of whether adequate documentation exists to support underwriting decisions.

Transaction Testing Results:

Finding(s): None.

Observation(s): Through examining available supporting documentation, Eide believes that the Company has proper file documentation to support its decisions.

Recommendation(s): None.

\* \* \* \* \*

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

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

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

- Company policy requires the use of the standard Massachusetts policy forms and endorsements approved by the Division.
- The Company requires its producers to use such forms and endorsements as guidelines when providing quotes to consumers at the time of application.

- Company supervisors review all applications completed by producers to ensure that they are complete and consistent with internal company policies.
- Company procedures include mailing renewal notices 51-72 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 interviewed Company personnel with responsibility for the underwriting process. Eide selected 50 policies covering all lines that were issued or renewed during the examination period for testing of whether new and renewal policies including endorsements were issued timely and accurately. The date renewal letters were sent was compared to the effective date of coverage.

Transaction Testing Results:

Finding(s): None.

Observation(s): It appears from our testing that the Company issues new and renewal policies, including endorsements, timely and accurately.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-17. Audits when required are conducted accurately and timely.**

Eide performed no work on this Standard because the Company does not offer policies where premium audits are conducted.

\* \* \* \* \*

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

**Auto; 211 CMR 94.08.**

Eide performed no work on this Standard because the Company does not offer automobile insurance policies.

\* \* \* \* \*

**Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices.**

**M.G.L. c. 176D, §§ 3(4) and 3A.**

*Objective:* This Standard is concerned with whether the Company has engaged in any collusive or anti-competitive underwriting practices. Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance to enter into any agreement, or to commit 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 annually determines homeowner premium rates using past loss history, and timely submits the rate filings to the Division for approval prior to use.

*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 50 policies covering all lines that were issued or renewed during the examination period for testing whether any underwriting practices appear to be collusive or anti-competitive. All available paper and electronic documentation in each policy file was examined, including on-screen notes prepared by the underwriters.

*Transaction Testing Results:*

*Finding(s):* None.

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

*Recommendation(s):* None.

\* \* \* \* \*

**Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.**

**M.G.L. c. 175, § 193R.**

*Objective:* This Standard is concerned with whether the Company's underwriting practices are unfairly discriminatory, and in compliance with applicable statutes, rules and regulations. Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has

agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written Company underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges, and to assure that underwriting practices are not unfairly discriminatory.
- The Company does not offer affinity group discounts.

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 marketing and underwriting processes. Eide selected 50 policies covering all lines that were issued or renewed during the examination period for testing of premium discounts. Policy documentation was inspected to ensure the Company did not offer affinity group discounts.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 50 new or renewal policies, it appears that each of the premium discounts was properly applied and that the application was not unfairly discriminatory. The Company appears to properly adhere to its policy of not offering group discounts.

Recommendation(s): None.

\* \* \* \* \*

**Standard VI-21. All group personal lines property and casualty policies and programs meet minimum requirements.**

**M.G.L. c. 175, § 193R.**

Eide performed no work on this Standard because the Company does not offer group discounts.

\* \* \* \* \*

**Standard VI-22. Rejections and declinations are not unfairly discriminatory.**

**M.G.L. c. 175 § 193T;**

**Homeowners; M.G.L. c. 175, §§ 4C and 95B.**

Objective: This Standard is concerned with the fairness of application rejections and declinations. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175, § 95B, discrimination

against abuse victims is prohibited in the course of underwriting property insurance. M.G.L. c. 175, § 4C prohibits inappropriate non-discrimination in cancellations and non-renewals.

Controls Assessment: See Standard VI – 11.

Controls Reliance: See Standard VI – 11.

Transaction Testing Procedure: See Standard VI – 11.

Transaction Testing Results: See Standard VI – 11.

Recommendation(s): See Standard VI – 11.

\* \* \* \* \*

**Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.**

**M.G.L. c. 175, §§ 187C and 193R;**

**Homeowners; M.G.L. c. 175, §§ 99 and 193P.**

*Objective:* This standard is concerned that adequate notice to policyholders is provided prior to policy cancellations and non-renewals, and that policy declinations state the reason(s) for such declination(s). Pursuant to M.G.L. c. 175, § 99 there are numerous disclosures and requirements that must be included on a standard fire policy. 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 to the policyholder. According to M.G.L. c. 175, § 193P, a minimum of 45 days written notice to the policyholder stating the relevant reason(s) is required to non-renew homeowner fire policy coverage. M.G.L. c. 175, § 193R allows cancellation of an individual homeowners or automobile policy certificate holder under a group policy only due to fraud or non-payment.

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

- The Company sends cancellation notices for non-payment of premium 3-7 business days after the due date, depending on the premium payment plan.
- Company policy requires that cancellation notices provide at least 17 days notice prior to cancellation. The notice includes the cancellation date and remedies available to the insured to prevent cancellation.
- The Company does not send premium reminder notices prior to the notice of cancellation.
- Company policy requires that notices of non-renewal be sent to the insured or producer of record at least 45 days in advance of the non-renewal effective date. Producers so notified must provide such notice to their insured within 15 days of their receipt of notice from the Company.



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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 50 policies covering all lines that were issued or renewed during the examination period for underwriting testing. Of the 50 policies, 15 were cancelled or non-renewal policies. The 15 cancelled or non-renewed policies were examined to ensure that reasons for cancellation met statutory requirements, and that policyholders were given adequate prior notice. The reason for each policy's cancellation or non-renewal was traced to the Company's underwriting cancellation policy guidelines. Eide verified that the cancellation form used was the standard approved form. Eide also compared the date each policy's cancellation notice was sent to the effective end date of coverage to ensure notices were sent timely and within statutory guidelines.

Transaction Testing Results:

Finding(s): None

Observation(s): Based on the results of the sample tested, the Company appears to be in compliance with statutory requirements regarding policy cancellation and non-renewal notice periods.

Recommendation(s): None

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**Standard VI-24. Cancellation/Non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.**

**M.G.L. c. 175, §§ 187C, 193P and 193R.**

Refer to Standard VI-23 for control assessments, testing procedures and testing results.

\* \* \* \* \*

**Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.**

**M.G.L. c. 175, §§ 187B and 187C.**

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

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

- Company policy requires that premium refunds on cancellations be calculated properly and paid timely.
- Upon receipt of an insured's request for policy cancellation, the Company issues a cancellation memo to the Finance Department noting the requested cancellation date and the amount of premium due.

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 50 policies covering all lines that were issued or renewed during the examination period for underwriting and rating testing. Of the 50 policies, 15 were cancellations or non-renewals. Each of the 15 policies was tested for timely payment of proper refund amounts. Of the 15 cancelled policies tested, 14 had a refund due. The date on the return premium check for the policies with refunds due was compared to the effective end date of policy coverage.

Transaction Testing Results:

Finding(s): None.

Observation(s): The results of our testing of the 14 requested cancellations with refunds due appeared to show the proper calculation and timely return of any applicable refunds.

Recommendation(s): None.

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**Standard VI-26. Rescissions are not made for non-material misrepresentation.**

**M.G.L. c. 175, § 187D.**

Objective: This Standard is concerned with whether decisions to rescind 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.
- The Company's written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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 50 policies covering all lines that were issued or renewed during the examination period for underwriting and rating testing. Of the 50 selected policies, 15 were cancelled or non-renewal policies. The reason for cancellation for each of the 15 policies was inspected to ensure they were within statutory guidelines.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of cancellations during the examination period, cancellations do not appear to be made in violation of statutory requirements.

Recommendation(s): None.

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

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- The Company annually submits rates, premiums and discounts to the Division for approval, and applies such rates to information provided by the applicant.
- 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 to correct data errors and make changes as needed.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process to determine whether sufficient controls are in place to ensure that statistical reports are completed accurately and timely.

Transaction Testing Results:

Finding(s): None.

Observation(s): Through testing performed on the 50 selected policies, the Company's statistical coding appears to be accurate.

Recommendation(s): None.

## VII. CLAIMS

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

**Standard VII-1. The initial contact by the company with the claimant is within the required time frame.**

**M.G.L. c. 176D, § 3(9)(b).**

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

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

- The Company has written policies and procedures governing the claims handling process.
- For a majority of reported claims, the Company is first contacted by the insured's producer, who then contacts an independent insurance adjuster to inspect the claim.
- Insureds sometimes report claims directly to the Company by mail or by telephone. The Company then contacts an independent insurance adjuster to inspect the claim and ensure all the proper paperwork is completed.
- Claim forms are received via fax, mail, e-mail or telephone, and are then verified against the Company database records to ensure coverage.
- The independent insurance adjusters typically contact the claimant the day they receive the assignment.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Company claims management personnel access the claims system on a weekly basis to monitor open claims.
- Upon receipt of the initial adjuster's report, the Company's examiners adjust reserves accordingly.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 the claims handling process and to obtain documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims 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 its initial response was made in a timely manner according to applicable statutes and company procedures.

Transaction Testing Results:

Finding(s): None

Observation(s): 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 the initial contact by the Company with the claimant was timely. The results of our testing appear to show the timely reporting and processing of claims in accordance with company policies and procedures.

Recommendation(s): None

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**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 claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim.

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

- The Company has written policies and procedures governing the claims handling process.
- For a majority of reported claims, the Company is first contacted by the insured's producer, who then contacts an independent insurance adjuster to inspect the claim.
- Claim forms are received via fax, mail, e-mail or telephone, and are then verified against the Company's database records to ensure coverage.
- The independent insurance adjusters typically contact the claimant the day they receive the assignment.
- All claim notifications and related correspondence are recorded and maintained on a mainframe based automated claims management system.
- Company claims management accesses the claims system on a weekly basis to monitor open claims.
- Upon receipt of the initial adjuster's report, the Company's examiners adjust reserves accordingly.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 with responsibility for the claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date

each selected claim was reported to the Company, and noted whether the investigation by the Company was conducted in a reasonably timely manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted whether all paid or closed without payment claims selected for testing were reported according to the Company's policies and procedures, and whether the Company's claims investigation was timely. The results of our testing appear to show that the Company's processes to report and investigate claims are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendation(s): None.

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**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 settlements of claims in which liability has become reasonably clear. In addition, if an insurer makes a practice of unduly engaging in litigation, or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G.L. c. 175, § 28 authorizes the Commissioner to make a special report of such findings to the general court.

M.G.L. c. 175, § 112 states that 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: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to resolve all claims in a timely manner.
- All claim notifications are logged in the claims system when the claim is reported.
- Independent claim adjusters examine the claim and submit an initial adjustor's report to the Company's claim examiners. The Company's claim examiners review the claim and have the authority to settle claims up to \$50,000. Any claims larger than \$50,000 require mandatory management review.
- The Company's policy is to resolve claims in compliance with M.G.L. c. 175, § 112.
- The Company affirms or denies coverage immediately upon receipt of reported claims.
- The independent insurance adjusters typically contact the claimant the day they receive the assignment.

- Company claims management personnel access the claims system on a weekly basis to monitor open claims.
- Company claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.
- The Company reports all suspected fraudulent claims activity to the Massachusetts Insurance Fraud Bureau. The Company also hires outside investigators when arson may be the cause of a suspicious claim.

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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date each selected claim was reported, and noted whether it was resolved in a timely manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted whether each claim selected for testing was handled and adjudicated according to the Company's policies and procedures, and was resolved in a timely manner. Eide further verified the date each selected claim was reported to the Company, and noted whether it was resolved in a reasonably timely manner. Of the 50 claims tested, 41 were closed claims paid within a reasonable amount of time, 5 claims were closed without payment, and 4 claims were open as of fieldwork testing with no payment. The 4 claims open with no payment were either due to the claim involving ongoing litigation, or with the Company waiting on necessary information from the claimant as of the date of testing. Based upon the results of our testing, it appears that the Company's processes to resolve claims timely are functioning in accordance with their policies and procedures, as well as with statutory and regulatory requirements.

Recommendation(s) None.

\* \* \* \* \*

**Standard VII-4. The company responds to claim correspondence in a timely manner.**

**M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).**

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



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

- Company policy is to respond to questions about claims in a timely manner.
- Company policy is to investigate and resolve all claims according to Company performance standards.
- Company claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.
- Company claims management uses exception reports to measure operational effectiveness and claim processing time.
- Coverage for reported claims is affirmed or denied immediately upon receiving notice of the claim.

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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date each selected claim was reported, and noted whether it was resolved in a timely manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted that all tested claims were reported and investigated according to the Company's policies and procedures, and those responses to claims correspondence were timely. Based upon the results of our testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendation(s): None.

\* \* \* \* \*

**Standard VII-5. Claim files are adequately documented.**

**Homeowners; M.G.L. c. 175, §§ 97 and 102.**

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim. Per M.G.L. c. 175, § 97, the Company shall pay, upon satisfactory proof of the rights and title, all mortgagees protected by fire insurance policies for the amount the Company is liable under the policy. Per M.G.L. c. 175, § 102, if the Company requires the insured to render a sworn statement, and the insured fails to do so, such failure does not preclude recovery under the policy.

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



- The Company's written claim processing guidelines require that key information be completed, signed, and maintained in the file, including, but not limited to:
  - Notice of loss with relevant accident date, accident 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.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 claims personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims 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 its documentation was adequate.

Transaction Testing Results:

Finding(s): None

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

Recommendation(s): None

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

**M.G.L. c. 139, § 3B; M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22B, 22I, 24D, 111F, 112, 112C, and 193K;**

**Homeowners; M.G.L. c. 175, §§ 96 and 97A.**

Objective: This Standard is concerned with whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. Per M.G.L. c. 139, § 3B no insurer shall pay any claims equal to or greater than \$1,000 without having at least ten days previously given written notice to the building commissioner or inspector in the city or town where the insured property is

located. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice.

Per M.G.L. c. 175, § 22B, waiver provisions are prohibited in insurance contracts except as expressly provided. 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.

According to M.G.L. c. 175, § 96, the Company is not liable beyond the actual value of the property at the time of the loss for buildings destroyed by fire. M.G.L. c. 175, § 97A states real property claims greater than \$5,000 must be checked against any municipal liens.

Insurance companies must furnish medical reports to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 112 states that 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.

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

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

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claim notifications and related correspondence are recorded and maintained on a mainframe based automated claims management system.
- Independent claim adjusters examine the claim and submit an initial adjustor's report to the Company's claim examiners. The Company's claim examiners review the claim and have the authority to settle claims up to \$50,000. Any claims larger than \$50,000 require mandatory management review.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F and 112C to furnish medical reports and/or the amount of the insured's policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company's policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations as required by M.G.L. c. 175 § 193K.

- Company claims management personnel accesses the claims system on a weekly basis to monitor open claims.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide further verified that each selected claim was handled in accordance with applicable policy provisions, statutory and regulatory requirements.

Transaction Testing Results:

Finding(s): According to M.G.L. c. 175, § 97A if a claim exceeds \$5,000 the company must obtain any liens from the city in which the property is located, and pay these balances prior to paying the claimant. The Company did not perform inquiry into outstanding liens on the property prior to payment of one claim, although it was further noted that there were no liens recorded requiring payment.

Observation(s): Excluding the above exception, it appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendation(s): The Company's claim handling policies and its compliance with M.G.L. c. 175, § 97A should be reviewed to ensure that these laws are adequately addressed.

\* \* \* \* \*

<p><b>Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate.</b></p>
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Objective: The Standard is concerned with the Company's usage of reservation of rights letters and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits.

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

- The Company has written policies and procedures governing 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 adjustors up to a defined dollar limit to their settlement authority.
- The Company uses reservation of rights and excess of loss letters when circumstances warrant.

- Claims management accesses the claims system on a weekly basis to monitor open claims.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims 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 any warranted reservation of rights or excess loss letters were sent by the Company.

Transaction Testing Results:

Finding(s): None.

Observation(s): , Eide noted that all paid and closed-without-payment claims selected for testing were reported and investigated according to the Company's policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

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

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

- The Company's written claims handling policies and procedures address the handling of subrogated claims.
- Company policy is to resolve all subrogated claims in a timely manner.
- When liability or coverage issues are undisputed with another carrier, the Company waives the deductible to its insured.
- Company claims management accesses the claims system on a weekly basis to monitor open claims.
- Company claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the files for each selected claim, and noted whether subrogation recoveries were timely and accurate.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted that subrogation recoveries for all paid or closed without payment claims selected for testing were timely and accurate according to the Company's policies and procedures, and that claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to make subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

<b>Standard VII-9. Company claim forms are appropriate for the type of product.</b>
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Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

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

- The Company uses industry standardized claim reporting forms that are appropriate for the line of business
- Company claim processing guidelines require that key documentation be completed, signed, and included in the file, including, but not limited to: notice of loss with relevant accident date, accident description, and name and contact information for each involved party.
- Company claims management accesses the claims system on a weekly basis to monitor open claims.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the files for each selected claim and noted whether the claim reporting was appropriate.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted that all paid and 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 our testing, it appears that the

Company's processes to document reported claims are functioning in accordance with their policies and procedures.

Recommendation(s): None.

\* \* \* \* \*

<b>Standard VII-10. Claim files are reserved in accordance with the company's established procedures.</b>
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Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

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

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to evaluate claims timely and establish adequate reserves on all reported claims.
- Company claim processing guidelines require that key information be completed, signed, and included in the file, including, but not limited to:
  - 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.
- Claims managers perform periodic claims reviews at various times throughout each calendar year 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 claims reserving processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims 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. Eide also reviewed the financial examination workpapers to provide support on the adequacy of reserving.

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

\* \* \* \* \*

**Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.**

**M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).**

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

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

- Company policy requires that claim denials specify the contractual basis for non-payment, and inform the claimant of their right to appeal, including the timeframe and specific steps necessary to do so.
- All claim notifications are recorded on a mainframe based automated claims management system.
- Independent claim adjusters examine each claim and submit an initial adjustor's report to the Company's claim examiners. The Company's claim examiners review the claim, and have the authority to settle claims up to \$50,000. Any claims larger than \$50,000 require mandatory management review.
- Claims management can access the claims system to monitor open claims.
- The Company provides a written explanation of all denied claims and closed-without-payment claims to the 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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date the



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:

Finding(s): None.

Observation(s): The documentation for all denied and closed without payment claims appeared complete and the Company's conclusions reasonable.

Recommendation(s): None.

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

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

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Independent claim adjustors examine each claim, and submit an initial adjustor's report to the Company's claim examiners. The Company's claim examiners review the claim and have the authority to settle claims up to \$50,000. All claims larger than \$50,000 require mandatory management review.
- Company procedures verify the proper payee and claim payment amount prior to check issuance.
- Company claims management accesses the claims system on a weekly basis to monitor open claims.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.
- The Company hires independent investigators to examine suspicious claims prior to payment.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims payment processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims payment policies and procedures. Eide reviewed the files for each selected claim and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Finding(s): None.



Observation(s): Eide noted that all claims selected for testing were reported and investigated according to Company policies and procedures, with adequate claim payment documentation.

Recommendation(s): None.

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**Standard VII-13. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.**

**M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), M.G.L. c. 175 § 28.**

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

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

- Company claims handling guidelines require the uniform and consistent handling of claim settlements and payments.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims activities.
- Company claims management accesses the claims system on a weekly basis to monitor open claims.
- Company claims managers perform periodic claims reviews throughout each calendar year 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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 50 paid or closed without payment claims during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date the claim was reported, reviewed correspondence and investigative reports, and noted whether the Company handled the claim timely and properly.

Transaction Testing Results:

Finding(s): None.

Observation(s): Eide noted that the documentation of selected claims involving litigation appeared complete, and that the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's claim handling processes do not unreasonably deny claims or compel claimants to instigate litigation.

Recommendation(s): None.

\* \* \* \* \*

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

**General ; M.G.L. c. 175A, § 15(a).**

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. The Commissioner may designate a rating agency or agencies to assist in the compilation of such data.

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..
- Company claims management personnel reconcile the underlying data for completeness and accuracy. Exceptions reports are generated to ensure that the loss data is properly reported to the appropriate regulator.

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 loss statistical reporting processes and obtained documentation supporting such processes.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company's statistical reports are completed by the accounting department. The Company appears to report loss statistical data to rating bureaus timely and accurately, and its statistical reporting processes are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendation(s): 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 *NAIC Market Conduct Examiner's 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 various concerns related to company operations and management, marketing and sales, underwriting and rating and claims.

FOR INFORMATIONAL 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 Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“comprehensive examination”) of the Company.

The undersigned’s participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (NAIC) and the *NAIC Market Conduct Examiners’ Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition, Dorothy K. Raymond, of the Division’s Market Conduct Section, participated in the examination and in the preparation of this report.

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

---

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