



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

Report on the Comprehensive Market Conduct Examination of

The Commerce Insurance Company
Citation Insurance Company

Webster, Massachusetts

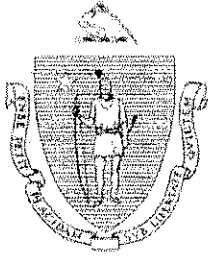
For the Period January 1, 2013 through December 31, 2013

NAIC COMPANY CODES: 34754, 40274

EMPLOYER ID NUMBERS: 04-2495247, 04-2739876

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COMMONWEALTH OF MASSACHUSETTS
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DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

May 8, 2015

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Judson:

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

THE COMMERCE INSURANCE COMPANY
CITATION INSURANCE COMPANY

at their home offices located at:

211 Main Street
Webster, Massachusetts 01570

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE COMMERCE INSURANCE COMPANY
CITATION INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of The Commerce Insurance ("Commerce") and Citation Insurance Company ("Citation"), (collectively, the "Company") for the period January 1, 2013 to December 31, 2013, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the 2013 *NAIC Market Regulation Handbook* ("the Handbook"), the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division's financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company's related internal controls. While the Handbook approach is designed to detect incidents of deficiency through transaction testing, the internal control assessment provides an understanding of the key controls that the Company's management uses to operate their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The internal control assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is "Report by Test," as described in Chapter 15, Section A of the Handbook.

The Division considers a "finding" to be a violation of Massachusetts insurance laws, regulations or bulletins. An "observation" along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any "finding" or "observation" for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

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EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions, and if applicable, subsequent Company actions. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to company operations/management, complaint handling, marketing and sales, or policyholder service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these areas. Further, the tested Company practices appear to meet industry best practices in these areas.

Recommendations and required actions noted in this examination are as follows:

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: Four of the business entity appointment terminations were not processed within 30 days of the termination effective dates in the Division's On-Line Producer Appointment System ("OPRA") as required by M.G.L. c. 175, § 162T.

Observations: For the remaining appointment terminations tested, the Company properly notified the agents about the terminations, as applicable, and the Division through OPRA, in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that agent appointment terminations are reported to the Division using OPRA within 30 days of the effective dates of the terminations. Also, the Company shall provide training and guidance to staff about the processing of these terminations. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company has reviewed its controls and procedures and is implementing the following enhanced controls to ensure that agent terminations are timely reported to the Division via OPRA within 30 days.

- The Company will utilize its Goldmine database to run a monthly query of producers whose terminations are effective during the reporting period. The individual responsible for reporting through OPRA will utilize this list in addition to the existing calendaring system to confirm the transactions to be entered during the reporting cycle.

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- When OPRA submissions are made, the Company will take a screen shot of the termination entry. The screen shot will be retained in the agent's file as a record of the transmittal.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: For four of the 25 tested vacated surcharges, changes in at-fault accident determinations were not reported to Comprehensive Loss Underwriting Exchange ("CLUE") database within 15 days, as required by Division Bulletin 2010-11. These were reported between three and 10 days late.

Observations: Except as noted above, based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Testing also noted that at-fault accidents and other required claims were timely reported to the MRB. Surcharge Notices were properly provided to at-fault operators, and vacated surcharge return premiums were properly processed in accordance with statutory and regulatory requirements. Also, for 21 of the 25 tested vacated surcharges, changes in at-fault accident determinations were timely reported to the CLUE database.

Required Actions: The Company shall evaluate its process for reporting changes in at-fault accident determinations to the CLUE database to understand why these delays are occurring, and make any needed process changes to ensure that reporting is timely and in accordance with Division Bulletin 2010-11. The Company shall report the results of this evaluation to the Division.

Subsequent Company Actions: The Company identified the following factors that could contribute to late reporting:

- A system issue (shut down, rejected file) might cause the weekly transmittal to the CLUE to be delayed.
- The surcharge reversal was issued by the Merit Rating Board ("MRB") with a "default" status, which requires the Company to research the correct status of the surcharge. The Company is reliant on the availability of the MRB and or the Massachusetts Registry of Motor Vehicles ("RMV") in assisting with such matters, which may take several days.
- The MRB has sent the vacate order late but the reversal is processed in accordance with the Board of Appeal date.
- Human error by staff.

To minimize reporting delays, the Company revised its workflow requiring the Claim Department staff to process at-fault reversal transactions within two business days, whereas the previous workflow provided a ten day window for processing.

STANDARD VI-7

Findings: The Company has no record of Fair Credit Reporting Action ("FCRA") adverse action notices being provided to applicants for unacceptable insurance score for 23 of the 25 homeowner declinations tested. Thus, the Company cannot be sure that the FCRA notices were provided to these applicants by producers in accordance with the FCRA, § 615(a).

Observations: Based upon testing of the private passenger automobile and homeowners declinations, three private passenger automobile declination notices, and two FCRA adverse action notices for homeowners declinations were provided to applicants. The reasons for these actions appeared reasonable and in compliance with the Company's underwriting guidelines. For 22 private passenger automobile applicants, no declination notices were available.

Required Actions: The Company shall provide notice to all producers about their duty to provide FCRA adverse action notices to homeowners applicants declined for insurance score. The Company shall ensure that producers provide timely FCRA adverse action notices to applicants declined for insurance score. Also, the Company shall ensure that producers provide copies of all FCRA adverse action notices to the Company to be retained for five years. Further, the Company shall establish a robust producer audit process to ensure producer compliance with FCRA adverse action notice requirements. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions related to FCRA adverse action notices have been properly implemented. The Company shall provide the internal audit report to the Division.

Recommendations: The Company should clarify its private passenger automobile declination practices with its producers to ensure that the producers comply with the Company's private passenger automobile declination policies and procedures.

Subsequent Company Actions: LexisNexis began providing the Company reports of homeowners applicants declined coverage for insurance score in June 2014. The Company intends to use these reports as a basis to conduct its producer audits. In July 2015, the Company is implementing a new automated process through the Company's agent portal to automatically produce a FCRA adverse action notice when the homeowners applicant is declined for insurance score. The producers will be directed to sign and deliver the FCRA adverse action notice to the applicant and to the Company.

On May 1, 2015, the Company issued a bulletin regarding this process to agents (1) informing them of their duty to provide a FCRA adverse action notice to homeowners applicants declined due to insurance score, and (2) instructing them to provide the Company's operations staff with copies of such notices via fax or email. The Company will retain electronic copies of the notices for five years. The Company is also identifying additional ways to enhance automated controls furthering the homeowners declination process to minimize the opportunity for compliance gaps.

Also, the Company distributed a bulletin to agents to remind them of the auto declination requirements and process. The bulletin instructs agents, when an applicant does not meet underwriting guidelines, to print a copy of the Collaborative Edge declination screen (with the reasons for the declination) and provide a copy to the applicant. In addition, the agent is instructed to retain a copy of the declination for agency audit purposes. Finally, the bulletin reinforces that the Company's Agency Interface Department will be reviewing files for compliance with this requirement.

STANDARD VI-8

Findings: Five homeowners company-initiated underwriting cancellations and four homeowner non-renewals did not have specific reasons on the notices provided to policyholders as required by M.G.L. c. 175, § 99 and M.G.L. c. 175, § 193P, respectively. Also, one commercial automobile company-initiated underwriting cancellation did not have the specific reason on the notice provided to the policyholder as required by 211 CMR 97.

Observations: RNA noted that for two homeowners company-initiated underwriting cancellations and 17 homeowners non-renewals, the specific reason on the notices was unfavorable loss history, which could be more specific. For the remaining company-initiated underwriting cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons on the notices properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

RNA noted that one commercial automobile company-initiated underwriting cancellation was included in the Company's commercial automobile non-renewal data tested by RNA, and one commercial automobile non-renewal was included in the Company's commercial automobile company-initiated underwriting cancellation data tested by RNA.

Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that company-initiated underwriting cancellation and non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Recommendations: The Company should include loss dates and loss amounts on homeowners company-initiated underwriting cancellation and non-renewal notices when the specific reason on the notices is unfavorable loss history. Also, the Company should ensure that commercial automobile underwriting cancellations and non-renewals are properly classified in the Company's systems for accurate and complete management reporting.

Subsequent Company Actions: The Company has reviewed its underwriting controls and procedures related to homeowners and commercial lines cancellations and non-renewals. The Company intends to address these items with both system modifications and staff training. The Company updated training materials and has scheduled training to better educate staff regarding the need to provide specific reasons for underwriting actions on policyholder notices.

New property insurance training materials instruct staff on the need for property loss details where loss history is the basis of the underwriting action, and to provide scripted language for free text fields used in commercial auto cancellations. Underwriting management has provided guidance and training to staff in June 2015 to ensure they understand and implement the procedures.

Supervisors will subsequently audit the underwriting staff through weekly quality control reviews of cancellation and non-renewal documents in July 2015. Samples of notices will also be reviewed in August and September 2015, and periodically thereafter, to ensure proper processing.

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In addition to training and quality review, the Company has instructed staff to use its U-Cancel System to process cancellations and non-renewals, instead of processing such transactions manually because the U-Cancel System offers a combination of drop-down reasons for cancellation and free text fields. The free text fields will be expanded by the end of the year. In the meantime, the drop-down reasons and existing text supplements will be used in accordance with the enhanced training guidelines.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: Testing indicated one tested agent-processed homeowners claim over \$1,000 was not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures, except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of the claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and review its current policies and controls for compliance with required reporting to local building and health authorities.

Subsequent Company Actions: The Company has discontinued the Agency Quick Pay Program for small value agent-processed claims.

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COMPANY BACKGROUND

The Company is a wholly-owned subsidiary of MAPFRE USA Corporation, Inc. ("MAPFRE USA"), which is 100% owned by MAPFRE S.A. ("MAPFRE"). MAPFRE is a multinational holding company based in Madrid, Spain that operates in 47 countries through 281 operating companies providing personal and commercial insurance; reinsurance and assistance services. MAPFRE's shares are listed on the Madrid and Barcelona Stock Exchanges, which are 64.6% controlled by Fundación MAPFRE. Fundación MAPFRE is an institution sponsored by MAPFRE with the aim to contribute to achieving objectives of general interest to society.

The Company offers private passenger automobile coverage, commercial automobile coverage, homeowners and commercial multi-peril coverage through Commerce and Citation in Massachusetts and to a lesser extent in New Hampshire. Commerce is the largest insurer of private passenger automobile coverage in Massachusetts. Commerce and Citation, combined, are the largest providers of homeowners coverage in Massachusetts. Also, the Company is the largest insurer of commercial automobiles in Massachusetts. Preferred risks in the commercial automobile and homeowners lines of business are written in Citation.

Commerce and Citation maintain a financial strength rating of A (Excellent) from A.M. Best. The following financial information is as of, or for the year ended December 31, 2013:

The Commerce Insurance Company:

Admitted assets	\$2,272.1 million
Statutory surplus	\$838.8 million
Massachusetts business - direct written premium	\$1,339.8 million

Citation Insurance Company:

Admitted assets	\$236.6 million
Statutory surplus	\$88.9 million
Massachusetts business - direct written premium	\$181.2 million

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

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I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Boards of Directors ("Board") is comprised of eight directors, including the President and Chief Executive Officer; Executive Vice President and Chief Financial Officer, and six directors that are either independent, or otherwise not actively involved in the Company's management or operations. The Board is responsible for managing the Company's strategic, financial and operational risks.
- Commerce's Chief Financial Officer and four non-management Board members comprise membership of Commerce's Audit Committee. Citation's Board delegates its audit committee function to the MAPFRE U.S.A. Audit Committee. The Company Boards regularly review information regarding the Company's strategic, financial and operational risks. The Audit Committees oversee the management of risks associated with accounting, auditing, financial reporting and internal controls over financial reporting. The Audit Committees meet at each quarterly Board meeting. The Audit Committees, as part of their risk management oversight, are responsible for reviewing and discussing the guidelines and policies governing senior management's and internal audit's assessment and management of the Company's risk exposures, as well as the steps management has taken to monitor and control such risks.
- The Company's internal audit department serves as the internal audit function for all of MAPFRE's continental United States business units. An audit plan is developed annually using a risk-assessment approach covering an audit universe of approximately 200 operational and financial areas. Internal audit staff meets twice a year with Company management and the Company President to discuss emerging issues, possible areas of concern, and ways to incorporate these areas in the audit plan. The preliminary audit plan is presented to the Company's Audit Committee for approval in November each year, with final approval occurring in March of the following year after the audit plan is reviewed and approved by MAPFRE's Audit Committee. Written audit reports are prepared for each completed audit. Quarterly updates on the audit plan are provided to the Company's Audit Committee and include the status of prior audit report observations and recommendations, changes in staffing and upcoming audits. The internal audit department also reviews the work completed by Claims Compliance Group, which focuses their work on claims compliance assessment.
- The Company has a Corporate Compliance Committee that has a written charter and includes officers from several functional areas of the Company. Its members include the Company's Executive Vice President and General Counsel, and the Vice President Internal Audit. The Corporate Compliance Committee meets quarterly. The Audit Committee directed that all members of the Corporate Compliance Committee be at least an officer level employee of the Company. The committee is primarily responsible for advising the Chief Compliance Officer,

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including reviewing policies and procedures related to corporate record retention, IT security, human resource compliance matters, and making recommendations for compliance policy and procedure changes. Any such changes must be approved by the Company's Executive Committee. Oversight of other compliance matters is monitored by the General Counsel's office or within business units.

- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The desk audits include a review of documentation, which may include signed applications, supporting discount information, and other required documentation.
- The Company has established a claims quality assurance ("QA") program whereby a set number of open and closed claim files for each employee are reviewed by supervisors each month. The QA assesses adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. The Company also has a Claims Examining, Audit and Training ("CEAT") unit within the claims department that conducts claims systems and processing training, and also conducts periodic compliance audits of claims handling processes. The audits include full-scope audits of claims units, and special problems or projects identified by management related to claims. The CEAT audits include sampling of actual files and testing of defined claim handling standards. Audit reports are issued on the audits performed with audit results and process improvement recommendations.
- For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR"). CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, internal audit, compliance risk assessment, quality assurance and agency audit processes. RNA reviewed minutes of Board of Directors meetings, internal audit plans, homeowners underwriting QA review summaries, claim QA review summaries, agency audit summaries, and CAR audits.

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Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Board of Director minutes. Also, the Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. Audit findings appear to be monitored, and follow-up audits are completed to ensure that findings are properly remediated.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the Division's financial examination of the Company.

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

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

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

- The Company's antifraud efforts are summarized in their antifraud plan, which requires management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Insurance Fraud Bureau ("IFB"). Many of these activities are conducted through the Company's Special Investigative Unit ("SIU").
- The SIU supports the claims operations with field investigations and surveillance as needed. Claim professionals receive training regarding SIU red flags and also use judgment to make referrals to SIU using a standard form. If the claim is accepted by SIU, the SIU adjuster assumes ownership of the claim adjudication. All auto theft claims are to be reported through Insurance Services Office ("ISO") to the National Insurance Crime Bureau ("NICB"). The SIU is responsible to refer fraudulent claims to the NICB and the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution. Finally, Company policy is to comply with CAR's SIU performance standards.
- The Company's Code of Conduct and Ethics are contained in a staff handbook. All new employees are provided access to the staff handbook and are asked to read it. From time to time, as needed, the staff handbook is updated, and an announcement of changes is sent to employees. The Company's officers and directors are not required to complete a conflict of interest questionnaire, but officers and directors are required to make a written disclosure of any conflicts of interest.
- The Company has implemented Office of Foreign Asset Control ("OFAC") compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for antifraud initiatives, compliance procedures, and code of conduct policies. RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, and code of conduct policies. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prevent and fully investigate fraudulent insurance acts.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the Division's financial examination of the Company.

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

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

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

- The Company's sales distribution in Massachusetts is through independent producers and agents. Company policy is to verify that these producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, privacy and general business procedures. The agents also have binding authority. Additionally, the contract requires independent agents to maintain an E&O insurance policy.
- Standard independent broker contracts, with licensed producers not appointed as agents, contain terms and conditions that address general authorities, duties, premium accounting, commission

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rates, premium submission, termination provisions, marketing material requirements, privacy and general business procedures. The producers also have limited binding authority. Additionally, the contract requires these producers to maintain an E&O insurance policy.

- The Company's agents and producers are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required documentation.
- Independent appraiser and field adjusters are utilized as needed to provide on-site-inspections and claim investigations. The independent field adjusters are provided written documentation of the company's procedures along with detailed instructions covering tasks to be performed and timeframes for completion.
- The Company contracts with vendors for services related to auto glass claims, car rental coverage, and roadside assistance claims. The Company manages these vendors and monitors their services.
- Certain claims litigation defense duties may be outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed such documentation, as applicable, in connection with producer compliance, new and renewal business, and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, it appears that the Company's contracts with entities assuming a business function on its behalf comply with statutory and regulatory requirements.

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.
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Objective: This Standard addresses the Company's efforts to monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA also reviewed producer documentation that supports the new or renewal business sold. Finally, RNA reviewed claims that involved the use of independent contractors to complete claims duties.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is adequately monitoring the activities of third parties assuming a business function, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements generally include guidelines for management, maintenance and disposal of records, and the length of time specific documents must be retained.

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

Transaction Testing Procedure: RNA obtained a summary of the Company's record retention policies and procedures, and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

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

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's certificate of authority, and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was very good.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the consumer privacy notice be provided to applicants when a new personal lines policy is issued. The consumer privacy notice is also annually provided to customers with personal lines renewal notices. Finally, the Company provides its internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. The Company does not share information with other companies for marketing purposes, and thus, no opt out notice is required. Company policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal lines underwriting and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and completion of underwriting and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA reviewed underwriting documentation for any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

Recommendations: None.

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

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 65 private passenger automobile and 35 homeowners policies issued and renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient consumer privacy notice to customers that discloses its treatment of non-public personal financial information.

Recommendations: None.

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

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including those for the use of opt out notices.

Transaction Testing Results:

Findings: None.

Observations: The Company does not provide opt out notices to consumers as nonpublic personal financial information is not shared for marketing purposes.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

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Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company periodically conducts internal audits of its information technology systems access and security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for information security compliance, and reviewed documentation supporting its information security policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program, which appears to provide reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the NAIC Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.
- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in the MCAS.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the statutorily-required 2013 homeowners underwriting and claims data submitted to the Division, the examination data, and 2013 Massachusetts MCAS data submitted to the NAIC, for any unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's statutorily-required 2013 homeowners underwriting and claims data submitted to the Division, the examination data, and 2013 Massachusetts MCAS data submitted to the NAIC, no unusual results and concerns were noted, and the data reported to the Division and in MCAS appears to be complete and accurate.

Recommendations: None.

II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint as any written correspondence expressing a grievance received from the Division, Attorney General, Better Business Bureau ("BBB"), or directly from an insured or third party claimant. Concerns expressed by phone in operational areas are handled in those operational units and are not recorded in the Company's complaint register.
- All complaints are logged into a centralized complaint register by two Compliance Assistants to track response due dates, the nature of the complaint, the disposition, etc. After reviewing the complaint for content, the Compliance Assistants email a copy to the designated individuals within the operational department responsible for writing the response. Depending upon the department, these individuals may consist of managers, directors, and officers. The response due date varies based on Division, Attorney General, or BBB requirements. Unless otherwise required by the Director of Claim Compliance, responses are typically sent directly to the complainant by the responding department. All complaint responses require review and approval at the Manager level or higher. A copy of the response is sent to the Compliance Assistants to complete the remaining data elements in the complaint register.
- The Company's complaint register includes 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 days to process each complaint.
- The Company uses social media primarily as a means to promote brand awareness. The Company's Enterprise Contact Center monitors social media sites daily and responds to any negative posts within 24 hours by providing information to those providing the negative comments on how to contact the Company with claim or policy specific information using a confidential email mail box to ensure that the concerns are timely addressed. These comments are tracked in a spreadsheet and not included in the complaint register.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems for referral to the legal department. The Director of Claims Compliance, or a designee separately reviews all complaints to identify any trends or emerging issues. Any complaints that involve interpretation of a legal matter are also sent to the legal department for review. Additionally, in a quarterly report, Claim Compliance provides information on complaint disposition, including the number of complaints, responsible department, trends, and the potential need for additional employee training. The quarterly report is shared with leaders in claims, underwriting, premium accounting, and the Chief Compliance Officer.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2013-2014 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2013-2014 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company's complaint registers included all statutorily-required database elements. Also, the Company's complaint registers properly included all Division complaints.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA selected 30 regulatory complaints from 2013-2014 to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these regulatory complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. RNA also reviewed non-regulatory complaint and social media grievance logs for 2013-2014 for unusual activity. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to consumers.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 30 regulatory complaints from 2013-2014 to evaluate the Company's efforts to properly dispose of complaints. RNA also reviewed non-regulatory complaint and social media grievance logs for 2013-2014 for unusual activity.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the regulatory complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence.

Recommendations: None.

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

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 30 regulatory complaints from 2013-2014, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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Observations: The Company addressed the tested regulatory complaints within 14 days, or with additional time as allowed by the Division. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company conducts brand awareness advertising to the general public through local radio and television stations, digital advertising, sponsorships of highway assist, sports and other events, product brochures, and through selected social media. The Company provides general insurance awareness and safety tips in its postings on social media, such as Facebook and on its You Tube channel. Also, the Company's television ads are shown on its You Tube channel. Advertising to the general public is also provided by agents who may use Company co-op advertising, through template advertisements developed by the Company.
- All Company advertising and sales materials, along with specifically developed advertising by the Company's agents where the Company name and logo are used, are developed and documented by the corporate communications department with approval of the Manager, Corporate Marketing Communications and the Senior Vice President, Business Development-Eastern Region. Also, co-op advertising subsidies are provided to preferred agents.
- The Company purchases sales leads from websites where consumers express interest in purchasing private passenger automobile insurance. The Company's Enterprise Contact Center receives these sales leads and directs appointed agents to contact the consumers to pursue these sales opportunities.
- The Company discloses its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected three Company and seven co-op advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. Further, RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

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Observations: RNA noted that the tested materials appeared accurate and reasonable, and the Company's website disclosure complies with Division requirements. Approval of marketing materials tested was documented. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard and Standard III-3:

- The Company's sales distribution in Massachusetts is through independent producers and agents.
- Independent agency relationships are managed through 12 Massachusetts business development representatives, who regularly visit the agencies to provide guidance and training on products, processes and sales assistance.
- The Company's Agency Interface Group conducts training of new and existing agents through webinars, where the Company's products, systems and processing procedures are discussed. The Agency Interface Group includes 14 staff, who serve as the help desk, when agents have questions about systems or processes. Also, e-learn videos are available to agents.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials to understand the nature and breadth of the Company's producer training. RNA reviewed agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process and producer communications appear adequate and reasonable. RNA noted no evidence of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing independent producer communications to understand the nature and breadth of such communications. RNA reviewed producer communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.

Objective: This Standard addresses the Company's marketing to individuals as members of employer or other groups by the Company's producers in accordance with regulatory requirements and Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer or other groups.
- The Company's mass marketing plans offered to individuals who are members of employer or other groups, and related affinity group discounts, are filed with the Division for approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to individuals who are members of employer or other groups.

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

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing marketing communications to individuals who are members of employer or other groups to understand the nature and breadth of such communications. RNA reviewed such communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for marketing communications to individuals who are members of employer or other groups appear appropriate and reasonable. As part of new and renewal business testing, RNA noted no evidence that marketing communications to individuals who are members of employer or other groups are unreasonable or inaccurate.

Recommendations: 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. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

Objective: The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-2 and IV-4:

- The Company's sales distribution in Massachusetts is through independent producers and agents.
- Company policy is to verify that producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, privacy and general business procedures. The agents also have binding authority. Additionally, the contract requires independent agents to maintain an E&O insurance policy.
- Standard independent broker contracts, with licensed producers not appointed as agents, contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, termination provisions, marketing material requirements, privacy and general business procedures. The producers also have limited binding authority. Additionally, the contract requires these producers to maintain an E&O insurance policy.
- The Company's agents and producers are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required documentation.
- The Company's policy is to use the Division's OPRA to process agent appointments. That information is to be periodically compared to OPRA data, with record corrections made as necessary.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to determine whether the

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independent agents involved in these sales were included on the Division's list of the Company's appointed agents, or any producers involved in the sales were properly licensed.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's independent agents and producers were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA.

Recommendations: None.

Standard IV-2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of producer licensing and agent appointment. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA reviewed the standard independent agent and the standard producer contracts for responsibility related to continuing education compliance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, independent agents and producers are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

Objective: This Standard addresses the Company's termination of agents in accordance with applicable statutes requiring notification to the state and the agent. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

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- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. Agent terminations are to be processed in accordance with the agency contract, which requires 180 days to terminate the appointment in most instances. The Company's policy is to give required written notice to all agents whose appointments are terminated.
- Agency appointment terminations are to be reported on the termination effective date to the Division through OPRA. After the termination effective date, new business is no longer accepted. An agent is allowed to service existing business for one year after the effective termination date.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company obtains OPRA data at least twice a year and compares it with the Company's agent information. Differences in data are to be researched and addressed as appropriate.
- Termination of independent brokers are to be processed in accordance with the contract, which generally requires 90 days written notice to terminate the agreement in most instances.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent supervision, producer contracting and appointment termination processing. RNA selected seven individual and eight business entity appointment terminations and compared that information to corresponding information in the Company's data and the Division's OPRA. Finally, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Findings: Four of the business entity appointment terminations were not processed within 30 days of the termination effective dates in the Division's OPRA as required by M.G.L. c. 175, § 162T.

Observations: For the remaining appointment terminations tested, the Company properly notified the agents about the terminations, as applicable, and the Division through OPRA, in compliance with statutory requirements.

Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that agent appointment terminations are reported to the Division using OPRA within 30 days of the effective dates of the terminations. Also, the Company shall provide training and guidance to staff about the processing of these terminations. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company has reviewed its controls and procedures and is implementing the following enhanced controls to ensure that agent terminations are timely reported to the Division via OPRA within 30 days.

- The Company will utilize its Goldmine database to run a monthly query of producers whose terminations are effective during the reporting period. The individual responsible for reporting through OPRA will utilize this list in addition to the existing calendaring system to confirm the transactions to be entered during the reporting cycle.

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- When OPRA submissions are made, the Company will take a screen shot of the termination entry. The screen shot will be retained in the agent's file as a record of the transmittal.

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

Objective: The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standards IV-1 and IV-3.

Controls Reliance: See Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, and testing of seven individual and 18 business entity agent appointment terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agent appointment and termination policies.

Recommendations: None.

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

Objective: The Standard addresses the Company's documentation of the reasons for agent terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent contracting and appointment termination processing. RNA selected seven individual and 18 business entity appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. No agent appointment terminations "for cause" were noted.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.
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No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, and agent advances are rarely provided. Thus, excessive debit account balances are not a significant issue.

V. POLICYHOLDER SERVICE

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

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

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's premiums are generally direct billed to customers who can either pay the premium in full at inception and upon renewal, or make payments in installments. Payments are accepted using a check, Automated Clearing House ("ACH"), credit card, debit card and electronic funds transfer ("EFT"). ACH, credit card and debit card payments are accepted through the Company's website, mobile application and by phone. Most insureds pay by check or by EFT. For private passenger automobile, the maximum number of installments is 11; for homeowners, the number of installments is nine, or the Company's Easy 3 plan, which fully pays the premium in a policy's first 180 days.
- New policies generally require a 20% down payment. Installment billing notices are sent to customers approximately 20 days in advance of the due date. After any seven day delinquency, a 23 day notice of cancellation is sent to the insured. For renewal policyholders, Company policy allows policyholders to miss one installment payment plus seven days before a 23 day notice of cancellation is sent to the insured. If no payment is received within the 23 day period, the policy is cancelled at the end of that period. The Company reports uncollected earned private passenger automobile premium to the Massachusetts Registry of Motor Vehicles ("RMV") and does not report such delinquencies to consumer reporting agencies.
- Premium financing can be obtained from an unaffiliated premium finance agency. If an insured is delinquent in paying the premium finance agency, the premium finance agency will send a notice to the policyholder of its intent to exercise its power of attorney to initiate cancellation of the policy. If after 10 days the payment is not received, the premium finance agency will exercise its power of attorney and will send a notice of cancellation to the insured 23 days in advance of the cancellation effective date. The premium finance agency will also notify the Company of the intended cancellation, seeking a return of any applicable unearned premium if the cancellation becomes effective. The premium finance agency may rescind its notice of cancellation on or before the cancellation effective date.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.
- For private passenger auto policies, if the policyholder makes the required payment within five days of cancellation, the policy will be reinstated. For homeowners policies, preferred agents may reinstate a policy within five days. All other reinstatement requests and those outside the grace periods are submitted to the underwriting department to make the determination of whether to reinstate the policy.

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

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard V-7:

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from customers must be made through the producers, who are generally able to process the requests electronically, or who will forward the request to the Company.
- The Company has established a new process where its agents may use employee-agents in the Company's Enterprise Contact Center to process insured-requested cancellations and provide other policy services. Independent agents wishing to use this service receive a reduced agency commission.
- All unearned premium is refunded to the policyholder on a short rate or a pro-rata basis.
- Automobile policyholders may cancel their policies only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 10 homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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Observations: Based upon testing, the insured-requested cancellations were processed accurately and timely.

Recommendations: None.

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

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

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

- The Company views its agents as the primary owner of the relationship with the insureds. All policyholder service requests and correspondence, except for annual mileage updates, billing address changes, billing method and frequency changes, or billing questions are referred to the agent for handling. Agents utilize a third party electronic interface for private passenger automobile endorsement processing, and the Company's agent portal for homeowners endorsement processing.
- The Company's Enterprise Contact Center handles billing and mail address service items and also takes calls from agents. Independent agents may elect to have their in-force book of business fully serviced by the Enterprise Contact Center after agreeing to reduced commissions. Metrics such as speed to answer, abandoned calls, average wait time and others are measured against key performance indicators. Quality assurance call monitoring is also performed as needed. In addition, all Enterprise Contact Center processed transactions are peer reviewed for quality assurance purposes.
- The Company has developed performance and work flow standards for underwriting and policyholder service and monitors compliance with those standards.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and obtained documentation of underwriting service standards. Also, RNA reviewed customer correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, policyholder service and claims matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

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Recommendations: None.

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

No work performed. The Company does not enter into assumption reinsurance agreements.

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

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1. Insured-requested cancellations and return of premium are tested in Standard V-2. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- Agents are notified of returned mail instances and asked to contact the customer to obtain a correct address for future mailings and to make any needed address changes. The Company also researches the RMV records. If a better address is found for returned refund checks, the check is resent using the new address. Premium refund checks not cashed after six months remain on the Company's outstanding check list.
- The Company's treasury department utilizes a software tracker system to monitor the aging of uncashed checks and to comply with various states' abandoned property laws. Six months prior to escheatment, a final letter is sent to the last address notifying the payee that the check is still outstanding and will be escheated shortly. Once these efforts are exhausted and after three years, the funds are deemed abandoned property and escheated in accordance with Massachusetts Law.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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

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Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 2013 escheatment filing with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to report unclaimed items and escheat them as required by statute. The Company also appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals.

Recommendations: None.

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

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Standard V-2 for review and testing of the calculation and return of unearned premium. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's claims personnel, agents, and producers have access to policyholders' claims history and paid loss information.
- The Company's policy is have the agent or producer provide the policyholder with his or her claims history and paid loss information when requested.

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

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing in underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence that the Company was non-responsive to any policyholder inquiries. Policies and procedures relating to how the Company responds to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates and in a non-discriminatory manner. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards VI-4 and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company has provided producers with personal lines underwriting requirements for use in evaluating risks.
- To obtain personal lines insurance quotes, producers may use either the Company's agent portal or third party comparative rating services. Producers electronically submit application information with the signed applications retained in the producers' files. Producers may also submit paper applications directly to the Company. The standard forms for the applications are approved by the Division.
- Private passenger automobile underwriting is automated with most applications accepted, electronically rated and processed using standard underwriting algorithms. The Company's underwriting staff review private passenger automobile applications as needed and answer questions from agents. Appropriate authority limits are assigned to each underwriter.
- The Company's underwriting system interfaces with the Massachusetts RMV UMS System to obtain real-time information on Massachusetts and out-of-state drivers.
- The Company has many Division-approved affinity groups and related discounts. Individual risks within these groups cannot be cancelled or non-renewed.
- The Company uses the standard Massachusetts merit rating system with the Merit Rating Board ("MRB") Safe Driver Insurance Plan ("SDIP") applied to its policies.
- Private passenger automobile rates are based on the Automobile Insurer's Bureau of Massachusetts ("AIB") Manual with modifications, with all rates filed with the Division prior to use. Motorcycle rating for comprehensive and collision coverages is based on original cost new, with annual depreciation factors applied.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents. The Company ensures that an at-fault driver is provided a Surcharge Notice notifying him or her that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. Any at-fault claim over \$500 is reported to the

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MRB for inclusion in the driver's SDIP. Also, at-fault accident determinations are reported to the Comprehensive Loss Underwriting Exchange ("CLUE") database weekly using a LexisNexis automated process. Further, the Company's identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.

- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company's underwriting staff is responsible for Massachusetts homeowners business. Appropriate authority limits are assigned to each underwriter. For new business, underwriting company placement is reviewed by the underwriters, and loss history is verified. Property inspections are generally completed for all for new business and periodically on renewal business.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security and safety features, electronic processing, loss-free policies, and higher deductibles. The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. If the applicant does not meet the required minimum insurance score, the agent is instructed to provide the applicant with a Fair Credit Reporting Act ("FCRA") adverse action notice, and to provide a copy of that notice to the Company.
- Homeowners rates are based on Massachusetts ISO data and the Company's competitive analysis of market rates.
- Time and service standards for all key personal lines processing activity have been established. For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required 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: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 65 private passenger automobile (includes motorcycle) and 35 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 32 private passenger automobile and 18 homeowners policies and verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 12 motorcycle policies policy to test rates charged and valuations used for comprehensive and collision coverages.

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RNA tested 25 vacated at-fault accident determinations by the Board of Appeal from the examination period for accurate and timely reversal of the vacated at-fault accident determinations. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accidents and other required claims were properly reported to the MRB with Surcharge Notices timely provided to at-fault operators in accordance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: For four of the 25 tested vacated surcharges, changes in at-fault accident determinations were not reported to the CLUE database within 15 days, as required by Division Bulletin 2010-11. These were reported between three and 10 days late.

Observations: Except as noted above, based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Testing also noted that at-fault accidents and other required claims were timely reported to the MRB. Surcharge Notices were properly provided to at-fault operators, and vacated surcharge return premiums were properly processed in accordance with statutory and regulatory requirements. Also, for 21 of the 25 tested vacated surcharges, changes in at-fault accident determinations were timely reported to the CLUE database.

Required Actions: The Company shall evaluate its process for reporting changes in at-fault accident determinations to the CLUE database to understand why these delays are occurring, and make any needed process changes to ensure that reporting is timely and in accordance with Division Bulletin 2010-11. The Company shall report the results of this evaluation to the Division.

Subsequent Company Actions: The Company identified the following factors that could contribute to late reporting:

- A system issue (shut down, rejected file) might cause the weekly transmittal to the CLUE to be delayed.
- The surcharge reversal was issued by the MRB with a "default" status, which requires the Company to research the correct status of the surcharge. The Company is reliant on the availability of the MRB and or the RMV in assisting with such matters, which may take several days.
- The MRB has sent the vacate order late but the reversal is processed in accordance with the Board of Appeal date.
- Human error by staff.

To minimize reporting delays, the Company revised its workflow requiring the Claim Department staff to process at-fault reversal transactions within two business days, whereas the previous workflow provided a ten day window for processing.

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

Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company's producers provide private passenger automobile information guides 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has procedures for paying commissions to producers in accordance with written contracts.

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- The Company's producer contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer licensing, agent appointment and producer compensation. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declinations and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard VI-19:

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts Private Passenger Automobile Form, which has been approved by the Division.
- Company policy requires the use of standard homeowners policy forms, many based on ISO forms. Homeowners policy forms and endorsements are filed with, and approved by, the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.
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Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- The Company waives pre-damage inspections for nearly all private passenger automobile applications in accordance with the Company's Division approved underwriting and rating plan.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. RNA also tested for compliance with vehicle inspection requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- Applications for private passenger and homeowners coverage may be declined by the producer on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Producers are to provide a written declination notice to the private passenger automobile applicant noting the reason that the application is rejected, with a copy of the declination notice provided to the Company, which is to retain the notice for five years.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. Any applicant declined coverage, or refused a quote for an unacceptable insurance score, is to be provided a FCRA adverse action notice by the producer. The FCRA adverse action notice is to be provided to the Company, which is to retain the notice for five years.
- Other than the FCRA adverse action notice, producers may provide either a written or oral declination notice to the homeowners applicant for other declination reasons.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 25 homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory and to ensure that proper declination notice was given to applicants.

Transaction Testing Results:

Findings: The Company has no record of FCRA adverse action notices being provided to applicants for unacceptable insurance score for 23 of the 25 homeowner declinations tested. Thus, the Company cannot be sure that the FCRA notices were provided to these applicants by producers in accordance with the FCRA, § 615(a).

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Observations: Based upon testing of the private passenger automobile and homeowners declinations, three private passenger automobile declination notices, and two FCRA adverse action notices for homeowners declinations were provided to applicants. The reasons for these actions appeared reasonable and in compliance with the Company's underwriting guidelines. For 22 private passenger automobile applicants, no declination notices were available.

Required Actions: The Company shall provide notice to all producers about their duty to provide FCRA adverse action notices to homeowners applicants declined for insurance score. The Company shall ensure that producers provide timely FCRA adverse action notices to applicants declined for insurance score. Also, the Company shall ensure that producers provide copies of all FCRA adverse action notices to the Company to be retained for five years. Further, the Company shall establish a robust producer audit process to ensure producer compliance with FCRA adverse action notice requirements. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions related to FCRA adverse action notices have been properly implemented. The Company shall provide the internal audit report to the Division.

Recommendations: The Company should clarify its private passenger automobile declination practices with its producers to ensure that the producers comply with the Company's private passenger automobile declination policies and procedures.

Subsequent Company Actions: LexisNexis began providing the Company reports of homeowners applicants declined coverage for insurance score in June 2014. The Company intends to use these reports as a basis to conduct its producer audits. In July 2015, the Company is implementing a new automated process through the Company's agent portal to automatically produce a FCRA adverse action notice when the homeowners applicant is declined for insurance score. The producers will be directed to sign and deliver the FCRA adverse action notice to the applicant and to the Company.

On May 1, 2015, the Company issued a bulletin regarding this process to agents (1) informing them of their duty to provide a FCRA adverse action notice to homeowners applicants declined due to insurance score, and (2) instructing them to provide the Company's operations staff with copies of such notices via fax or email. The Company will retain electronic copies of the notices for five years. The Company is also identifying additional ways to enhance automated controls furthering the homeowners declination process to minimize the opportunity for compliance gaps.

Also, the Company distributed a bulletin to agents to remind them of the auto declination requirements and process. The bulletin instructs agents, when an applicant does not meet underwriting guidelines, to print a copy of the Collaborative Edge declination screen (with the reasons for the declination) and provide a copy to the applicant. In addition, the agent is instructed to retain a copy of the declination for agency audit purposes. Finally, the bulletin reinforces that the Company's Agency Interface Department will be reviewing files for compliance with this requirement.

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

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination notices are tested in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company-initiated underwriting cancellations of automobile policies are a result of driver license suspension or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder, producer and loss payee at least 23 days prior to the cancellation effective date.
- Company-initiated underwriting cancellations of homeowners policies are generally a result of changes in the risk, failure to address inspection deficiencies, or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation are to be sent to the policyholder, producer and mortgagee at least 20 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable renewals of automobile policies are provided to producers 45 days prior to policy expiration, with the specific reasons stated on the notices. The producers must provide the notices to the policyholders and loss payees within 15 days, if the policies are not replaced by the producers. Selected agents may request that the Company send the non-renewal notices directly to the policyholders.
- Written non-renewal notices for unacceptable renewals of homeowners policies are provided to producers 45 days prior to policy expiration, and are to include specific reasons on the notices. The producers must provide the notices to the policyholders and mortgagees within 15 days, if the policies are not replaced by the producers. Selected agents may request that the Company send the non-renewal notices directly to the policyholders.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 35 private passenger automobile, 15 commercial automobile, and 30 homeowners company-initiated underwriting cancellations for testing. In addition, RNA selected 35 private passenger automobile, 15 commercial automobile, and 30 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: Five homeowners company-initiated underwriting cancellations and four homeowner non-renewals did not have specific reasons on the notices provided to policyholders as required by M.G.L. c. 175, § 99 and M.G.L. c. 175, § 193P, respectively. Also, one commercial automobile company-initiated underwriting cancellation did not have the specific reason on the notice provided to the policyholder as required by 211 CMR 97.

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Observations: RNA noted that for two homeowners company-initiated underwriting cancellations and 17 homeowners non-renewals, the specific reason on the notices was unfavorable loss history, which could be more specific. For the remaining company-initiated underwriting cancellations and non-renewals tested, the Company provided timely and adequate notice to the policyholders with the specific reasons on the notices properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

RNA noted that one commercial automobile company-initiated underwriting cancellation was included in the Company's commercial automobile non-renewal data tested by RNA, and one commercial automobile non-renewal was included in the Company's commercial automobile company-initiated underwriting cancellation data tested by RNA.

Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that company-initiated underwriting cancellation and non-renewal notices include specific reasons on the notices. Also, the Company shall provide training and guidance to staff about the processing of these notices. Finally, the Company shall conduct a detailed internal audit by June 30, 2016, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Recommendations: The Company should include loss dates and loss amounts on homeowners company-initiated underwriting cancellation and non-renewal notices when the specific reason on the notices is unfavorable loss history. Also, the Company should ensure that commercial automobile underwriting cancellations and non-renewals are properly classified in the Company's systems for accurate and complete management reporting.

Subsequent Company Actions: The Company has reviewed its underwriting controls and procedures related to homeowners and commercial lines cancellations and non-renewals. The Company intends to address these items with both system modifications and staff training. The Company updated training materials and has scheduled training to better educate staff regarding the need to provide specific reasons for underwriting actions on policyholder notices.

New property insurance training materials instruct staff on the need for property loss details where loss history is the basis of the underwriting action, and to provide scripted language for free text fields used in commercial auto cancellations. Underwriting management has provided guidance and training to staff in June 2015 to ensure they understand and implement the procedures.

Supervisors will subsequently audit the underwriting staff through weekly quality control reviews of cancellation and non-renewal documents in July 2015. Samples of notices will also be reviewed in August and September 2015, and periodically thereafter, to ensure proper processing.

In addition to training and quality review, the Company has instructed staff to use its U-Cancel System to process cancellations and non-renewals, instead of processing such transactions manually because the U-Cancel System offers a combination of drop-down reasons for cancellation and free text fields. The free text fields will be expanded by the end of the year. In the meantime, the drop-down reasons and existing text supplements will be used in accordance with the enhanced training guidelines.

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

Objective: This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that, although rare, rescissions may be given only for significant material misrepresentations or fraud and only with approval of the General Counsel.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and inquired about procedures for issuing rescissions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable.

Recommendations: None.

Standard VI-10. Credits, debits and deviations are consistently applied on a non-discriminatory basis.

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating and unfair discrimination. See Appendix A for applicable statutes, regulations and bulletins.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

Objective: This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at or near inception of the coverage, rather than near expiration or following a claim. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.

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- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Time and service standards for all key personal lines processing activity have been established. For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also reviewed the Company's underwriting QA reports for two quarters. Finally, RNA sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage. The Company's underwriting QA reports appear to be reasonably effective.

Recommendation: None.

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

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

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

Objective: This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's customer service representatives and producers are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases to ensure that both are accurate.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company verifies VIN and vehicle symbol at policy issuance in accordance with its policies, procedures, and statutory requirements.

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Recommendations: None.

Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.

Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Time and service standards for all key personal lines processing activity have been established. For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not appear to be collusive or anti-competitive.

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Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered to individuals as members of employer or other groups. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer or other groups. Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company's mass marketing plans offered to individuals who are members of employer or other groups are filed with the Division for approval.
- The Company's Division-approved affinity groups receive premium discounts. Individual risks within these groups cannot be cancelled or non-renewed.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for mass marketing plans offered to individuals who are members of employer or other groups were not unfairly discriminatory. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to individuals who are members of employer or other groups are unfairly discriminatory. All affinity premium discounts were approved by the Division.

Recommendations: None.

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

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

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

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before policy expiration. See Standard VI-8 for testing of this Standard. See Appendix A for applicable statutes, regulations and bulletins.

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the producers are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- Time and service standards for all key personal lines processing activity have been established. For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation,

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which may include signed applications, supporting discount information, and other required 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: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded.

Recommendations: None.

Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.
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Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's producers are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- Time and service standards for all key personal lines processing activity have been established. For private passenger automobile business, there is no formal underwriting QA process, but the underwriting managers perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits. For homeowners business, the personal lines underwriting area has established a QA process, where 800-1,000 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- The Company conducts periodic desk audits of independent agencies to ensure that the agents maintain signed private passenger automobile applications and supporting discount information. In addition, the Company's Agency Interface Group conducts desk audits of its agents' insured files, with all agents covered at least once every three years. Agents with elevated levels of non-compliance results are audited more frequently. The audits include a review of documentation, which may include signed applications, supporting discount information, and other required documentation.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 65 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted.

Recommendations: None.

VII. CLAIMS

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

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

Objective: This Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard through Standard VII-13:

- The Company's claims department consists of approximately 960 employees across all states/affiliates organized in several units to process work flow by claim function as follows: physical damage, casualty, property, personal injury protection, automobile physical damage, subrogation, and SIU. Within these units, adjusters will specialize in lines of business, such as homeowners or private passenger automobile. Each of the claims units has at least one Claims Manager that reports to a Director, an Assistant Vice President or Vice President that reports to the Senior Vice President of Claims. The claims handling employees are organized in teams with a supervisory structure in place to ensure that claims settlement authorities and Company procedures are followed. The Company utilizes field adjusters and independent appraisers to supplement its employee field staff. Claims involving complex liability and commercial liability claims are assigned to a special unit within the casualty unit. In addition, the CEAT conducts routine training on the claims systems, claims processing, and also conducts QA and compliance audits.
- Written policies and procedures govern claims handling processes. The vast majority of claims first notice of loss are reported to the Company's Enterprise Contact Center through an 800 claims service number. Many claims are reported to producers, who are encouraged to refer the policyholders or claimants to the 800 number to provide the quickest possible response. If the producer does not refer the claim to the 800 number, then a faxed or mailed claim form is generally sent by the producer. A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries are obtained and recorded in the electronic claims processing system, which includes a claim diary and history notes.
- Claims are investigated to determine existence of coverage, so that an initial liability determination can be made. The Company's drive-in appraisal facilities are used in conjunction with employee and independent appraisers. Field and independent claim adjusters are utilized as needed to provide on-site-inspections and claim investigations. The adjusters are provided written procedures and detailed instructions covering tasks to be performed and timeframes for completion. Claims adjusters are to contact the claimants the same day or the next business day. The Company contracts with vendors for services related to auto glass claims and car rental coverage. In addition, the Company allows selected agents to settle some claims directly through its Agency Quick Pay Program. These agents are given authority to pay tow claims up to \$100 and property claims up to \$2,500.
- Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Claims adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability and determining damages.

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- The Company does not use purchased claim evaluation software in connection with assessing damages on bodily injury claims. An internally-developed bodily injury evaluation methodology is used to document the damage analyses. The Company states that its policy is to make settlement offers between the low and high settlement estimates and to track all revisions to the estimates. Any exceptions are to be reviewed with management. Claims supervisors review each active bodily injury claim with a \$250,000/\$500,000 or greater exposure after the initial 25 days. Supervisors are required to review claims at periodic points throughout the claim process including at six and 15 months. The Company also utilizes a "claims examining group" of seven experienced claim staff from CEAT, who review certain claims with subjective evaluations or complex issues, and help manage large or complex files. The Company monitors the performance of any law firms and attorneys conducting litigation defense duties.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim. The Company follows standard industry and CAR claim handling guidelines in its claim investigations including the application of Massachusetts regulatory standards of fault. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim.
- The Company ensures that an at-fault driver is provided a Surcharge Notice notifying him or her that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. Any at-fault claim over \$500 is reported to the MRB for inclusion in the driver's SDIP. Also, at-fault accident determinations are reported to the CLUE database weekly using a LexisNexis automated process. Further, the Company's identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.
- Company policy is to comply with CAR's SIU performance standards. Claim adjusters are provided training regarding SIU red flags and make referrals to SIU as needed. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. Automobile theft claims are to be reported through ISO to the NCIB.
- The Company has implemented OFAC compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute, general damages awarded, or a real property settlement exceeds an established threshold. Releases are routinely required from third party bodily injury claimants.
- Criteria for unit manager periodic reviews of the claim adjusters' work have been established, and such reviews are documented in the claim systems.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the Merit Rating Board as required in Massachusetts.
- From the claims system data, the Company produces metric "trending" reports for the daily, weekly and monthly claims reporting of key service and quality metrics such as cycle time, claim volume, pending claim counts, average paid losses and loss expenses to monitor claim activity.
- The Company has established a claims quality assurance QA program whereby a set number of open and closed claim files for each employee are reviewed by supervisors each month. The QA assesses adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. The Company also has a CEAT

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unit within the claims department that conducts claims systems and processing training, and also conducts periodic compliance audits of claims handling processes. The audits include full-scope audits of claims units, and special problems or projects identified by management related to claims. The CEAT audits include sampling of actual files and testing of defined claim handling standards. Audit reports are issued on the audits performed with audit results and process improvement recommendations.

- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company conducts post-claim payment surveys to all first and third party claimants, except for bodily injury claims or claims where the claimant is represented by counsel. The survey results are summarized for management reporting. Any negative comments from respondents are tracked, addressed and monitored.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was processed according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-3. Claims are resolved in a timely manner.

Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses the timeliness of the Company's response to general claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to general claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to general claims correspondence are functioning in accordance with its policies, procedures and statutory requirements. The Company also addresses negative comments received on written post-claim payment surveys, and the comments are summarized for management reporting.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

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Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented claim handling.

Recommendations: None.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company is in compliance with specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's 2013 and 2014 complaint logs for complaints that were claim-related and tested 20 claim-related complaints.

Transaction Testing Results:

Findings: Testing indicated that one tested agent-processed homeowners claim over \$1,000 was not properly and timely reported to local building and health authorities to disclose a potentially dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures, except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of the claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt new policies and control procedures to address the requirements of M.G.L. c. 139, § 3B, and review its current policies and controls for compliance with required reporting to local building and health authorities.

Subsequent Company Actions: The Company has discontinued the Agency Quick Pay Program for small value agent-processed claims.

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

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appropriately used the required claim forms in accordance with the Company's policies and regulatory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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Observations: RNA noted that reserves for each of the tested claims were evaluated, established and adjusted according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for evaluating, establishing and adjusting reserves are functioning in accordance with its policies and procedures. The Division's financial examiners and actuaries also test reserving in conjunction with the Division's financial examination of the Company.

Recommendations: None.

Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected denied or closed-without-payment claims including 12 private passenger automobile claims and four homeowners claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding

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the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of procedures and testing, the Company did not appear to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and the Company did not attempt to settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

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

Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted 12 instances where reservation of rights or excess of loss letters were used. The use of these letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. The Company's appears to have reasonable policies and procedures for the use of reservation of rights and excess of loss letters.

Recommendations: None.

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

Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were timely and accurate.

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Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for five tested claims was timely, accurate and processed according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 36 paid claims, 12 denied or closed-without-payment claims, and 27 open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims, and nine open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. Based upon testing, the Company appears to have processes for timely and accurately reporting of loss statistical data to rating bureaus in accordance with its policies and statutory requirements.

Recommendations: None.

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SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2013 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Producer Licensing, Underwriting and Rating, and in Claims.

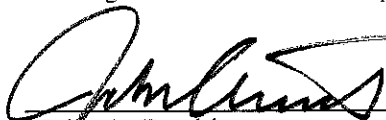
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ACKNOWLEDGEMENT

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

The undersigned's participation in this comprehensive market conduct examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), communication and status reporting throughout the examination, administration and preparation of the examination report.

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



John A. Turchi
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Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts